In accordance with Regulation 32 of the Overseas Companies Regulations 2009.

c/o

DON'T STAPLE

OS AA01

Statement of details of parent law and other information for an overseas company

Companies House

✓ **What this form is for**
You may use this form to accompany your accounts disclosed under parent law.

✗ **What this form is NOT fo**
You cannot use this form to an alteration of manner of c with accounting requiremen

TUESDAY

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A03 01/06/2021 #112
COMPANIES HOUSE

Part 1 Corporate company name

Corporate name of overseas company ❶	Gulf International Bank BSC
UK establishment number	B R 0 0 0 1 2 2 7

→ **Filling in this form**
Please complete in typescript or in bold black capitals.

All fields are mandatory unless specified or indicated by *

❶ This is the name of the company in its home state.

Part 2 Statement of details of parent law and other information for an overseas company

A1 Legislation

Please give the legislation under which the accounts have been prepared and audited.

Legislation ❷	International Standards

❷ This means the relevant rules or legislation which regulates the preparation of accounts.

A2 Accounting principles

Accounts

Have the accounts been prepared in accordance with a set of generally accepted accounting principles?

Please tick the appropriate box.

☐ **No.** Go to **Section A3.**

☑ **Yes.** Please enter the name of the organisation or other body which issued those principles below, and then go to **Section A3.**

Name of organisation or body ❸	EY

❸ Please insert the name of the appropriate accounting organisation or body.

OS AA01

Statement of details of parent law and other information for an overseas company

Presenter information

You do not have to give any contact information, but if you do it will help Companies House if there is a query on the form. The contact information you give will be visible to searchers of the public record.

Contact name	Charbel Khazen
Company name	Gulf International Bank BSC
	London Branch
Address	First Floor, One Curzon Street
Post town	London
County/Region	
Postcode	W 1 J 5 H D
Country	
DX	
Telephone	020 7393 0410

Checklist

We may return forms completed incorrectly or with information missing.

Please make sure you have remembered the following:

- ☐ The company name and, if appropriate, the registered number, match the information held on the public Register.
- ☐ You have completed all sections of the form, if appropriate.
- ☐ You have signed the form.

Important information

Please note that all this information will appear on the public record.

Where to send

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England and Wales:
The Registrar of Companies, Companies House, Crown Way, Cardiff, Wales, CF14 3UZ.
DX 33050 Cardiff.

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The Registrar of Companies, Companies House, Fourth floor, Edinburgh Quay 2, 139 Fountainbridge, Edinburgh, Scotland, EH3 9FF.
DX ED235 Edinburgh 1

Northern Ireland:
The Registrar of Companies, Companies House, Second Floor, The Linenhall, 32-38 Linenhall Street, Belfast, Northern Ireland, BT2 8BG.
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This form is available in an alternative format. Please visit the forms page on the website at www.gov.uk/companieshouse

OS AA01
Statement of details of parent law and other information for an overseas company

A3 Audited accounts

Audited accounts	Have the accounts been audited in accordance with a set of generally accepted auditing standards? Please tick the appropriate box. ☐ **No.** Go to **Part 3 'Signature'**. ☑ **Yes.** Please enter the name of the organisation or other body which issued those standards below, and then go to **Part 3 'Signature'**.	❶ Please insert the name of the appropriate accounting organisation or body.
Name of organisation or body ❶	EY	

Part 3 Signature

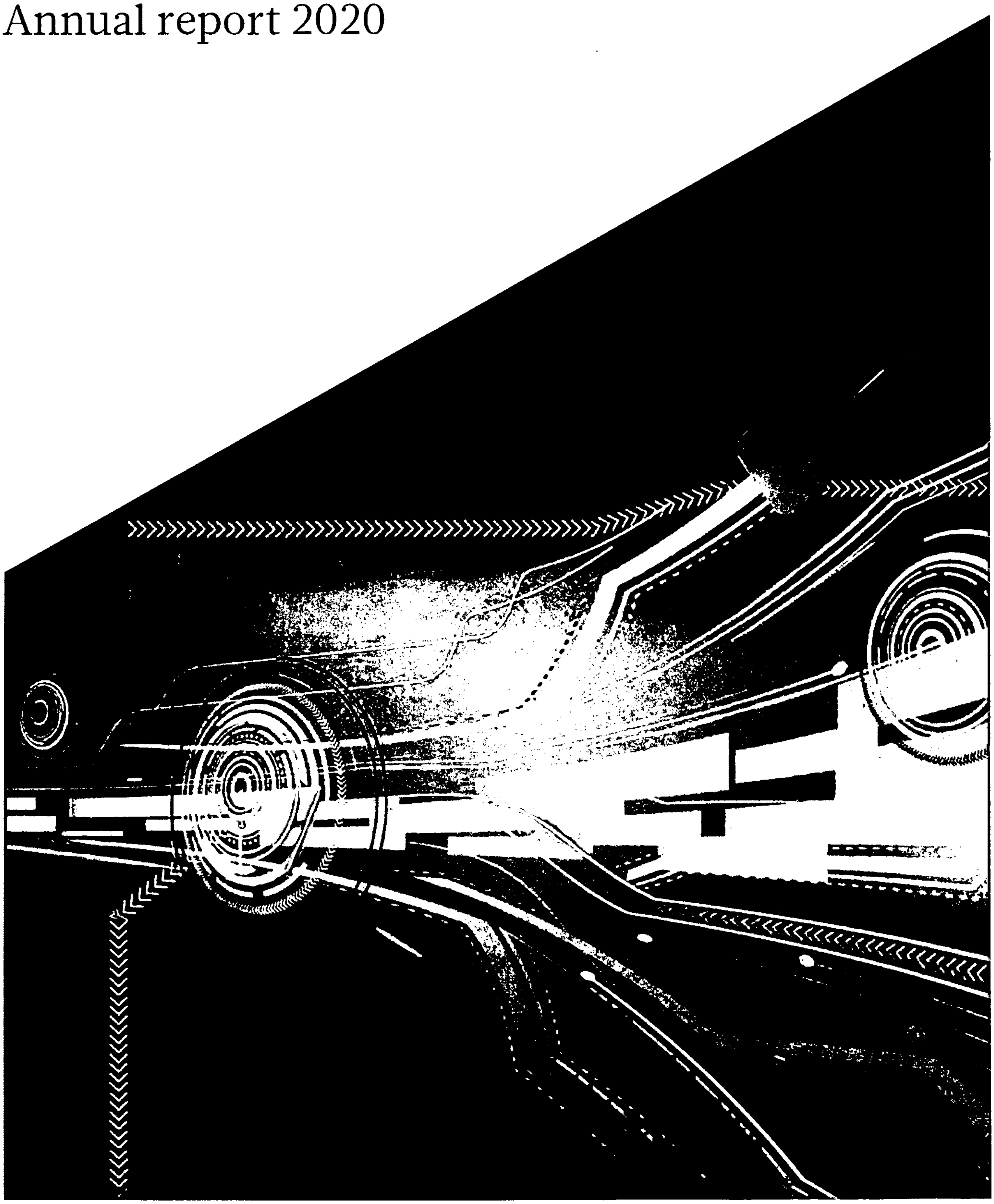
	I am signing this form on behalf of the overseas company.
Signature	Signature X C. Kheazen. X
	This form may be signed by: Director, Secretary, Permanent representative.

Charbel M. Khazen

GIB

بنك الخليج الدولي

Annual report 2020



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GIB
بنك الخليج الدولي

Gulf International Bank

Gulf International Bank B.S.C. (GIB) is a pan-GCC universal bank established in 1975 and regulated by the Central Bank of Bahrain.

GIB provides diverse financial products, services and bespoke banking solutions to a wide client base in the GCC, Europe and North America. This includes corporate, institutional, global transaction and investment banking; treasury and asset management; and meem, the world's first fully-digital Shariah-compliant retail bank.

The Group is active across regional and international markets through its subsidiaries GIB Saudi Arabia and GIB (UK) Ltd and its branches in the UAE and USA.

GIB Saudi Arabia is the first foreign-domiciled bank to establish a local commercial bank in the Kingdom. Headquartered in the Eastern Province, it operates branches in Riyadh, Jeddah and Dhahran with its Riyadh based subsidiary, GIB Capital, delivering the Bank's investment banking activities. Its activities span equity placements, mergers, acquisitions and privatisations; debt capital market solutions and strategic financial advisory; and asset management and brokerage.

GIB (UK) Ltd is a London and New York-based global asset manager with AUM in excess of US$ 11 billion. As a signatory to the UN Principles for Responsible Investment, it offers sustainable investment strategies.

GIB is owned by the governments of the Gulf Cooperation Council countries, with Saudi Arabia's Public Investment Fund being the primary shareholder.

The trusted partner recognised for innovation, regional expertise and international reach.

Board of Directors

Dr. Abdullah bin Hasan Alabdulgader
Chairman

Mr. Abdulla bin Mohammed Al Zamil
Vice Chairman

Mr. Abdulaziz bin Abdulrahman Al-Helaissi
Director, Group Chief Executive Officer,
Gulf International Bank
Chairman, Gulf International Bank (UK) Limited

Mr. Sultan bin Abdul Malek Al-Sheikh
Director

Mr. Bander bin Abdulrahman bin Mogren
Director

Dr. Najem bin Abdulla Al Zaid
Director

Mr. Rajeev Kakar
Director

Mr. Frank Schwab
Director

Chief Executive Officers

Abdulaziz Al-Helaissi
Group Chief Executive Officer

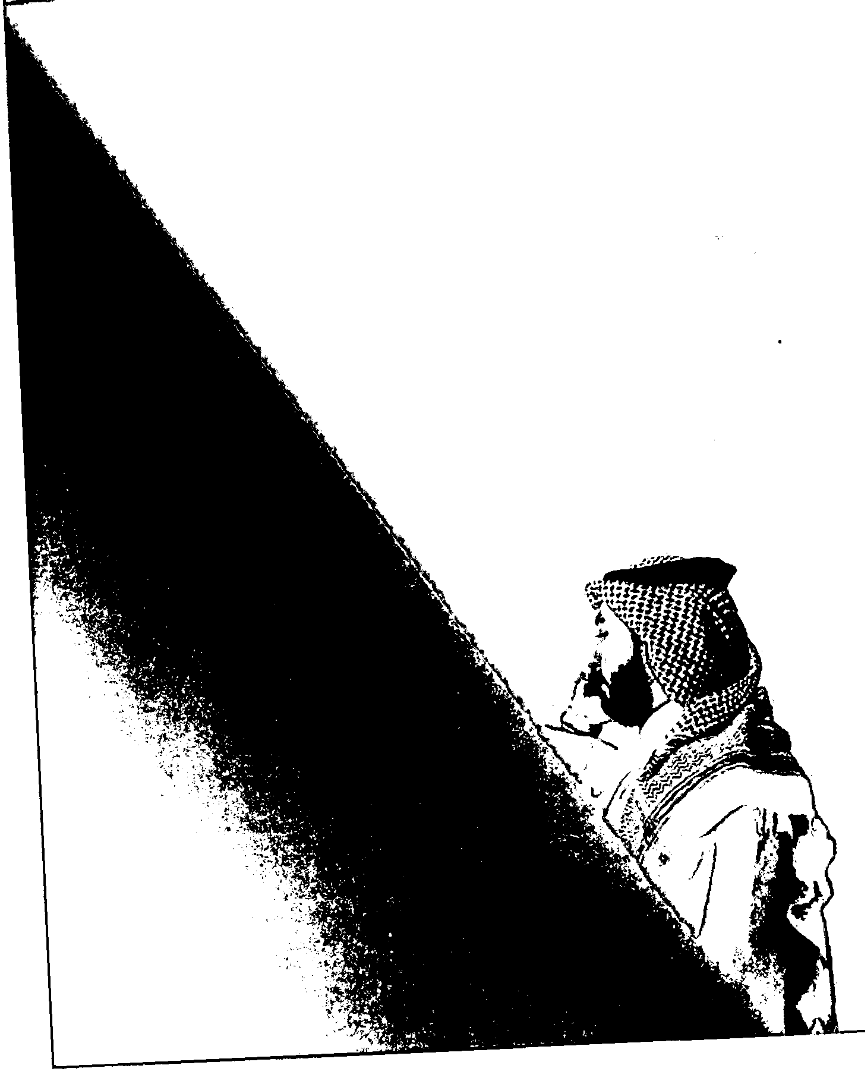
Jamal Al Kishi
Chief Executive Officer, GIB B.S.C.

Katherine Garrett-Cox
Managing Director and Chief Executive Officer, GIB (UK) Ltd.

Osamah Shaker
Chief Executive Officer, GIB Capital

Report 2020

GiB



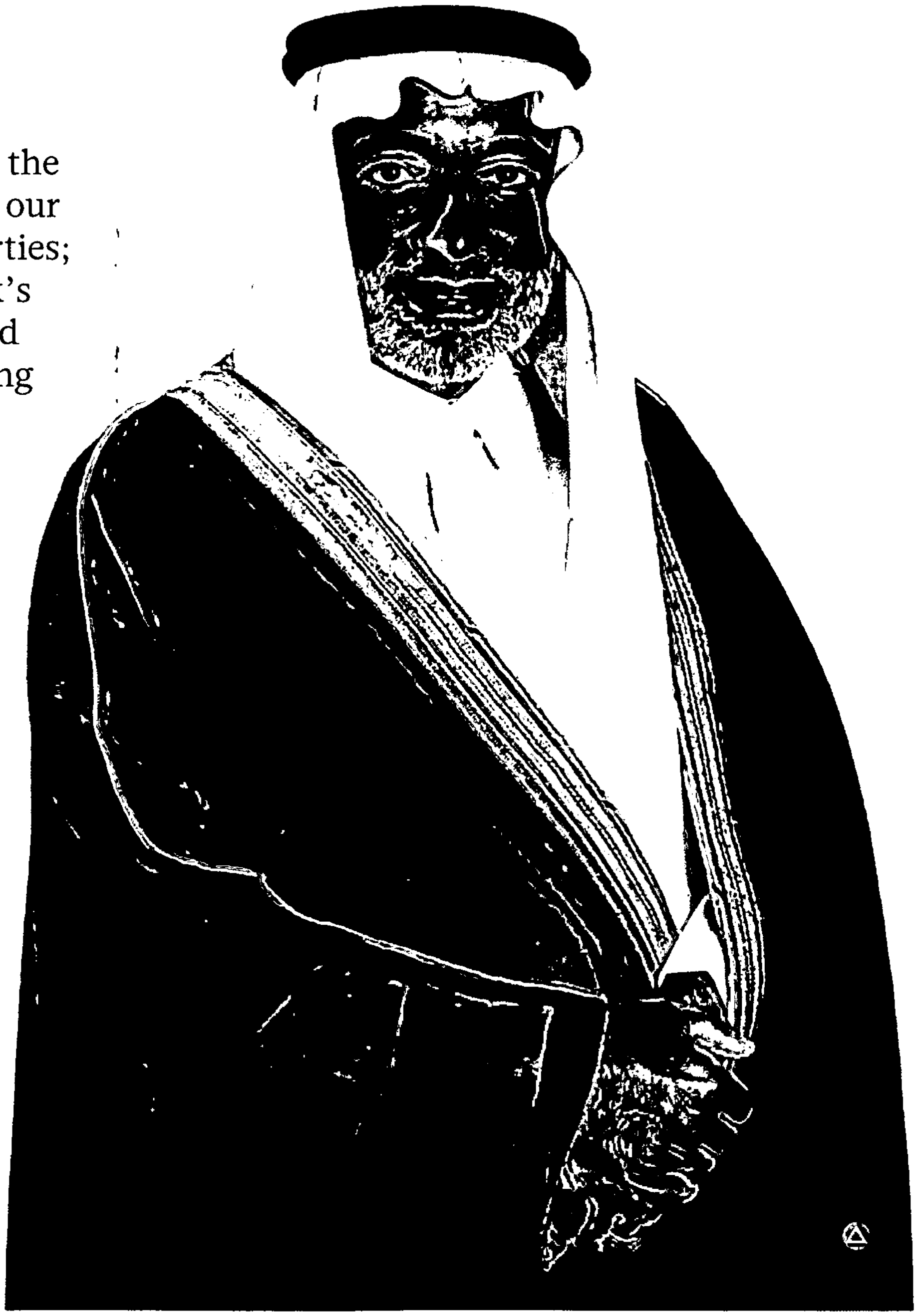
Financial highlights

	2020	2019	2018	2017	2016
Earnings (US$ millions)					
Net income after tax	(308.0)	63.0	(227.0)	70.0	37.3
Net interest income	232.8	280.4	273.7	253.1	190.0
Fee and commission income	59.0	64.7	61.2	72.6	66.2
Operating expenses	276.9	285.9	265.4	240.0	219.0
Financial position (US$ millions)					
Total assets	29,550.1	30,241.7	27,546.1	25,471.3	22,905.8
Loans	10,433.5	9,876.1	9,817.8	10,043.1	9,745.1
Investment securities	4,486.8	3,828.4	3,897.2	3,993.8	4,066.4
Senior term financing	4,924.9	3,502.4	3,338.0	3,263.6	2,761.6
Equity	3,012.5	3,296.3	2,196.2	2,410.9	2,357.4
Ratios (per cent)					
Profitability					
Return on average equity	(11.4)	2.8	(9.9)	2.9	1.6
Return on average assets	(0.8)	0.2	(0.9)	0.3	0.2
Capital					
Risk asset ratio (Basel 2)					
- Total	17.2	18.4	14.5	15.6	16.8
- Tier 1	16.4	17.5	13.6	14.7	15.7
Equity as % of total assets	10.2	10.9	8.0	9.5	10.3
Asset quality					
Securities as % of total assets	15.5	13.1	14.8	16.4	18.2
Loans as % of total assets	35.3	32.7	35.6	39.4	42.5
Liquidity					
Liquid assets ratio (%)	61.9	64.9	61.6	58.3	55.0
Deposits to loans cover (times) [1]	2.4	2.6	2.4	2.1	1.9
LCR (%)	155.2	163.8	391.0		
NSFR (%)	156.0	163.5	128.0		

[1] Deposits include senior term financing

Chairman's statement

"GIB's stable funding position demonstrates the ongoing confidence of our clients and counterparties; and confirms the Bank's commitment to expand and diversify its funding sources and utilise different structures to achieve an equitable cost of funding."



Dr. Abdullah bin Hasan Alabdulgader
Chairman of the Board

On behalf of the Board of Directors, it is my privilege to present the annual report and consolidated financial statements of Gulf International Bank B.S.C. (GIB) for the fiscal year ended 31st December 2020. Two thousand and twenty proved to be a most tumultuous year, with the COVID-19 pandemic presenting the world with the greatest shock in recent history. I am pleased to report that the early and proactive steps taken by GIB in protecting the health and safety of our employees and supporting our clients assisted in effectively mitigating the adverse impact of this unprecedented challenge, allowing the Bank to continue to function almost seamlessly.

On behalf of everyone at GIB, I would like to thank our leaders, governments, Central Banks, Ministries of Health and all the frontline workers who have shown the utmost dedication and professionalism in handling the response to the pandemic. Their drive to protect us has been exemplary and will be remembered for many years to come. GIB is delighted and proud to have supported the government efforts in the Kingdom of Saudi Arabia and the Kingdom of Bahrain.

Economic and Market Background

The dual public health and economic crisis created by the coronavirus has resulted in world economic activity plunging, with global real GDP growth declining by three and a half per cent in 2020, according to the latest estimates from the International Monetary Fund (IMF). The sectors most seriously affected were those requiring intensive human contact, such as tourism, transportation, services and construction; while in general, the technology-intensive sectors fared better.

The global policy response to cushion the coronavirus shock has been impressive in both speed and magnitude, with policymakers relying less on financial sector transmission to stimulate activity, and more on direct support to the real economy. This included direct lending, bond market purchases, loan and bond guarantees, and direct cash transfers to households, businesses and local governments. The pandemic also accelerated pre-existing structural trends such as greater integration of e-commerce and the digital economy, increased focus on sustainability, and rising inequality within and across nations.

GCC countries faced the additional shock of a collapse in oil demand, with oil prices briefly turning negative during the month of May for the first time in history. The ensuing economic crisis was unprecedented in its depth for the region, with real GDP growth in the region estimated to have contracted by four and a half per cent in 2020. In line with global policy direction, GCC regional governments also unveiled wide-ranging fiscal and liquidity support measures to help safeguard employment, and aid banks and businesses amid continued erosion of their respective financial positions.

Financial Results

GIB's financial performance in 2020 was affected by several key coronavirus-related factors. These included the impact of global interest rate cuts on the region; reduced business activity, especially in trade finance and related areas; and increased stock market volatility. In addition, the effect of the economic recession, coupled with the new insolvency laws in the region adversely impacted the already distressed exposures within the Bank's legacy non-performing portfolio, and weakened estimates of future cash flows and recoverability in the near-term. The Bank made the hard, but prudent and conservative decision to take significant provisions on this portfolio in 2020.

These factors contributed to total income for the year decreasing to US$ 307.7 million from US$ 384.7 million in 2019. However, due to successful cost optimisation initiatives, total operating expenses reduced to US$ 276.9 million compared with US$ 285.9 million the previous year. This resulted in net income before provisions and tax declining to US$ 30.8 million from US$ 98.8 million in 2019. After taking a higher provision charge for loans and advances of US$ 339.3 million versus US$ 30.3 million the previous year, GIB reported a net loss of US$ 308.0 million for the year compared with net income of US$ 63.0 million in 2019.

The Bank continued to maintain a strong balance sheet, with consolidated total assets at the end of the year standing at US$ 29.6 billion, and the asset profile continuing to reflect a high level of liquidity. Cash and other liquid assets, placements and securities purchased under agreements to resell stood at US$ 13.7 billion, representing 46 per cent of total assets. Placements with banks exceeded deposits from banks, with GIB continuing to be a net lender to the interbank market. Loans and advances at the end of 2020 totalled US$ 10.4 billion compared to US$ 9.9 billion the previous year. A comprehensive report and analysis of the Bank's financial performance for 2020 is covered in the Financial review.

Funding Profile

GIB maintained a stable funding profile in 2020. The Bank's funding is derived primarily from corporate customer deposits, accounting for 97 per cent of total deposits and exceeding loans and advances 1.9 times. Of note, as the Bank expands its global transaction capabilities, enabling it to attract a relatively cheaper source of funding, global transaction deposits increased to US$ 4.4 billion in 2020, an increase of 50 per cent from the previous year. Global transaction deposits accounted for 22 per cent of customer deposits in 2020, compared to 14 per cent in the previous year. As an early precautionary measure to ensure full compliance with regulatory ratios, GIB also secured additional long-term funding in 2020. The Bank successfully raised new senior term financing through the issuance of a benchmark size US$ 500 million Regulation S five-year bond in September. Despite competitive market conditions, GIB was able to reduce the initial pricing guidance by 25 basis points and price the bond issue at 205bps over mid-swaps. There was significant demand from investors, with the order book peaking at US$ 1.5 billion, reflecting continued strong market confidence in GIB.

GIB's stable funding position demonstrates the ongoing confidence of our clients and counterparties; and confirms the Bank's commitment to expand and diversify its funding sources and utilise different structures to achieve an equitable cost of funding. These include securing cheaper and more stable funding through continued focus on retail and global transactional banking activities; and diversifying revenues away from lending and use of the balance sheet through greater contributions from treasury, investment banking and asset management.

Chairman's statement (continued)

Ratings Confirmation

The international rating agencies again endorsed their confidence in GIB's financial standing during 2020. Fitch Ratings affirmed the Bank's long-term issuer default rating at 'BBB+' with the outlook revised in November from Stable to Negative following a similar rating action on Saudi Arabia's sovereign rating. Moody's Investors Service re-affirmed GIB's long-term deposit ratings at 'Baa1' with a Negative outlook; while Capital Intelligence affirmed the Bank's long-term foreign currency rating at 'A+' with a Stable outlook. These rating confirmations reflect the agencies' continued confidence in the Bank's strong shareholder structure, solid capital and competent management; as well as its sound asset quality and strong levels of liquidity.

These affirmations are also important independent validations of the success of our strategy and the concerted steps we have taken towards creating a strong pan-GCC universal banking group. GIB remains committed to diversifying our business and bolstering our financial position through prudent policies and a highly-focused approach to managing risk. Additional recognition of GIB's strategic and business achievements took the form of further prestigious industry awards during the year. These underline the Bank's enduring strength, stability and reputation in the face of a highly-competitive and rapidly-changing financial landscape.

Strategic Progress

During 2020, GIB made excellent progress in implementing its strategy. Significant developments include the successful first full year of operations by the Bank's new subsidiary, Gulf International Bank - Saudi Arabia. As of 1st January 2021, GIB Capital, the Group's regional investment banking arm will be incorporated as part of the Saudi Arabian subsidiary, opening up additional business opportunities in the region's largest market, while also reflecting the steps we are taking to align GIB's strategy more closely with the Kingdom's Vision 2030. The Bank's new state-of-the-art Operations Centre in Al Khobar also celebrated its first full year of operating, during which it continued to contribute to improved operational and cost efficiencies. The Centre was officially inaugurated in February by HRH Prince Saud bin Nayef, Governor of the Eastern Province. Full details of GIB's progress against its five strategic priority areas during 2020 are covered by the Strategy Report in the Management review of this annual report.

Sustainability

GIB views sustainability as a key strategic enabler, business driver and competitive differentiator. This was underlined by the establishment of a new GIB Sustainability Council in 2020, with a vision 'to integrate sustainable finance across our business, providing a range of bespoke products and services. The Council reflects the commitment of the Board and management to adopt and roll out sustainability across the Group. Notable developments during the year include GIB becoming a founding member of the Net Zero Asset Managers Initiative, which is committed to working with clients to achieve the goal of net zero greenhouse gas emissions by 2050 or sooner. GIB also became an official signatory to the United Nation's Principles for Responsible Banking. In addition, GIB UK has developed and is currently piloting an innovative sustainability advisory service for clients. The Group also recognises its responsibility as a leading financial institution to contribute to the economic, social and environmental sustainability of the communities in which it operates around the world. GIB's many initiatives in 2020 in support of this commitment, are covered in the Sustainability and corporate social responsibility review.

Innovation and Digitisation

Embracing innovation and adopting the latest digital technologies are critical factors in GIB's ongoing strategic, business and operational development. Throughout 2020, under the aegis of the Board Innovation Committee, we continued to advance the Bank's digital agenda and drive innovation across the Group. New digital solutions were launched by Retail, Global Transaction Banking and Treasury to further enhance the customer experience; while new automated processes were introduced for Operations, Finance and Risk Management. In addition, GIB collaborated with regulators, government ministries, fintechs and complimentary licence holders to support the development of the region's digital economy.

Looking Ahead

The COVID-19 pandemic has led to profound changes to economic and societal ordering and has also triggered expectations of likely shifts across industries and supply chains, amid the growing prominence of the digital narrative. Areas such as sustainability, income inequality, physical and mental health, and the global macro policy revolution will come under the spotlight in 2021. The rollout of vaccines around the world offers the promise of global rejuvenation and recovery on the hopes that the disruptive effects of the virus will abate, although there are concerns about the impact of new and more contagious variants emerging around the world.

A front-loaded, albeit volatile, market and economic recovery is likely to follow as economies reopen. While recovery, reflation and rotation against the backdrop of accommodative monetary and fiscal support will unleash the strongest recovery in a decade, the path ahead will be turbulent in its initial phases until world economies find a sustainable footing in the post-pandemic environment. According to the latest IMF forecasts, the global economy is expected to rebound with real GDP growth of five and half per cent in 2021.

The improving outlook for global oil demand and prices, provides a positive horizon for the GCC region. Abundant public foreign assets estimated at US$ 2.6 trillion, of which around 70 per cent are managed by sovereign wealth funds, also continue to cushion the creditworthiness of Gulf countries. Real GDP for the region is rebounding with growth estimated at around three per cent in 2021. Several key trends are also set to contribute to this more positive outlook. These include greater regional cohesiveness and political rapprochement; a reinvigorated economic diversification agenda; accelerated consolidation of the GCC banking sector; and rapid expansion of the digital economy.

This outlook bodes well for GIB's prospects in 2021. With branch offices in London and New York, the Bank has the distinct advantage of being able to provide clients with a vital investment and business conduit between the region and the rest of the world. The Bank also benefits from highly-supportive shareholders; and an experienced team of high-calibre professionals. Diversified business activities, a wide geographic footprint, and unique regional market knowledge and insight are additional competitive strengths. As such, we prepare to enter 2021 on an optimistic note, and achieving our goal to return the Bank to profitability.

Acknowledgements

On behalf of the Board of Directors, I would like to express my sincere appreciation for the unwavering confidence and support of our shareholders; the enduring trust and loyalty of our clients; and the continued encouragement and cooperation of our counterparties. We are also grateful for the ongoing advice and guidance that we receive from the regulatory and supervisory bodies in the various jurisdictions under which GIB operates.
I also take this opportunity to pay tribute to the commitment and professionalism of our management and employees; and their positive attitude towards embracing change and implementing the Bank's ongoing strategic and cultural transformation in a particularly testing year.

Dr. Abdullah bin Hasan Alabdulgader
Chairman of the Board

Our Strategy

VISION

The trusted partner recognised for innovation, regional expertise and international reach.

MISSION

To provide tailored solutions leveraging our digital advantage:

To build upon our digital banking expertise. We must innovate to evolve.
To create agile and smart products for our clients. We want to be the partner of choice.
To integrate sustainable finance into our business. We are conscious of the mark we leave.
To invest and develop local talent. Our roots are in the GCC and so is our future.
To enhance shareholder value. We are committed to driving business performance and growth.

PILLARS

Wholesale Banking | Retail Banking | Treasury | Asset Management | Investment Banking

Risk ○ Operations ○ Information Technology ○ Human Resources ○ Finance

STRATEGIC PRIORITIES

Increase & Diversify Revenue | Deliver Effective Funding Profile | Improve Operational & Cost Efficiencies | Enhance Service Excellence & Quality | Become an Employer of Choice

STRATEGIC ENABLERS

Focus & Prioritize Initiatives | *Strengthen collaboration* | *Refine Business Steering & Strengthen Data backbone* | *Increase Delivery of Support Function* | *Effective Program Management*

Group CEO's statement

“Due to our considerable investment in recent years in a robust and stable digital architecture, GIB was well placed to respond to these challenges and during 2020 executed a number of digital initiatives across all areas of the Bank.”

Abdulaziz bin Abdulrahman Al-Helaissi
Group CEO & Board Member

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Without exception, 2020 was the most challenging year I have experienced in my banking career. The impact of the COVID-19 global pandemic, in scale, scope and severity was unparalleled, but I am privileged to be part of a team that stood up, displayed its determination, and successfully rose to this immense challenge.

Not only did we keep the business going without interruption, which was a major feat in itself; but we also made remarkable progress in directing the business under very difficult circumstances. This included developing new products, services and digital solutions to enhance the customer journey; adding new customers and establishing new partnerships; and further streamlining internal processes and reducing costs.

What I found particularly pleasing during 2020 was the way in which of the team put into practice GIB's core values of perceptiveness, collaboration, agility and integrity. This, above all, is what really made a difference.

Covid-19

Whether working in Saudi Arabia, Bahrain, the UAE, London or New York – we worked together as a united team, exhibiting the utmost commitment and a shared sense of responsibility.

Probably the most striking example is the success of the Group's response to combating the COVID-19 pandemic. This was achieved through adopting a unified crisis management approach, with the active involvement of the Board and management, and close collaboration between support and control functions and the regional and international business teams.

The Group also helped efforts to curb the spread of COVID-19 with support for the Saudi Arabian Health Endowment Fund and the Ministry of Human Resources and Social Development's Community Fund. In Bahrain, GIB requested that its coronavirus business relief package from the Government be donated to the Feena Khair campaign, supporting the COVID-19 National Task Force.

Teamwork

Another example of collaboration was GIB's approach to managing the regulatory transition from IBOR, which will have a significant impact on risk exposures, business and operational processes, and banking activities. To address this challenge, an inter-divisional team led by Treasury, was established to develop and implement a comprehensive implementation plan.

In addition, the year was marked by the development and launch of numerous new products and services, and innovative digitisation initiatives, designed to further enhance the customer journey and grow fee-based income. This was achieved by the active collaboration of the banking divisions with the digital transformation and innovation teams.

In line with our strategic objective to grow and diversify revenues, there was also an encouraging increase in cross selling during the year. This involved the active collaboration of Corporate Finance, Global Transaction Banking, Financial Institutions Group, GIB Capital, Retail Banking and Treasury; together with GIB UK and the New York branch.

Group CEO's statement (continued)

Sustainability

2020 saw the Bank also take further steps on its Sustainability journey. We established a groupwide Sustainability Council, to embed economic, social and governance (ESG) factors in all business activities and in the UK, we launched a new ESG-Plus Equity Strategy and piloted an innovative sustainability advisory service.

The Bank continued to support leading global initiatives and organisations addressing major sustainability challenges. In 2020, GIB became an official signatory of the United Nations Principles for Responsible Banking, which complements its existing membership of the UN Principles for Responsible Investment. In addition, GIB UK is a founding member of the Net Zero Asset Managers Initiative, a select group of 30 global asset managers with AUM of over US$ 9 trillion, committed to working with their clients to achieve the goal of net zero greenhouse gas emissions by 2050.

Digitisation

The pandemic highlighted the increasing need for organisations to accelerate their use of digital solutions to transform. A digital DNA allows businesses to become more agile and efficient and meet their clients' growing expectations.

Due to our considerable investment in recent years in a robust and stable digital architecture, GIB was well placed to respond to these challenges and during 2020 executed a number of digital initiatives across all areas of the Bank.

Two notable examples were the launch of meem's *ajeeb* loyalty programme in Saudi Arabia and the implementation of a fully-digital receivables financing platform by Global Transaction Banking. Both of which contributed to further enhancing the customer experience and supporting business growth.

Cyber Security

A key enabler and guardian for the Bank in 2020 was Information Security. Our team successfully managed a transition to work from home for a large proportion of our employees and then successfully defended our networks and people from a surge in cyber fraud, hacking and other criminal activity.

Therefore, I was pleased that when our cyber security framework was reviewed, we successfully maintained our top quartile rankings with FICO and Gartner. Over the course of the year, we continued to enhance our capabilities by increasing the layering of cyber security controls, our information security governance and incident monitoring.

Collaboration

Throughout the year, the Group continued to partner with other financial institutions and developed its relationships with government agencies, fintechs, sustainability organisations and national sports bodies to develop new products and support regional socio-economic initiatives.

For example, the Bank collaborated with the Saudi Real Estate Development Fund to provide mortgages under the Ministry of Housing's affordable housing program, Sakani. This was enabled by the development of a new flow lending mortgage mobile application by meem.

GIB also partnered with the Social Development Bank to introduce a new digital Fast Financing solution for micro, small and medium enterprises (MSMEs) in Saudi Arabia. This was developed in collaboration with Beehive.

The Group also maintained its collaborative partnerships with Bahrain Fintech Bay and the Saudi Fintech Association, this will help drive collaboration, fuel innovation, and facilitate greater integration between financial institutions and fintech companies.

Group CEO's statement (continued)

For the second year running, GIB was a key partner of the Saudi International Golf Championship; and also sponsored the inaugural Aramco Saudi Ladies International presented by Public Investment Fund, which was the first professional women's sporting event to be held in the Kingdom. Such initiatives are aimed at developing the Kingdom's sports, entertainment and tourism sectors; and promoting women's empowerment, in line with the objectives of Saudi Arabia's Vision 2030.

The Way Forward

Among the many lessons arising from the COVID-19 pandemic, perhaps the most important has been the heightened criticality of embracing digitisation and sustainability. As our achievements during 2020 illustrate, GIB remains firmly at the forefront of the regional banking industry in addressing these two issues. Equally important, is the need for strong and enlightened leadership to address the challenges of a new economic and social norm.

In this respect, I am delighted to have welcomed Jamal Al Kishi, who was appointed Deputy Group CEO and Chief Executive Officer of GIB B.S.C. during the year. With his successful track record of 25 years in the regional banking industry, of which over half was spent with Deutsche Bank, he is eminently qualified to lead GIB in implementing its strategy and ambitious business goals. Importantly, Jamal shares my conviction that accountability and dedication are the key success factors in measuring our progress through quantifiable delivery and results, rather than just good intentions. This is critically important to enable GIB to continue supporting the banking sector to help regional economies return to some semblance of normality.

I am confident that GIB will emerge from this latest crisis as a stronger and more intuitive institution. We have the right people and resources, supported by a re-prioritised strategic focus. This entails increasing revenues and reducing costs; developing our product offering and accelerating digitisation; and building a compelling environmental, social and governance sustainability proposition.

In conclusion, on behalf of the Management team, I would like to express my sincere appreciation for the visionary oversight and encouragement we continue to receive from the Board of Directors; the enduring loyalty of our clients; and the ongoing collaboration of our business partners. I also pay special tribute to our employees for their exemplary efforts and highly-appreciated contributions during this most testing of times.

I am confident that as 'one team' we can move forward from the crisis and achieve greater success and prosperity.

Abdulaziz bin Abdulrahman Al-Helaissi
Group Chief Executive Officer & Board Member

Management review

“

Since launching meem, the world’s first digital Shariah-compliant banking service, in 2014 GIB has continued to drive the digital transformation of the region’s banking sector. This includes the launch of innovative digital global transaction banking solutions, online platforms for treasury, asset management and brokerage.”

Jamal Al Kishi
Chief Executive Officer, GIB B.S.C.

I would like to start by saying how honoured I am to be part of such a distinguished institution. Over four and a half decades, GIB has steadily evolved from a loan-driven merchant bank to a full-fledged financial services group and has consolidated its position at the pinnacle of the regional banking sector. From its inception, GIB was recognised as the GCC's leading provider of project financing, the most active conventional loan agency, a premier investment bank and the largest regional asset manager. Since then, it has expanded its activities to embrace fully-digital Shariah-compliant retail banking and global transaction banking; and has also emerged as a prominent advocate of sustainable banking and responsible investing. The Bank is highly respected for its pioneering spirit, professionalism and integrity, and its ability to leverage its unique market knowledge and insight for the benefit of its clients. Importantly, GIB also provides a vital investment and business conduit between the Gulf region and the rest of the world.

During my first year with the Bank, I have witnessed first-hand what really makes this institution different – its unique corporate DNA and core values. Our committed people really came to the fore during 2020, not only in tackling the impact of the pandemic, but also in continuing to serve our clients in a seamless uninterrupted manner.

Key Highlights of the Year

- Official opening of the new Operations Centre in Al Khobar which managed over two million transactions and 98 per cent of all payments through STP in 2020
- Executing several large loan and debt capital market financing mandates across the GCC for sovereign, quasi-sovereign and corporate clients.
- Executing a number of equity capital market mandates
- Launching new ESG and other asset management funds
- Implementing the MSME digital platform with the Saudi Development Bank and Beehive
- Expanding our Transaction Banking offerings including providing an e-Payment system for the King Fahd Causeway Authority
- The launch of *ajeeb* loyalty programme by meem in Saudi Arabia
- Supporting women's empowerment by sponsoring the first professional female sporting event in Saudi Arabia, and the W20 (one of the G20 Working groups)
- Implemented SD-WAN network to all GIB branches, regional and international offices, resulting in improved business productivity and reduced costs of US$ 2.2 million
- Strengthened the Group's cyber security framework, and maintained top quartile rankings with FICO Enterprise Score and Gartner Cyber Security Governance Maturity Model

People

GIB has a successful track record for identifying, recruiting and developing high-calibre talent. During 2020, we further strengthened our management team with several senior executive appointments in Bahrain, Saudi Arabia and the United Kingdom; all of which reflect diversity, competency and experience. We also continued to attract additional young GCC talent who have the potential to become future leaders.

GIB's commitment to gender diversity and inclusion embraces strengthening the role of female professionals across the Bank and supporting them to assume leadership roles. Women currently comprise 26 per cent of total employees; with seven holding senior management positions, and two sitting as board members. We are keen on ensuring robust progress in this area.

Management review (continued)

Developing our people's skills and future potential is a key priority. GIB has a partnership with the London Business School to provide management training and development through the Future Leaders and Senior Leaders programmes. These offer our top talent a 'world-class learning journey'; while the GIB Academy supports employees in developing their technical and soft skills through an expanded digital learning library of online training courses.

Our Jammaz Al-Suhaimi Future Executive Programme provides selected university graduates with the opportunity to take up a career in banking. Seventeen participants graduated from this programme in 2020 and were employed across the Bank with a new cohort of 11 graduates inducted during 2020, nearly half of whom are female. GIB also provides internships for university students through its Tamheer Programme, with 57 students having benefited from practical work experience across different areas of the Bank during the year.

Digitisation

Since launching meem, the world's first digital Shariah-compliant banking service, in 2014 GIB has continued to drive the digital transformation of the region's banking sector. This includes the launch of innovative digital global transaction banking solutions, online platforms for treasury, asset management and brokerage. Despite the coronavirus challenge, the Bank introduced a number of new, digitally-enabled, solutions in 2020, to enhance both the customer and employee experience.

In an age of increasing digitisation, cyber security has a critical role to play and in 2020 we maintained our high industry rankings with GIB's robust information security framework enabling secure remote working during the coronavirus lockdowns.

Innovation

Through our Board Innovation Committee and the Digital Transformation and Innovation teams, GIB promotes a culture of innovation and 'thinking out of the box'. While innovation is often associated with digitisation, it is a wider concept for example, the development of new partnerships with non-traditional organisations to enter different business sectors and develop additional revenue streams.

Risk

The critical importance of risk management in supporting business continuity was highlighted during the year by the coronavirus pandemic. Throughout 2020, the Bank's robust risk management framework, which has been significantly enhanced in recent years, proved its ability to support and protect the Bank during extremely testing conditions. Key measures included risk exposure monitoring; loan portfolio stress analysis; credit limit reviews; liquidity and capital adequacy management; and business continuity planning.

Post-Covid

Over the past 45 years, GIB has successfully navigated through a series of global economic upheavals, financial crises, market crashes and geo-political events. From all these challenges, it has emerged stronger and fitter, with the experience and resources to face a new global economic paradigm and changing market dynamics. The COVID-19 pandemic represents the latest crisis to confront the Bank, but once again, it has not been found wanting.

We now prepare to enter the next phase of the Bank's remarkable journey, which entails adapting to the challenges of an increasingly uncertain world. The Board and management are conducting phased reviews of GIB's strategy and business model to steer the Bank through largely uncharted waters and to ensure continued growth and sustainable profitability.

I have every confidence that all members of the GIB team will rise to the occasion by demonstrating their proven professionalism, commitment and pioneering spirit. This will result in the Bank further consolidating its traditional role as a long-standing standard-bearer for economic growth and business opportunity across the GCC region and beyond.

Jamal Al Kishi
Chief Executive Officer, GIB B.S.C.

Management review (continued)

STRATEGY REPORT

INCREASE & DIVERSIFY REVENUES

	25%	11.3%
Digital solution launched to support MSMEs	**Increase in financial markets revenue by 25% in GIB Capital**	**Foreign exchange income increased by 11.3%**

- Due to the impact of COVID-19 related factors, total income for the year decreased to US$ 307.7 million from US$ 384.7 million in 2019. The largest Covid-factors were the impact of interest rates and the market disruption leading to trading losses. Excluding these, the Bank's revenues were at a historical high.
- Proactive collaboration between the coverage and product teams enabled the bank to maintain the share of non-funded income to total income from Wholesale Banking relationships.
- Treasury increased its Foreign Exchange income by 11.3 per cent.
- GIB Capital increased its financial markets revenue by 25 per cent, driven by a 22 per cent growth in asset management and investment banking income; and an increase in the new avenue of brokerage income by 56 per cent.
- Global Transaction Banking launched a new Receivable Finance solution; and partnered with complementary licence holders to develop new off-balance sheet revenue streams.
- Personal Finance and Credit Card products were enhanced by becoming fully digital products with the introduction of e-Promissory note and e-Signature features in the digital application process for retail meem proposition.
- The Financial Institutions Group opened new corridor markets across the Middle East and Asia.
- A new Fast Financing digital solution was launched to support micro, small and medium enterprises in Saudi Arabia in co-ordination with strategic partners.

DELIVER AN EFFECTIVE FUNDING PROFILE

50%	156%	1.9 times	USD500mn
CASA deposits increase by 50%	**Net Stable Funding ratio (NSFR) at 156%**	**Customer Deposits exceeded loans and advances by 1.9 times.**	**Successful issuance of USD 500 million Reg S five year bond.**

- The Bank maintained a stable funding profile in 2020. Customer Deposits touched $19.6bn as at December 31st 2020 constituting 97% of total deposits and exceeding loans and advances by 1.9 times.
- GIB took early pre-emptive action to ensure adequate liquidity buffers. Cash and other liquid assets, placements and securities purchased under agreements to resell, totalled US$ 13.7 billion, and represented 46 per cent of total assets.
- The Bank expanded its GTB capabilities within Wholesale banking resulting in an increased quantum of relatively cheaper source of funding. The CASA deposits increased by 50 per cent, accounting for 22 per cent of customer deposits compared with 14 per cent in 2019. Importantly, the quantum of sticky deposits to fund assets increased.
- Overall CASA deposits account for 50 per cent of funding for GIB Saudi Arabia.
- To strengthen the Bank's funding profile given the potential stress that could arise in the market because of the pandemic, and to meet regulatory requirements, GIB secured additional long-term funding of $1.7 billion in 2020.
- The Bank successfully raised new senior term financing through the issuance of a benchmark US$ 500 million Reg S five-year bond in September. The strong market reception allowed the transaction to be priced 25 basis points inside initial price thoughts and the bond issue priced at 205bps over mid-swaps. There was significant demand from a diversified investor base, with the order book peaking at US$ 1.5 billion, reflecting continued strong market confidence in GIB.
- At the end of 2020, the Group's Net Stable Funding ratio (NSFR) stood at a particularly high of 156 percent compared to the Central Bank of Bahrain 's mandated regulatory minimum of 100 percent (for 2020 reduced to 80% due to pandemic). This strong ratio reflected the high level of stable funding maintained by each entity within the GIB Group.

CONTENTS

Management review (continued)

STRATEGY REPORT

IMPROVE OPERATIONAL & COST EFFICIENCIES

Operating Expenses reduced

98%

98% of payments through straight-through-processing

Ska rating gold

- As a result of successful cost optimisation initiatives, total operating expenses reduced to US$ 276.9 million from US$ 285.9 million in 2019.
- The Group's newly-established centralised Operations Centre is continuing to deliver improved efficiency, productivity, and response times, while increased automation has reduced routine tasks.
- Information Technology (IT) implemented an SD-WAN network to all GIB branches, regional and international offices, resulting in savings of US$ 2.2 million.
- The IT system's uptime availability level improved to 99.95 per cent.
- Approximately two million transactions and 98 per cent of all payments were handled via straight-through-processing, which improved by 10 per cent over 2019.
- GIB maintained its high ratings with the FICO enterprise Security Score band which reflects a lower level of risk; and continued to exceed the international benchmark of the Gartner Cyber Security Governance Maturity Model while ensuring on-going compliance with all regulatory requirements with the relevant cyber security standards and frameworks.
- The Bank initiated steps for the use of automated decision engines to speed up the applications process; and the employment of data analytics to improve business agility and customer service.
- GIB UK's new head office was awarded a Gold SKA Rating by the Royal Institute of Chartered Surveyors. This recognises that the building has achieved an extremely high level of design efficiency and sustainability.

ENHANCE SERVICE EXCELLENCE & QUALITY

Fast Finance for Micro and Small Enterprises in Saudi Arabia

UNEP FINANCE INITIATIVE | PRINCIPLES FOR RESPONSIBLE BANKING

NET ZERO ASSET MANAGERS INITIATIVE

- Wholesale Banking and meem launched additional innovative products and services, together with new digital solutions to streamline transactions.
- GIB Capital enhanced its brokerage services with the introduction of an online trading platform.
- GIB Asset Management unveiled its new Global ESG-Plus Strategy; and developed and piloted an innovative sustainability advisory service.
- meem enhanced its service to special needs customers, including website and branch improvements, and production of a brochure in Braille.
- In a strategic partnership between GIB Saudi Arabia and the Social Development Bank, a new digital Fast Financing solution for micro, small and medium enterprises (MSMEs) was officially launched in the Kingdom. This was developed in collaboration with Beehive, marking the first-of-its-kind partnership between a bank and fintech in the region. Featuring a sophisticated decision-making and lending process, this new solution will provide MSMEs with faster and more accessible financing.
- GIB UK has become an official signatory of the United Nations Principles for Responsible Banking. These set out the banking industry's role and responsibility in shaping a sustainable future; and in aligning the banking sector with the objectives of the UN Sustainable Development Goals and the 2015 Paris Climate Agreement.
- GIB Asset Management became a founding member of the Net Zero Asset Managers Initiative, which constitutes a group of 30 global asset managers representing over US$ 9 trillion of assets under management, who are committed to working with their clients to achieve the goal of net zero greenhouse gas emissions by 2050 or sooner.

Management review (continued)

STRATEGY REPORT

BECOME AN EMPLOYER OF CHOICE

80%

80% GCC Nationals

London Business School

The Valuable 500

- The Bank's management team was amplified through several senior executive appointments in Bahrain, Saudi Arabia and the United Kingdom.
- GIB successfully implemented remote / flexible working policies due to COVID-19, to enhance the social well-being and productivity of employees.
- Group total headcount at the end of 2020 was 1,016, of which 80 per cent were GCC nationals and 26 per cent were women.
- A total of 17 participants graduated from the Jammaz Al-Suhaimi Future Executive Programme in 2020, with the successful graduates being employed across the Bank. Eleven new graduates were inducted during the year, nearly half of whom were female.
- GIB provides internships for university students through its Tamheer Programme. A total of 57 students benefited from the programme in 2020. The programme is designed to help students with practical work experience across different areas of GIB, and to gain a better understanding of banking and finance.
- The Bank partners with the London Business School to offer the Future Leaders Programme (FLP) and Senior Leaders Programme (SLP), through which to offer top talent a 'world-class learning journey'. There are currently two FLP cohorts and one SLP cohort taking part in this programme.
- The GIB Academy grew its digital library for e-learning courses with Intuition Rubicon and the Bahrain Institute of Banking & Finance, giving employees free access to over 2,000 courses and modules.
- GIB became a member of The Valuable 500 global CEO community, which seeks to revolutionise disability inclusion through business leadership and opportunity.

INNOVATION & DIGITISATION

ajeeb rewards program

تبادل TABADUL

FintechSaudi

- GIB expanded its range of digitally enabled solutions for clients:
  - o **Wholesale Banking**
    - SWIFT FIN
    - Receivables Financing Platform
    - PoS and Payment Gateway
    - Bahrain Fawateer EFTS
    - B2B Commercial Cards in Bahrain and the UAE
  - o **meem**
    - E-signature
    - e-Promissory Note
    - 'ajeeb' Loyalty rewards program launched for Credit Card customers
  - o **Treasury**
    - Real Time RFQ for Online FX transactions
  - o **GIB Capital**
    - Brokerage Online Trading Platform
- GIB UK formalised its new digital strategy in 2020 with a particular focus on digital engagement, including a new webinar platform, marketing engine, and analytic tools to identify and respond to requests for proposals from clients.
- GIB Saudi Arabia established a new partnership with the Saudi Company for Exchanging Digital Information (Tabadul) to develop and implement the automation and verification of letters of guarantee (LGs) transactions, through a new platform called Wthaq. This will subsequently be linked with the Ministry of Finance's Etimad e-procurement system. Wthaq will provide a standardised and unified platform with full security of information and enable the creation of a master repository for letters of guarantee.
- The Group maintained its collaborative partnerships with Bahrain Fintech Bay and the Saudi Fintech Association, through which to drive its digitisation and innovation agenda.

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Management review (continued)

COMBATING COVID-19

With over 1,000 employees working from ten locations in six countries across three continents, and governed by nine different regulatory authorities, GIB faced significant logistical challenges in dealing with the impact of COVID-19. In addition, the Bank had to comply with specific requirements and measures that were introduced by governments, often at short notice.

The Bank's highly-proactive stance in tackling the global pandemic reinforced its core values of perceptiveness, collaboration, agility and integrity. GIB's early response proved highly effective in protecting employees, supporting customers, and ensuring that there was no business interruption.

This was achieved by a unified crisis management approach, with active involvement by the Board and senior management, and close collaboration between departments and lines of business; supported by the Bank's resilient digital architecture.

Business Continuity

- The Bank's Crisis Management Team (CMT) was mobilised at the end of January to assess the potential impact of COVID-19 and draw up contingency plans to address the various challenges.
- At the height of the pandemic the CMT convened virtually on a daily basis, before reducing in frequency once coronavirus precautionary measures began to take effect in each country.
- Implementation of GIB's business continuity management plan enabled 75 per cent of all employees (including 100 per cent in London and New York) to work from home using the Group's agile technology infrastructure.
- Worked closely with our vendors to ensure no disruption of Bank services.
- Preventive measures in line with regulatory health and safety protocols were put in place in all offices and branches. These included on-site medical staff, temperature checks, wearing of masks, hand washing, social distancing, regular sanitisation, and the closure of meeting rooms and of catering services.
- GIB took early pre-emptive action in the second quarter of the year to ensure the provision of adequate liquidity buffers; as well as securing additional long-term funding.
- The Bank's cyber security framework was successfully tested against all relevant regulatory requirements; and maintained its high levels with the FICO Enterprise Security Score and the Gartner Cyber Security Governance Maturity Model. Further enhancements were made during the year to strengthen layered cyber security controls, overall information security governance and incident monitoring.
- Risk Management conducted a stress analysis of the entire loan portfolio, along with other specific impact assessments; and continued to closely monitor the bank's credit, operational, liquidity and capital management risk exposures. A weekly non-payment meeting was conducted, at which all stressed accounts were reviewed.
- Developed new work methods to support off-site work and development by vendors.

Employees

- The Bank placed the highest priority on ensuring the health and well-being of its employees.
- Where appropriate, employees were provided with laptops and a virtual private network connection to enable them to work remotely from home.
- Employees received regular communications to keep them informed, reassured, healthy and productive.
- An employee Health & Safety Manual and Working from Home (WFH) Toolkits, were distributed to all employees, supported by WFH webinars.
- Virtual community groups were established in the UK to keep employees connected and motivated.

Management review (continued)

Customers

- GIB adopted a proactive and helpful approach to supporting customers to weather the financial impact of COVID-19 on their businesses, in a number of different ways.
- These included regular contact to discuss specific concerns, provide updates on reliefs offered by regulatory bodies and provide support such as deferring repayments, extending additional liquidity and waivers of certain fees.
- Customers also benefited from several new digital products and services, as well as bespoke Treasury solutions, which provided greater convenience, safety and security.

Community

- GIB Saudi Arabia donated US$ 530,000 to the Health Endowment Fund (HEF) of the Ministry of Health. HEF used the funds to purchase additional ventilators, air purifiers and sterilisers for hospitals to support efforts to curb the spread of COVID-19.
- GIB Saudi Arabia also donated US$ 320,000 to the Ministry of Human Resources and Social Development's Community Fund to be allocated to groups most affected by the coronavirus.
- In Bahrain, GIB requested that the US$ 1.8 million COVID-19 relief package it was entitled to receive from the Government, be donated to the Feena Khair campaign which supported the COVID-19 National Task Force.
- In light of increased cyber threats during the pandemic due to greater use of technology, the Bank participated in a nationwide campaign, Khalha Lek (Keep it to Yourself) endorsed by SAMA. The campaign included public figures, employees from meem and across the Bank to raise awareness about financial fraud and explain how people could protect their personal information and combat hackers.
- GIB UK donated fruit boxes to NHS hospitals in London, and 50 Chrome Books and 20 laptops to two secondary schools in London to help underprivileged children from more deprived backgrounds to study at home.
- meem supported the spreading of COVID-19 awareness messages through a range of communication initiatives including the release of the 'Bukra Ahla' – Better Tomorrow video which delivered a message of hope for a better future.

Regulators

Throughout the pandemic the Bank worked closely with the regulators in each country to use of our digital infrastructure to implement alternative working practices so that there was no disruption to GIB's operations, even during periods of lockdown.

BAHRAIN

Central Bank of Bahrain

SAUDI ARABIA

Saudi Central Bank
Capital Market Authority

UNITED ARAB EMIRATES

Central Bank of the UAE

UNITED KINGDOM

Financial Conduct Authority
Prudential Regulation Authority

USA

Office of the Comptroller of the Currency

Management review (continued)

REGIONAL TRANSACTIONS

WHOLESALE BANKING GROUP: CORPORATE BANKING

AlRaha AlSafi Food Company

Mandated Lead Arranger for Equity Bridge Loan with total facility of US$ 171 million for the privatisation of First Milling Company (MC-1) through the National Centre for Privatization and Saudi Grains Organisation, as part of the privatization programme for Saudi Arabia's flour mills and grain silos.

Bahrain National Gas Expansion Company (Tawseah)

Mandated Lead Arranger, Underwriter, Intercreditor Agent, Conventional Facility Agent, Investment Agent, Financial Advisor and Islamic Facility Asset Custodian for 10-year US$ 515 million Senior Unsecured Term Loan Facility for the company to refinance and upsize existing facilities.

Emirates Airlines

US$ 150 million two-year General Corporate Bilateral Term Loan Facility.

Emirates National Oil Company (ENOC)

Mandated Lead Arranger, Bookrunner and Global Facility Agent for US$ 300 million Revolving Credit Facility.

Gulf Air

Mandated Lead Arranger, Lender, Facility Agent, Security Agent and Account Bank for 10-year Term Loan Facility.

Government of Egypt

Ministry of Finance, Government of Egypt: Mandated Lead Arranger in 1Yr USD 2BN Conventional and Islamic facility.

OQ

Lead Arranger & Bookrunner for a 5 Year US$ equivalent 892MM senior unsecured term loan facility for OQ SAOC for general corporate purposes.

WHOLESALE BANKING GROUP: GLOBAL TRANSACTION BANKING (GTB)

Cash Management

King Fahd Causeway Authority

Provided the operator of the Saudi-Bahrain causeway with a comprehensive Cash Management product deck including Payment services, Acquiring solutions (PoS & PG), Commercial cards, Cash Pick-up facility, and In-house banking (Virtual Accounting Management).

Rawabi Holding Group

Implemented direct integration with the Group's treasury management system to enable Cash Management products and services. These include vendor payments, payroll and bulk SADAD payments, which are equivalent to 100,000 transactions per year.

United Electronics Company (EXTRA)

Provided Cash Management products and services seamlessly through the international SWIFT network, with direct connectivity to their Treasury Management System (TMS) to optimise their liquidity and payments, with 100% automation.

Supply Chain Finance

Aluminium Bahrain (Alba)

Enhanced the Supply Chain Finance (SCF) programme from US$ 100 million to US$ 150 million for financing payments to suppliers for a period of 180 days. SCF was implemented on a straight-through-processing (STP) platform with no manual intervention.

Redington Gulf

Provided a Supply Chain Finance (SCF) facility to optimise the company's working capital cycle. This enables suppliers to receive early payments and the company to extend payment terms. SCF was implemented on a straight-through-processing (STP) platform with no manual intervention.

Receivables Finance

Signify (Philips Lighting)

Implemented Receivables Finance solution for the purchase of accepted receivables from the company. This solution enables receivables to be removed from the company's balance sheet, together with the option to record cash immediately.

Management review (continued)

Investment Banking

Equity Capital Markets

Bin Dawood Holding IPO

Local Advisor, Senior Bookrunner and Underwriter for the successful US$ 585 million IPO of Bin Dawood Holding, which was the second-largest IPO in Saudi Arabia during 2020, and the first since the outbreak of COVID-19. The institutional tranche was nearly 50 times oversubscribed and received US$ 29 billion in bids; while the retail tranche almost 14 times oversubscribed.

Arabian Contracting Services Company (Al Arabia)

Financial Advisor to Al Arabia on MBC Group's acquisition of a minority stake in the company, which is the leading out-of-home advertising solutions provider in the GCC.

SABIC Agri-Nutrients Company

Financial Adviser to SABIC Agri-Nutrients Company (formerly Saudi Arabian Fertilizer Company) on the US$ 1.2 billion (100% equity) acquisition of SABIC Agri-Nutrients Investment Company, an SPV holding SABIC's investments in three agri-related entities.

Debt Capital Markets

Dubai Aerospace Enterprise

Joint Lead Manager for the debut US$ 750 million 5.25-year Sukuk issuance by the company, which is a UAE-based global aviation services provider.

Emirate of Sharjah

Joint Lead Manager and Joint Bookrunner for a US$ 1.0 billion Reg S Sukuk issuance for the Emirate. This was GIB Capital's first transaction for the Government of Sharjah.

Islamic Corporation for Development of the Private Sector

Joint Lead Manager and Joint Bookrunner for a US$ 600 million five-year Reg S Sukuk issuance, representing the Corporation's first benchmark transaction, which was upsized from an initial target of US$ 500 million.

Islamic Development Bank (IsDB)

Joint Lead Manager and Joint Bookrunner for a US$ 1.5 billion five-year Reg S Sustainable (Response to COVID-19) Sukuk issuance. This represents GIB Capital's eleventh transaction to date for the IsDB.

Mumtalakat

Joint Lead Manager and Joint Bookrunner for a US$ 500 million 7-year Sukuk issuance by Mumtalakat, the sovereign wealth fund of the Kingdom of Bahrain. The transaction was almost 8 times oversubscribed and priced inside fair value.

Gulf international Bank

Coordinator, Joint Lead Manager and Joint Bookrunner for a US$ 500 million 5-year Bond issuance by Gulf international Bank. The transaction pricing was tightened after initial price talk was released and priced at the tight end of guidance.

Kingdom of Bahrain

Joint Lead Manager and Joint Bookrunner for two bond and Sukuk offerings for the Kingdom of Bahrain. The first transaction was a US$ 2.0 billion Reg S/144a Dual-tranche bond and Sukuk issuance. This was the first high-yield CEEMEA sovereign issuer to access the market since the beginning of the COVID-19 crisis. The Second transaction was a US$ 2.0 billion Reg S/144a Dual-tranche bond and Sukuk issuance. This transaction witnessed the lowest coupon ever paid by the Kingdom on a 7-year Sukuk and a 12-year bond. These were GIB's fourth and fifth consecutive mandates by the Kingdom.

Debt Advisory

Bahrain National Gas Expansion Company (Tawseah)

Sole Financial Advisor for US$ 515 million, 10-year syndicated loan financing transaction for the company to refinance and upsize existing facilities. It was a landmark transaction for Bahrain with the pricing achieved for the deal lower than that of the sovereign bond.

Management review (continued)

AWARDS

EMEA FINANCE MIDDLE EAST BANKING AWARDS
- Best Debt House – Saudi Arabia
- Best Debt House – Bahrain

GLOBAL FINANCE 2020 INNOVATORS AWARDS
- Trade Finance: Best Electronic Supply Chain Finance Solution
- Best Digital Umrah Payments

GLOBAL FINANCE GCC REGIONAL AWARDS
- Best Trade Finance Services
- Best Open Banking APIs for KSA & Bahrain

GLOBAL FINANCE COUNTRY AWARDS
Saudi Arabia
- Best Corporate / Institutional Digital Bank
- Best Online Cash Management Services
- Best Trade Finance Services
- Best Open Banking APIs

Bahrain
- Best Trade Finance Services
- Best Open Banking APIs

GLOBAL INVESTOR MENA AWARDS
- Best Asset Manager – Saudi Arabia

GLOBAL TRADE REVIEW AWARDS
- Best Trade Finance Bank – Bahrain

ESG INVESTING AWARDS
- Best Bank for ESG Research: Runner-Up

INVESTMENT WEEK SUSTAINABLE & ESG INVESTMENT AWARDS
- Best Newcomer: Finalist
- Future Workplace Awards
- Best Talent Management Strategy: Finalist

Sustainability & corporate social responsibility review

At GIB, through our WAGIB Sustainability and Corporate Social Responsibility Programme, we have an enduring commitment to contribute to the economic, social and environmental sustainability of the communities in which we operate around the world.

During 2020, we placed particular emphasis on helping communities cope with the social and economic impact of COVID-19. This included providing support to government and charitable institutions in Saudi Arabia and Bahrain, in dealing with the coronavirus.

- In Saudi Arabia, GIB donated US$ 530,000 to the Health Endowment Fund of the Ministry of Health. These funds were used to purchase additional ventilators, air purifiers and sterilisers for hospitals to support efforts to curb the spread of COVID-19.
- The Bank also donated US$ 320,000 to the Saudi Arabian Ministry of Human Resources and Social Development's Community Fund to be allocated to groups most affected by the coronavirus.
- In Bahrain, GIB requested that the US$ 1.8 million coronavirus-related relief package it was entitled to receive from the Government, be donated to the Feena Khair initiative to support the efforts of the COVID-19 National Task Force.

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WAGIB

Sustainability & corporate social responsibility review (continued)

SUSTAINABILITY

GIB's Sustainability Partners

- World Economic Forum
- UN Principles for Responsible Investment
- UN Principles for Responsible Banking
- WEF Humanitarian Investing Initiative
- Net Zero Asset Managers Initiative
- Friends of the Ocean Action
- The Valuable 500
- Institutional Investors Group on Climate Change
- Task Force on Climate-related Financial Disclosures
- Sustainability Accounting Standards Board

Responsible Banking

GIB has become an official signatory of the United Nations Principles for Responsible Banking. These set out the banking industry's role and responsibility in shaping a sustainable future; and in aligning the banking sector with the objectives of the UN Sustainable Development Goals and the 2015 Paris Climate Agreement. The Principles have been developed through an innovative partnership between banks worldwide and the UN Environment Programme Finance Initiative.

The Valuable 500

GIB has become a member of The Valuable 500 global CEO community, which seeks to revolutionise disability inclusion through business leadership and opportunity.

Sustainability & corporate social responsibility review (continued)

Smart Head Office

GIB UK's new head office at One Curzon Street, London W1, has been awarded a Gold SKA Rating by the Royal Institute of Chartered Surveyors. This recognises that the building has achieved an extremely high level of design sustainability. The building features energy and water management, LG7 standard lighting, low toxin paints, fully recyclable furniture and materials, and maximum use of natural light.

Event Participation & Support

- City & Financial Global Virtual Summit: 'ESG & Sustainability Achieving Alpha in Uncertain Times'
- First virtual meeting of the UK Islamic Finance Council's Taskforce on Islamic Finance and the UN Sustainable Development Goals
- Sustainable Finance webinar organised by the Bahrain Association of Banks and the Bahrain Institute of Banking & Finance

COMMUNITY WELL-BEING

Autism Center of Excellence

GIB Board Member, Sultan bin Abdul Malek Al-Sheikh, represented the Bank at the official inauguration of the Autism Center of Excellence in Riyadh on 8th November 2020. Mr. Al-Sheikh received an award on behalf of the Bank from HE Ahmed Al-Rajhi, Minister of Human Resources and Social Development; and HE Ahmed Alkholifey, Governor of the Saudi Central Bank (SAMA) in recognition of GIB's support. The Autism Center of Excellence serves individuals with autism spectrum disorder (ASD) and provides them with the tools they need to integrate with society, while coordinating with their families.

Winter Warmth

GIB Capital provided each employee with two bags containing a thick jacket and trousers to give to those in need and help them to survive the winter weather.

Running for Charity

For the second consecutive year, employees from GIB UAE participated in the annual Standard Chartered Dubai 10-kilometre race in January. This initiative helps to raise awareness about health and fitness.

GIB UK Charity Activities

GIB UK is a corporate partner of the London Lord Mayor's Appeal Charity that supports a range of charitable organisations and initiatives including Samaritans, Place2Be and OnSide Youth Zone. The Bank also provides direct support for Refuge (domestic abuse), Mind (mental health), Teacher Aid, and National Health Service-focused charities.

Golfing Partner

For the second year running, GIB was a main partner of the Saudi International Golf tournament, which is part of the European Tour. The four-day event, in January and February, took place at the Royal Greens Golf Course and Country Club in King Abdulla Economic City, with over 130 professional players competing for the US$ 3.5 million prize fund. This prestigious event contributes to developing the Kingdom's sport, entertainment and tourism sectors, in line with the goals of Vision 2030.

Sustainability & corporate social responsibility review (continued)

CAREER DEVELOPMENT

Developing Leadership

GIB partners with the London Business School to provide the Future Leaders Programme (FLP) and Senior Leaders Programme (SLP), to offer the Bank's top talent a 'world-class learning journey'. There are currently two FLP and one SLP cohorts taking part in this leadership development programme.

Nurturing Local Talent

GIB provides university graduates and students with career development and work experience opportunities through the following programmes:

- Jammaz Al-Suhaimi Future Executive Programme

  A total of 17 participants graduated from this programme in 2020, and were employed across the Bank. Eleven new graduates were inducted during the year, of whom 47 per cent were females.

- GIB UK Graduate Recruitment Programme

  Two graduate students joined this programme in 2020.

- Tamheer Internship Programme

  GIB provided practical work experience for 57 students during the year.

- Jammaz Al-Suhaimi Scholarship Programme

  Two deserving female students were awarded scholarships in 2020 to further their higher education at the Royal University for Women in Bahrain.

WOMEN'S EMPOWERMENT

Women in Leadership Roles

GIB's commitment to gender diversity and inclusion embraces strengthening the role of female professionals across the Group and supporting them to assume leadership roles. Women currently comprise 26 per cent of the total headcount, with seven women holding senior management positions and two women being board members.

Career Advice Round Table

Twenty female employees from across GIB attended a special round table with GIB Saudi Arabia Board Member, Anju Patwardhan, to learn from her experience as a successful female professional in finance and technology. She shared stories of her life and work, and how her decisions and choices reflected on her career to date.

Moving Mountains Workshop

GIB Women's Empowerment Committee organised a special motivational event for 60 female staff across GIB. Under the theme 'Moving Mountains: I Can, I Will', the workshop provided advice and guidance for women seeking to progress their careers and assume leadership roles in the Bank.

World Bank Group Discussion

GIB UK Women's Forum invited Dr. Sandie Okoro, World Bank Group General Counsel; and Irina Kichigina, Deputy General Counsel, to a virtual discussion where they discussed how they went above and beyond their roles to support diversity and inclusion, and the impact of their activities. They also provided Forum participants with advice on how to promote a diverse and inclusive working environment.

Sustainability & corporate social responsibility review (continued)

G20 SAUDI ARABIA 2020

W20 SAUDI ARABIA 2020 WOMEN

Alnahda Philanthropic Society for Women

GIB Saudi Arabia signed a partnership agreement with this Riyadh-based non-profit society, which aims to empower women through financial and social support, training, employment and advocacy. Appointed by Royal Decree as the host organisation for the Women 20 (W20) Engagement Group of the G20 under Saudi Arabia's presidency in 2020, Alnahda organised a series of virtual national dialogues.

Ladies Golf Sponsorship

In collaboration with the Public Investment Fund, GIB sponsored the inaugural Aramco Saudi Ladies International Golf Tournament, marking the first time that professional female golfers played competitively in the Kingdom. One of this event's objectives is to encourage more women to take up golf as a recreational sport, in line with Saudi Arabia's Vision 2030.

ENVIRONMENTAL PROTECTION

Net Zero Asset Managers Initiative

GIB is a founding member of the Net Zero Asset Managers Initiative, which was launched in December 2020 to coincide with the fifth anniversary of the Paris Climate Agreement. The Initiative is a leading group of 30 global asset managers, representing over US$ 9 trillion of assets under management, who are committed to working with their clients to achieve the goal of net zero greenhouse gas emissions by 2050 or sooner.

Environmental Events Participation

- Virtual Oceans Dialogues organised by the World Economic Forum (WEF) in collaboration with the Friends of Ocean Action
- Virtual Industry Transition Day organised by the World Economic Forum
- Air Quality Webinar organised by GIB in collaboration with the Clean Air Fund

SUSTAINABLE BANKING & FINTECH

MSME Digital Lending Platform

In July 2020, a new digital lending platform for micro, small and medium enterprises (MSMEs) was officially launched in Saudi Arabia. It is the result of a strategic cooperation between GIB and the Social Development Bank, which aims to contribute to achieving the goals of Vision 2030. These include increasing the contribution of MSMEs to the local economy and enabling financial institutions to support private sector growth; as well supporting digital transformation in the Kingdom. The platform has been developed by GIB and Beehive (service provider), in the first-of-its-kind partnership between a bank and fintech in the region. The platform, which features a sophisticated decision-making and lending process, provides MSMEs with faster and more accessible financing.

Financing Affordable Housing

GIB has partnered with the Saudi Real Estate Development Fund to provide mortgages under the Ministry of Housing's innovative Sakani programme, which aims to increase the rate of home ownership in the Kingdom through the provision of affordable housing and financing. To facilitate the provision of convenient and speedy home finance, GIB's digital retail bank – meem – has launched a new mobile flow lending mortgage application.

LG Process Automation

GIB Saudi Arabia has formed a new partnership with the Saudi Company for Exchanging Digital Information (Tabadul) to develop and implement the automation and verification of letters of guarantee (LGs) transactions, through a new platform called Wthaq. This will subsequently be fully linked with the Ministry of Finance's Etimad e-procurement system. Wthaq will provide a standardised and unified platform with full security of information and enable the creation of a master repository for letters of guarantee.

Khalaha Lek Initiative

meem employees took part in a new cyber security campaign by Saudi banks. The Khalaha Lek (Keep it to Yourself) initiative aims to raise awareness about financial fraud, explain how people can protect their personal information, and combat hackers and other online tricksters.

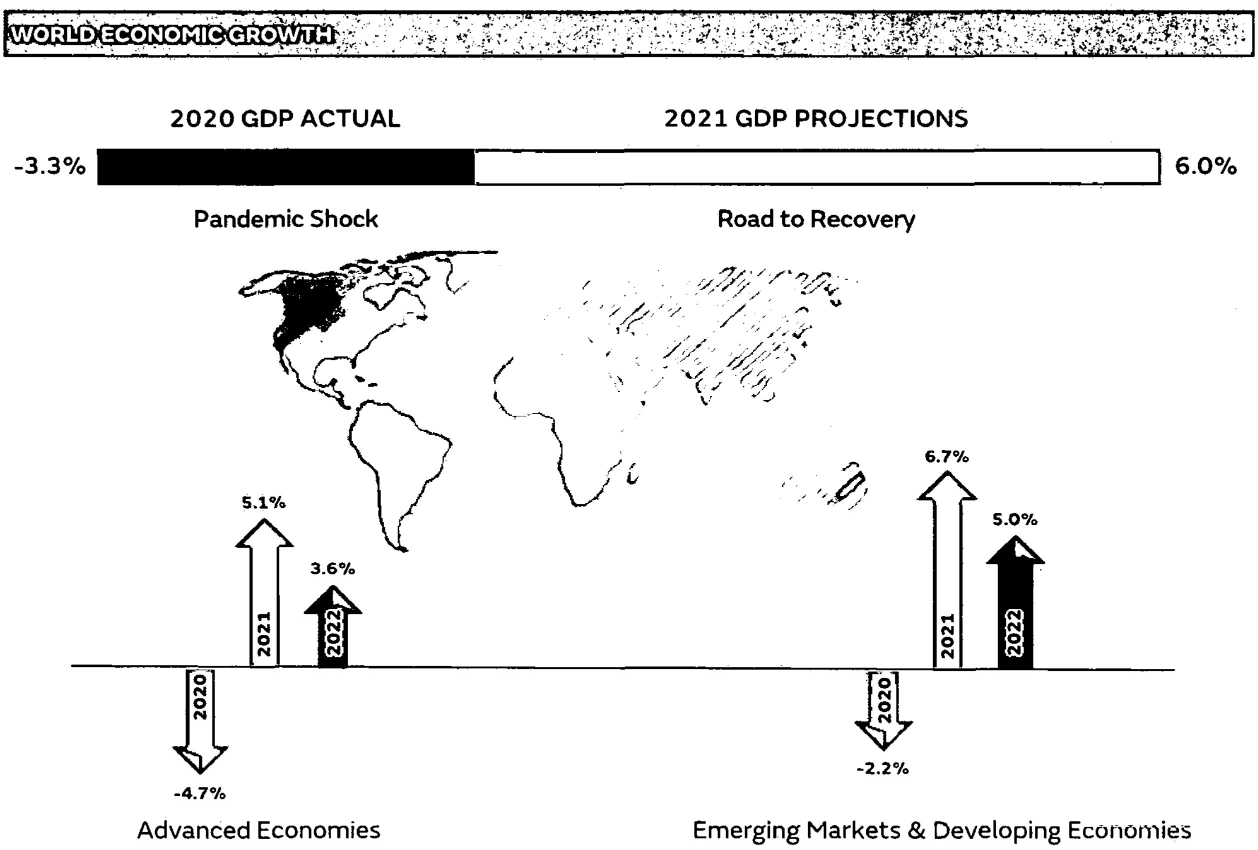
Events Participation & Support

- 50th Annual Meeting of the World Economic Forum at Davos
- 26th World Islamic Banking Conference in Bahrain
- Global Trade Review MENA Conference in Dubai

Economic review

Global Macro Views

2020 was a historic year for the global economy with the onset of the Coronavirus pandemic. Measures to contain the spread of the virus crippled entire industries, businesses, supply chains, fuelled unemployment and worsened inequality. The pandemic has tested the ability of governments and multilateral institutions to respond and mitigate catastrophic impact. After the steep decline in early 2020, global economic rebound took root since May and has remained on track, buoyed by robust government and central bank support including the actions of the US Federal Reserve. This has set the stage for strong post-pandemic recovery in 2021.



Data Source: International Monetary Fund

Economic review (continued)

Global Trends in 2020

- Unparalleled health crisis and human suffering.
- Deepest economic recession in eight decades.
- Monetary policy easing to zero or negative.
- Vast government support for financial sector, industries, businesses & households.
- Sovereign & corporate debt levels soar.
- Massive fiscal and balance of payments deficits.
- Stagnation in global trade and disruption in supply chains.
- Severe impact on both manufacturing and service sectors.
- Collapse of global tourism, travel, entertainment and hospitality industries.
- Crisis in global labour markets.
- UK leaves European Union (EU).
- Unprecedent fluctuations in commodity markets.
- E-commerce and the digital economy booms.
- Accumulation of consumer savings.

Looking Ahead

As the global vaccine rollout gains momentum, prospects for a global economic recovery now appears to be in sight.

Short-term drivers of growth:

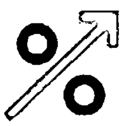
- Virus containment.
- Continued stimulus and policy support.
- Return of social and economic normalcy.
- Resumption in foreign direct investment flows.
- International cooperation.

Long-term drivers of growth:

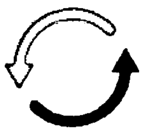
- Opportunities of the "new normal".
- Momentum in technology & digital shifts.
- Green transition and sustainable development.
- Geopolitical realignment.

POST PANDEMIC THEMES

Economic Comeback



Low Yield & Inflation



Dispersion & Disruption

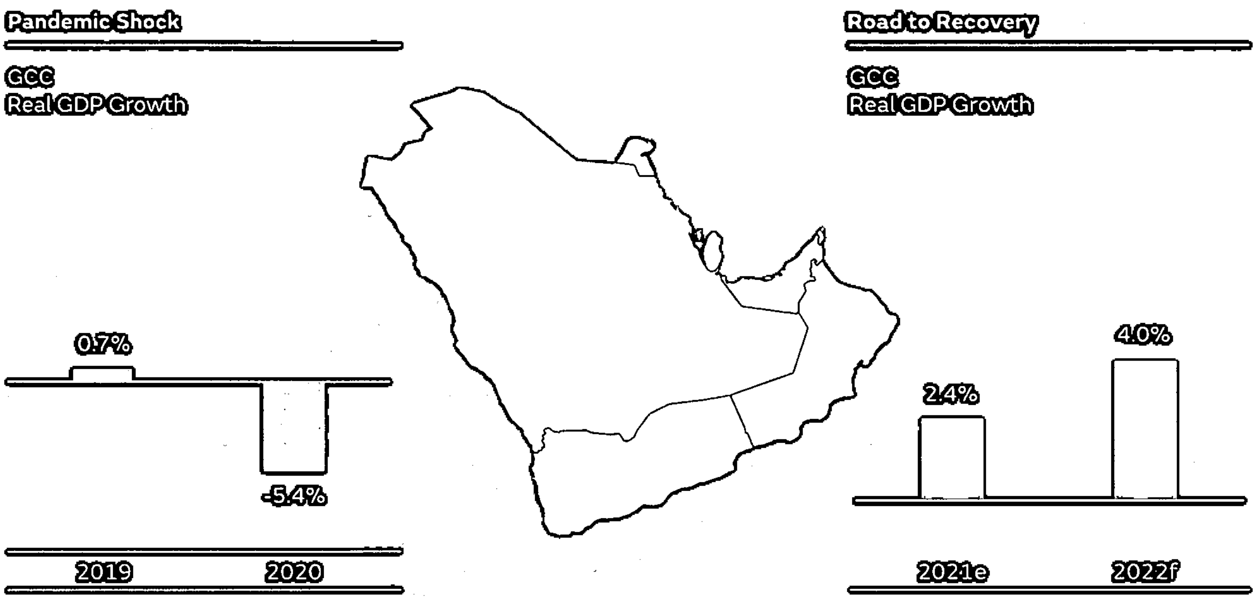
Shape of Geopolitics

Economic review (continued)

Gulf Cooperation Council (GCC) Regional Views

For the GCC countries, the pandemic impact was exacerbated by the collapse in oil prices, which briefly traded below US$0 in the first half of 2020. Responses to the pandemic led to steep declines in global oil demand and volatile crude oil markets, while the second half of the year has been characterised by relatively stable oil prices amid recovering demand. Like the rest of the world, the GCC authorities have implemented a range of measures to mitigate the economic damage, including fiscal packages, relaxation of monetary and macroprudential rules and the injection of liquidity into the banking system. There are recent signs of improvement although the deterioration in external and fiscal balances, and the continued fiscal strains associated with volatile oil prices, are posing challenges in countries with higher debt levels.

GCC ECONOMIC GROWTH

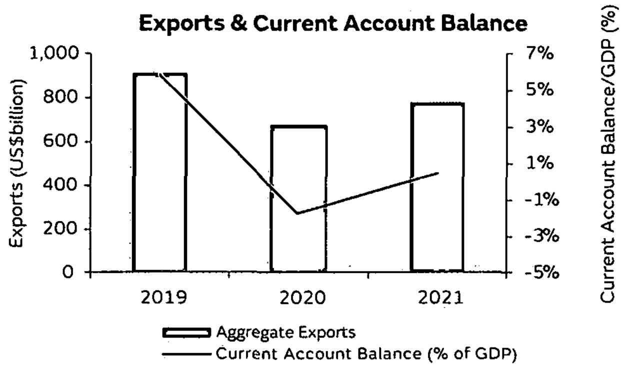


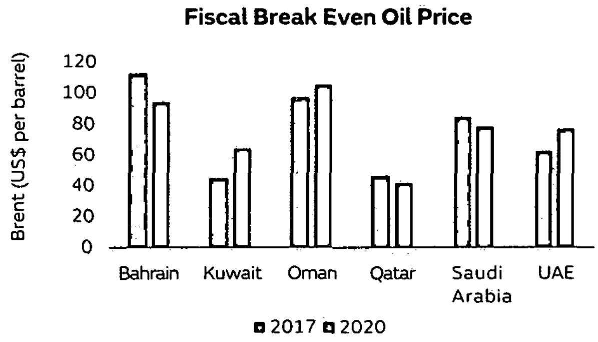
e - estimated
f - forecasted

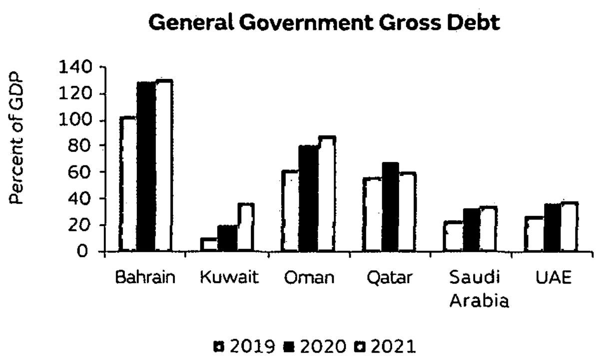
Data Source: International Monetary Fund

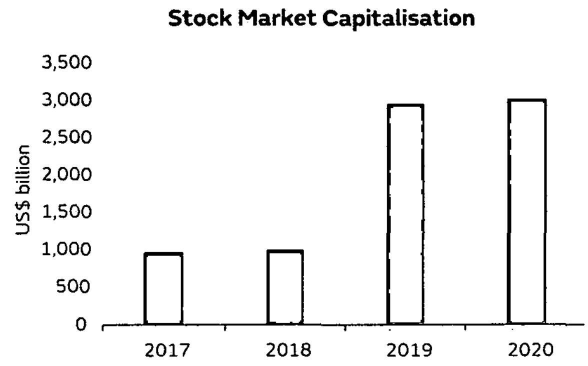
Economic review (continued)

GCC ECONOMIC DEVELOPMENTS





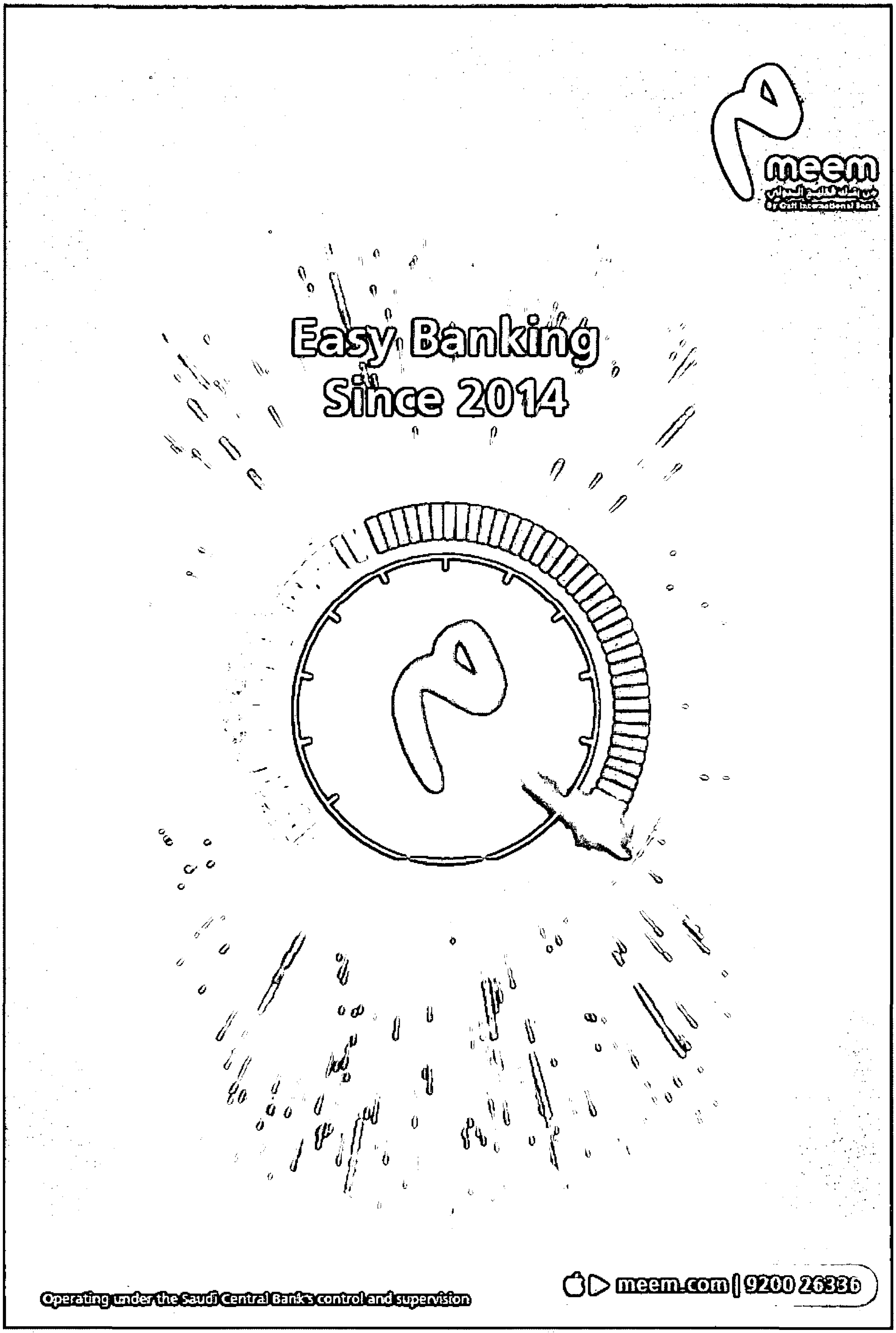




GCC POST-PANDEMIC THEMES

- **Life Change**
- Economic Impact
- **Investment Reshuffle**
- Supply Chain & Operations
- **The Future is Digital**
- Industry Shifts
- Saudi Arabia Vision 2030
- **GCC Pivot to Asia**
- Sustainability Acceleration
- **Oil Prices**
- Geopolitical Alignments
- **Financial Sector Prominence**

Data Source: International Monetary Fund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Operating under the Saudi Central Bank's control and supervision

Financial review

Similar to many regional and international banks, the Covid-19 pandemic and ensuing public health and economic crisis impacted GIB's financial performance in 2020. The impact of global interest rate cuts; reduced business activity, especially in trade finance and related areas and increased stock market volatility are just a number of factors that impacted companies and banks worldwide.

These factors contributed to total income for the year decreasing to US$ 307.7 million from US$ 384.7 million in 2019. However, due to successful cost optimisation initiatives, total operating expenses reduced to US$ 276.9 million compared with US$ 285.9 million the previous year, resulting in net income before provisions and tax of US$ 30.8 million, down from US$ 98.8 million in 2019.

In addition, the effect of the economic recession, coupled with the new insolvency laws in the region adversely impacted historically distressed exposures within the Bank's legacy non-performing portfolio, and weakened estimates of future cash flows and recoverability in the near-term. This resulted in the Bank taking the prudent and conservative decision to book significant provisions against this portfolio in 2020 enabling the Bank to put legacy problematic exposures behind and move forward. The Bank also incorporated Covid-19 implications into its ECL forward looking parameters, resulting in a significantly higher ECL reserve.

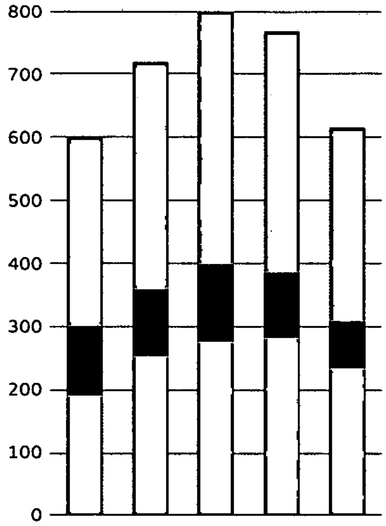
The result of this forward-looking action was a provision charge for loans and advances of US$ 339.3 million versus US$ 30.3 million the previous year and an increase in the Bank's provision coverage ratio to 93% in 2020 from 82% in 2019. As a result of the above, GIB reported a net loss of US$ 308.0 million for the year compared with net profit of US$ 63.0 million in 2019.

The Bank continued to maintain a strong balance sheet, with consolidated total assets at the end of the year standing at US$ 29.6 billion, and the asset profile continuing to reflect a high level of liquidity. Cash and other liquid assets, and short-term placements, stood at US$ 13.7 billion, representing 46 per cent of total assets. Loans and advances at the end of 2020 totalled US$ 10.4 billion compared to US$ 9.9 billion the previous year, an increase of 5 per cent, while customer deposits stood at US$19.6 billion in 2020 with a strong Loans to Deposits (LTD) Ratio.

CONTENTS

Financial review (continued)

Gross income development
(US$ millions)



	2016	2017	2018	2019	**2020**
O Net interest income	190.0	253.1	273.7	280.4	**232.8**
● Non interest income	110.0	107.2	124.8	104.3	**74.9**
O Gross income	300.0	360.3	398.5	384.7	**307.7**

Key ratios for group financials

	2020	2019
CAR	**17.2%**	18.4%
NSFR	**156.0%**	163.3%
LCR	**155.2%**	163.8%
Loans to Deposits	**53.3%**	46.5%
NPL ratio	**3.4%**	5.0%
Provision Coverage Ratio	**93%**	82.0%

NET INTEREST INCOME

Net interest income for 2020 reduced to US$ 232.8 million from US$ 280.4 million in the previous year.

Net interest income is principally derived from the following sources:

- Margin income on the wholesale loan portfolio
- Margin income on the investment securities portfolio
- Money book activities
- Global transaction banking
- Retail banking
- Earnings on the investment of the Group's net free capital

Interest earnings on the wholesale loan portfolio accounted for 46.8 per cent of the Group's net interest income. Margin income derived from wholesale lending was 6.2 per cent lower than the prior year, whilst average performing loan volumes remained flat at US$ 9.5 billion.

Interest income on the investment securities portfolio accounted for 12.2 per cent of net interest income, which were 16.6 per cent lower than the prior year. The investment securities portfolio is primarily maintained as a liquidity reserve. The key factors underpinning the portfolio are therefore liquidity and quality rather than income-generating characteristics.

Money book interest income represents the differential between the funding cost of interest-bearing assets based on internal transfer pricing methodologies and the actual funding cost incurred by the Group. This includes benefits derived from the mismatch in the repricing profile of the Group's interest-bearing assets and liabilities. Money book earnings in 2020 accounted for 19.1 per cent of net interest income. The Group's money book income was 5.1 per cent higher than in 2019.

Net interest income generated by global transaction banking products and services accounted for 10.7 per cent of net interest income. The interest earnings from global transaction banking were 6.6 per cent lower than the prior year due to the interest rate cuts, despite a significantly higher level of GTB call and current account balances. The global transaction banking proposition includes the development and launch of new advanced and differentiated products and services that are creating a leadership role for the Group in the regional market. Global transaction banking is a key strategic area of focus for the Bank as it meets the strategic objective of generating less expensive and stable funding and enhancing revenue diversification.

Net interest earnings generated by the digital retail bank, meem, in 2020 were below the threshold to report as a separate operating business segment in note 28 to the consolidated financial statements that sets out business segment information. However, meem recorded a 6.9 per cent year-on-year increase in net interest income in 2020 due to the active recalibration of the Retail liability base, reducing expensive term deposits and replacing them with more efficiently priced deposits and increasing call and current account balances.

Earnings on the investment of the Group's net free capital, which accounted for 12.9 per cent of net interest income, were 44.3 per cent lower than the prior year. The net free capital was largely invested in shorter duration government bonds or placed on a short-term basis with central banks and financial institutions. The interest income generated from the investment of the Group's net free capital was negatively impacted by the declining interest rate environment witnessed during 2020.

The Group continues to diversify its funding sources and to raise long term finance to minimise liquidity and refinancing risk. To further strengthen the Bank's funding profile, the Bank secured additional long-term funding of $1.7 billion in 2020. This included a benchmark US$ 500 million Reg S five-year bond issuance in September. The strong market reception for the bond issuance allowed the transaction to be priced 25 basis points inside initial price thoughts and the bond issue priced at 205bps over mid-swaps. The Group's Net Stable Funding Ratio as 31st December 2020 was at 156% compared to the minimum ratio of 100% required by the CBB indicating that the Group had adequate stable funds to fund its assets.

NON-INTEREST INCOME

Non-interest income comprises fee and commission income, foreign exchange income, trading income, and other income.

Fee and commission income at US$ 59.0 million was 8.8 per cent down on the prior year level due to subdued business activities as a result of the pandemic. An analysis of fee and commission income with prior year comparatives is set out in note 22 to

Financial review (continued)

the consolidated financial statements. Commissions on letters of credit and guarantee at US$ 28.6 million were the largest source of fee-based income, comprising 46.2 per cent of fee and commission income for the year.

Investment banking and management fees comprise fees generated by the Group's asset management, fund management, corporate advisory, debt and equity capital markets, and underwriting activities. Investment banking and management fees at US$ 21.0 million represented 33.9 per cent of fee and commission income.

The Group's various trading activities recorded a US$ 14.2 million loss for 2020 compared to a profit of US$ 17.0 million the previous year. Trading income is reported inclusive of all related income, including interest income, gains and losses arising on the purchase and sale, and from changes in the fair value of trading securities, dividend income, and interest expense, and including all related funding costs. An analysis of trading income is set out in note 23 to the consolidated financial statements. Trading income in 2020 principally comprised mark-to-market changes recorded on equity securities and funds classified as fair value through the profit or loss (FVTPL), commodity options and customer-related interest rate derivatives.

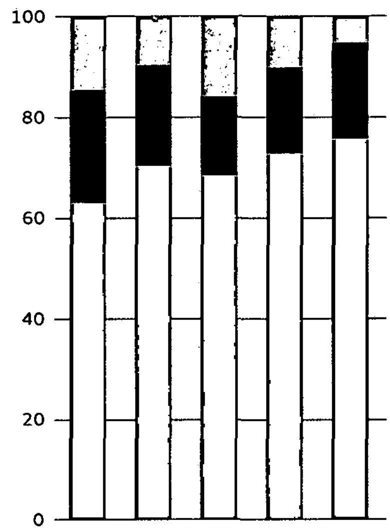
A net gain of US$ 4.4 million was recorded on trading investments in equity securities, while investments in managed funds generated a net loss of US$ 19.5 million, mainly due to the closure of the GIB UK-managed Trade Finance Fund. As set out in the analysis of trading securities in note 9 to the consolidated financial statements, the majority of the Group's trading activities relate to seed investments in funds managed by the Group's investment banking and asset management subsidiaries, GIB Capital and GIB UK.

Foreign exchange income at US$ 15.8 million for the year was US$ 1.6 million higher than in 2019. The Bank pro-actively assessed FX requirements in the prevailing market conditions, resulting in an 11% increase in income for 2020. Foreign exchange income principally comprises income generated from customer-initiated foreign exchange transactions that are offset in the market with matching transactions. Accordingly, there is no market risk associated with the transactions that contribute to this material source of income. The continued strong foreign exchange earnings reflected continued success in the cross-selling of innovative products to meet customers' requirements, and the development of new products to meet their changing needs.

A growing demand is being witnessed for these products as customers experience the benefits derived in effectively managing and hedging their currency exposures. During 2020, the Group continued to expand its customer base to create a broader and a more desirable diversification of earnings from these products, as well as generating repeat business from existing clients.

Other income rose to US$ 14.3 million in 2020 from US$ 8.4 million in the previous year. An analysis of other income is set out in note 25 to the consolidated financial statements. This principally comprised US$ 6.5 million of recoveries on previously written-off assets; US$ 4.9 million of dividends received from equity investments classified as fair value through other comprehensive income (FVTOCI); and US$ 2.2 million net realised gains on investment debt securities.

Gross income development
(%)



	2016	2017	2018	2019	**2020**
○ Net interest income	63.3	70.3	68.7	72.9	**75.7**
● Fee & commission income	22.1	20.1	15.4	16.8	**19.2**
○ Foreign exchange, trading & other income	14.6	9.6	15.9	10.3	**5.2**
	100.0	100.0	100.0	100.0	**100.0**

OPERATING EXPENSES

As a result of successful cost optimisation initiatives during the year, total operating expenses at US$ 276.9 million were US$ 9.0 million lower than in 2019.

Staff expenses at US$ 157.9 million, which accounted for 57 per cent of total operating expenses, were marginally higher than the prior year. Premises expenses rose by US$ 2.8 million to US$ 25.8 million during 2020 due largely to the inauguration of the Bank's Saudi Head Office in the Operations Centre in Dhahran, and the relocation of the Bank's UK subsidiary.

Other operating expenses at US$ 93.2 million were US$ 13.5 million lower than 2019. The year-on-year decrease was principally due to reductions in a number of different expense categories, including IT-related expenses following the write-off of certain information technology assets in 2019, lower travel and advertising and a focus on cost optimisation.

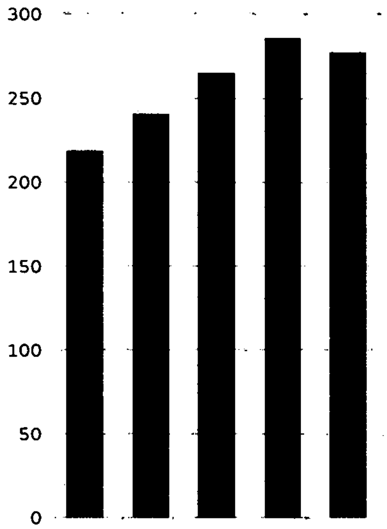
PROVISIONS

As highlighted earlier, in light of the reassessment of collections on non-performing credits in the legacy portfolio, the Group recorded a net loan provision charge for loans and advances of US$ 339.3 million, compared with US$ 30.3 million in 2019. The loan provision charge comprised a US$ 283.8 million specific (stage 3) provision charge, 99% of which related to the legacy portfolio, and a US$ 55.5 million non-specific (stages 1 and 2) provision charge.

In addition, a US$ 3.0 million provision charge was recorded for other assets. As referred to in note 27 to the consolidated financial statements, this represented a provision in relation to other receivables.

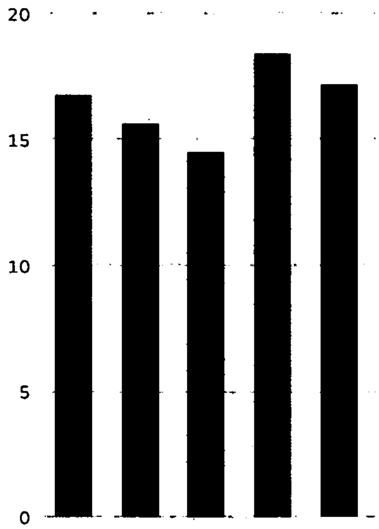
Financial review (continued)

Expenses development
(US$ millions)



	2016	2017	2018	2019	**2020**
Operating expenses	219.0	240	265.4	285.9	**276.9**

Capital Adequacy ratio
(%)



	2016	2017	2018	2019	**2020**
Capital Adequacy ratio	16.8	15.6	14.5	18.4	**17.2**

CAPITAL STRENGTH

Total equity amounted to US$ 3,012.5 million as at 31 December 2020, of which US$ 2,071.8 million was attributable to the shareholders of the Bank.

With a total regulatory capital base of US$ 2,641.7 million and total risk-weighted exposure of US$ 15,393.7 million, the risk asset ratio calculated in accordance with the Central Bank of Bahrain's Basel 3 guidelines was 17.2 per cent while the tier 1 ratio was 16.4 per cent, ratios that are high by international comparison. Tier 1 capital comprised 95.8 per cent of the total regulatory capital base. In accordance with international regulatory guidelines, unrealised gains and losses on equity investments classified as FVTOCI are included in the regulatory capital base. The total regulatory capital base excludes US$ 520.6 million of the US$ 940.7 million equity attributable to the non-controlling interest in GIB Saudi Arabia, being ineligible for inclusion in the regulatory capital base in accordance with the CBB's Basel 3 regulatory capital guidelines.

The risk asset ratio incorporates both market and operational risk-weighted exposures. With approval from the Central Bank of Bahrain, the Group applies the internal models approach for market risk, and the standardised approach for determining the capital requirement for operational risk. This demonstrates that the Group's regulator is satisfied that the Group's risk management framework fully meets the guidelines and requirements prescribed by both the Central Bank of Bahrain and the Basel Committee for Banking Supervision.

The Risk Management and Capital Adequacy report set out in a later section of the Annual Report provides further detail on capital adequacy and the Group's capital management framework. The Group's policies in relation to capital management are set out in note 29.5 to the consolidated financial statements. As described in more detail in the note, the Group's policy is to maintain a strong capital base so as to maintain investor, counterparty and market confidence and to sustain the future development of the Group's business.

ASSET QUALITY

The geographical distribution of risk assets is set out in note 30 to the consolidated financial statements. The credit risk profile of financial assets, based on internal credit ratings, is set out in note 29.1(b). This demonstrates that 79.3 per cent of all financial assets, comprising liquid assets, placements, securities, loans, and credit-related contingent items, were rated 4- or above, i.e. at or above the equivalent of investment-grade rated.

Further assessment of asset quality can be facilitated by reference to note 39.7 to the consolidated financial statements on the fair value of financial instruments. Based on the valuation methodologies set out in that note, the net fair values of all on- and off-balance sheet financial instruments as at 31 December 2020 were not significantly different to their carrying amounts.

At the end of 2020, cash and other liquid assets, reverse repos and placements accounted for 46.3 per cent of total assets; investment securities accounted for a further 15.2 per cent, while loans and advances represented 35.3 per cent.

Investment Securities

Investment securities totalled US$ 4,486.8 million as at 31 December 2020. The investment securities portfolio primarily represents the Group's liquidity reserve and accordingly, principally comprises investment-grade rated debt securities issued by major international and regional financial institutions and government-related entities.

Investment securities comprise two types of debt security portfolios, and a limited investment in equities and equity funds. The larger debt security portfolio comprises floating rate securities or fixed rate securities that have been swapped to yield constant spreads over LIBOR.

Financial review (continued)

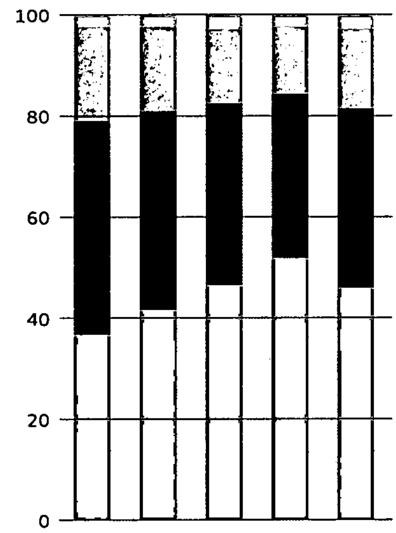
These accounted for US$ 3,572.1 million, or 82.4 per cent, of total investment debt securities at 2020 year-end. The smaller debt security portfolio represents the investment of the Group's net free capital in fixed rate securities. This portfolio amounted to US$ 760.9 million at the end of the year and comprised investments in GCC and OECD government-related fixed rate bonds.

Equity investments at the end of 2020 amounted to US$ 153.8 million. These included listed equities amounting to US$ 27.0 million received a number of years previously in settlement of a secured past due loan. These equity security holdings are being gradually liquidated over time. The remaining equity investments largely comprised listed equities amounting to US$ 76.4 million, and private equity-related investments.

An analysis of the investment securities portfolio by rating category is set out in note 10.1 to the consolidated financial statements. US$ 3,652.7 million or 84.3 per cent of the debt securities at 2020 year-end were rated A- / A3 or above. Based on the rating of the issuer, a further US$ 338.8 million or 7.8 per cent of the debt securities represented other investment-grade rated securities. US$ 341.5 million or 7.9 per cent of debt securities were rated below investment grade, i.e. below BBB- / Baa3. These principally comprised debt securities issued by a GCC government.

There were no past due or impaired investment securities as at 31 December 2020. All debt securities were categorised as stage 1 for provisioning purposes.

Asset mix by category
(%)



	2016	2017	2018	2019	**2020**
○ Placements & other liquid assets	36.9	41.8	46.8	51.8	**46.3**
● Loans & advances	42.5	39.5	35.6	32.7	**35.3**
○ Securities	18.2	16.4	14.8	13.1	**15.5**
○ Other	2.4	2.3	2.8	2.4	**2.8**
	100.0	100.0	100.0	100.0	**100.0**

Loans and Advances

Net loans and advances increased to US$ 10,433.5 million at the end of 2020 from US$ 9,876.1 million at the end of the prior year. Gross loans and advances were US$ 475.6 million higher than at 2019 year-end. The Bank continues to be selective in the extension of new loans during the year, reflected in the strength of the loan book with 88% of net loans being Stage 1.

Based on contractual maturities at the balance sheet date, 59.9 per cent of the loan portfolio was due to mature within one year, while 78.5 per cent was due to mature within three years. Only 8.1 per cent of loans were due to mature beyond five years. Details of the classification of loans and advances by industry are set out in note 11.2 to the consolidated financial statements while the geographical distribution of loans and advances is contained in note 30. As at 31 December 2020, 17.3 per cent of the gross loan portfolio comprised exposure to the energy, oil and petrochemical sector compared with 18.1 per cent at the end of 2019. This sectorial exposure reflects the Group's previous strategic focus on project finance and syndicated lending in the GCC states. These lower margin transaction-based legacy loans are on run-off status. At the end of the year, the largest industry sectorial exposure was to the energy, oil and petrochemical sector, comprising 17.3 per cent of gross loans; followed by the trading and services sector, comprising 16.8 per cent. The Bank's relatively low exposure to the construction and real estate sectors was reduced further during the year by 2.1 per cent and 3.1 per cent, respectively.

The credit risk profile of loans and advances, based on internal credit ratings, is set out in note 29.1(b) to the consolidated financial statements. US$ 6,155.2 million or 59.0 per cent of total loans were rated 4- or above, i.e. the equivalent of investment grade-rated. Only US$ 1,117.1 million or 10.7 per cent of loans and advances, net of provisions for impairment, were classified as stage 2 exposures in accordance with IFRS 9, i.e. loan exposures that had experienced a significant increase in credit risk since inception. In addition, exposures classified as stage 3 in accordance with IFRS 9 were US$ 133.4 million, or only 1.3 per cent, of loans and advances, net of provisions for impairment. Stage 3 exposures are those exposures which are specifically provisioned based on the present value of expected future cash flows.

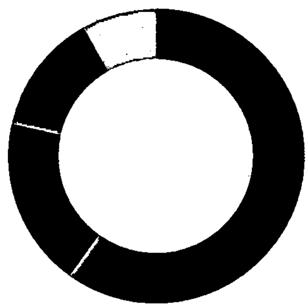
Total loan loss provisions as at 31 December 2020 amounted to US$ 337.8 million. Counterparty specific provisions (stage 3) amounted to US$ 230.1 million while non-specific provisions (stages 1 and 2) were US$ 107.7 million. Total provisions of US$ 230.1 million represented 63.3 per cent of the gross book value of past due loans. During 2020, US$ 421.5 million of 100 per cent provisioned loans were transferred to the memorandum records. This resulted in the utilisation of an equivalent amount of stage 3 provisions.

Specific provisions are determined based on the recoverable amount of the loan. The recoverable amount is measured as the present value of the expected future cash flows discounted based on the interest rate at the inception of the facility.

For the purpose of the calculation of the non-specific (stages 1 and 2) provisions, the Group only takes account of collateral held in the form of cash or exchange-traded equities. While collateral in the form of securities, unlisted equities and physical assets is used for risk mitigation and protection purposes, it is not taken into account in the calculation of the non-specific provision.

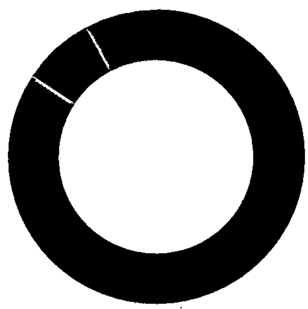
Financial review (continued)

Loan maturity profile



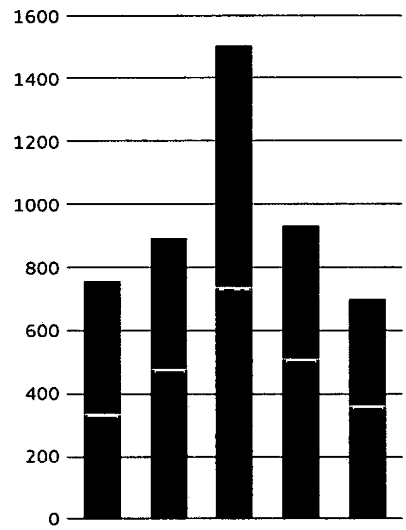
	US$ millions	%
● Year 1	6,249.3	59.9
● Years 2 & 3	1,945.0	18.6
● Years 4 & 5	1,396.4	13.4
O Over 5 years	842.8	8.1
	10,433.5	**100.0**

Investment debt securities rating profile



	US$ millions	%
● AAA to A-/Aaa to A3	3,652.7	84.3%
● BBB+ to BBB-/Baa1 to Baa3	338.8	7.8%
● BB+ to BB-/Ba1 to Ba3	341.5	7.9%
	4,333.0	100.0%

PDO loan development
(US$ millions)



	2016	2017	2018	2019	**2020**
● Gross PDO loans	339.3	479.4	741.3	511.4	**363.5**
● Provisions	421.0	413.6	763.9	419.6	**337.8**

The gross and net book values of past due loans as at 31 December 2020 amounted to US$363.5 million and US$ 133.4 million, respectively.

The provisioning coverage for past due loans reflects the high level of effective collateral that is maintained as a risk mitigant measure. Past due loans are defined as those loans for which either principal or interest is over 90 days past due. Under IFRS 9, interest on impaired loans should be recognised in income based on the net book value of the loan and the interest rate that was used to discount the future cash flows for the purpose of measuring the recoverable amount. However, in accordance with guidelines issued by the Group's regulator, the CBB, interest on past due loans is only to be recognised in income on a cash basis. In view of the Group's high provisioning coverage for impaired loans, the difference between the two bases of accounting is not material.

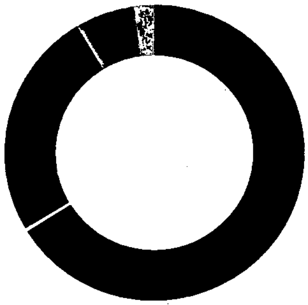
Other Asset Categories

Cash and other liquid assets, amounting to US$ 6,571.9 million at the end of 2020, are analysed in note 6 to the consolidated financial statements. They principally comprised cash and balances with central banks, and financial institutions in the key geographic locations in which the Group operates. A US$ 1,513.2 million year-on-year decrease in cash and other liquid assets was principally due to lower deposits from customers and banks during 2020.

Placements totalled US$ 5,953.4 million at the end of 2020, and were well diversified by geography, as illustrated in note 30 to the consolidated financial statements. Placements were largely with European, GCC and North American bank counterparties, representing the Group's principal operating locations. Placements represented 20.1 per cent of total assets at the end of 2020 and were supplemented by US$ 1,170.0 million

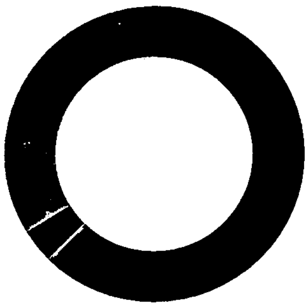
Financial review (continued)

Risk asset and commitment exposure



	US$ millions	%
● GCC	22,398.6	66.1
○ Other MENA	129.9	0.4
● Europe	8,442.0	24.9
● North America	2,169.5	6.4
● Asia	751.0	2.2
	33,891.0	100.0

Deposits - geographical profile



	US$ millions	%
● GCC countries	12,673.5	62.5
● Other MENA	759.7	3.7
● Other countries	6,853.3	33.8
	20,286.5	100.0

of securities purchased under agreements to resell. These represented collateralised placements, thereby reducing the Group's risk exposure to the financial institution sector.

An analysis of trading securities is set out in note 9 to the consolidated financial statements. Trading securities at US$ 107.0 million as at 31 December 2020 largely comprised investments in funds managed by GIB's subsidiaries, GIB Capital and GIB UK.

Risk Asset and Commitment Exposure

Risk asset and commitment exposure as at 31 December 2020 amounted to US$ 33,891 million. These comprise all assets included in the balance sheet (with the exception of other assets) and credit-related contingent items. As referred to earlier, an analysis of risk asset and commitment exposure by category and geography is contained in note 30 to the consolidated financial statements. As is evident from this note, US$ 22,398.6 million or 66.1 per cent of total risk assets and commitments represented exposure to counterparties and entities located in the GCC states. The remaining risk asset exposure largely represented short-term placements with major European banks, and investment securities issued by highly-rated issuers in Europe, North America, and Asia. An analysis of derivative and foreign exchange products is set out in note 33 to the consolidated financial statements, while a further analysis of credit-related contingent items together with their risk-weighted equivalents, is contained in note 34.

FUNDING

Bank and customer deposits as at 31 December 2020 totalled US$ 20,286.5 million. Customer deposits amounted to US$ 19,577.9 million, representing 96.5 per cent of total deposits; while bank deposits totalled US$ 708.6 million, accounting for 3.5 per cent.

Total deposits are analysed by geography in note 14 to the consolidated financial statements. US$ 12,673.5 million or 62.5 per cent of total deposits were derived from counterparties in GCC countries. Deposits derived from non-MENA countries, principally Europe, amounted to US$ 6,853.3 million or 33.8 per cent of total deposits. The deposits from counterparties in non-MENA countries largely related to deposit activity by GIB UK. These deposits do not represent a core funding source for the Group. This compares to placements, reverse repos and other liquid assets with non-MENA counterparties of US$ 9,711.9 million which are placed on a short-term basis in the money market. The Group is therefore a net placer of funds in the international interbank market, and accordingly has no net reliance on the international interbank market.

Securities sold under agreements to repurchase (repos) were US$ 175.2 million as at 31 December 2020. The Group utilises its high quality and highly-rated investment securities to raise funding on a collateralised basis where effective from a cost and tenor perspective, as well as constantly validating its ability to repo the securities as part of the Group's liquidity contingency plans.

Senior term financing as at 31 December 2020 totalled US$ 4,924.9 million. Term finance and equity represented 189.7 per cent of loans maturing beyond one year.

Further commentary on liquidity and funding is provided in the Risk Management and Capital Adequacy report.

Corporate governance report

Since Gulf International Bank B.S.C. ("GIB" or the "Bank") was established back in 1975, its Agreement of Establishment and Articles of Association ("AoA"), executed at the time by the Gulf Cooperation Council ("GCC") Governments that created it, set the foundation of solid governance practices for the Bank. From the start, sound corporate governance has been essential at GIB, both in achieving organisational integrity and efficiency as well as in attaining fairness to all stakeholders.

SOUND GOVERNANCE PRACTICES

Over the years, GIB has progressively adopted and implemented standards of corporate governance relevant to publicly-traded financial institutions although it is not a listed company; GIB has regularly published a statement on corporate governance in its annual reports since 2003.

Currently, GIB has in place many measures that are hallmarks of good corporate governance practices, such as comprehensive mandates for the Board of Directors ("Board") and for Directors and for Board Committees; a Code of Conduct (Code of Conduct, Ethics and Avoiding Conflicts of Interest) in both English and Arabic published on the Bank's website, and a detailed operating policy that anticipated the CBB's new requirements. Subsequently, GIB adopted additional measures that included, amongst other things, an updated Board Charter and updated mandates of the Board Committees; an enhanced Whistle Blowing Policy; a Board Corporate Governance Committee; the establishment of a dedicated Corporate Governance Unit; and an update of its variable remuneration framework to fully comply with the Sound Remuneration Practices issued by the CBB.

GIB's Board has adopted a whistle-blowing policy whereby management has designated officials to whom employees can approach. The policy provides adequate protection to the employees for any reports in good faith; GIB's Board of Directors review the policy periodically.

The Board and its respective Committees' mandates are subject to an annual review to ensure that they continue to reflect the current processes, best practices and any new regulatory requirements. The last updates were shared with the Board on its meeting of 15 December 2020.

Corporate governance report (continued)

The Board Charter is posted in its entirety on the Bank's website (www.gib.com), and largely reflects the corporate governance requirements contained in the HC (High Level Controls) Module of the CBB Rulebook Volume 1.

Pursuant to the requirements stipulated within the CBB Rulebook on the annual disclosure to the Board of Directors, regarding the employment of relatives of the approved persons occupying controlled functions within Bank, the Chief Executive Officer has declared to the Board of Directors that there are no relatives of any member occupying approved person in-controlled functions within the Bank for the year 2020.

The measures adopted by GIB formally entrenched a culture of professional corporate governance in the organisation. They also demonstrated GIB's commitment to financial transparency, fairness and disclosure of financial information that will benefit all users of such information, including regulators, customers, counterparties, rating agencies and other stakeholders.

In March of every year, the Board prepares for its Shareholders' Annual General Meeting ("AGM") a report on GIB's compliance with the CBB rules on corporate governance, which explains any non-compliance. The explanations contained in this year's "Comply or Explain" report are reproduced at the end of this section of the Annual Report.

GIB discloses in the Annual Report additional information required to be disclosed in accordance with Section PD-1.3.8 Public Disclosures Module of the CBB Rulebook Volume 1, and the Board also discloses to the Shareholders the information required to be disclosed to them annually in accordance with Section PD-6.1.1 of the Rulebook.

SHAREHOLDERS

The current shareholding structure of GIB is as follows:

Shareholder	Percentage of shareholding
Public Investment Fund Kingdom of Saudi Arabia	97.226%
Kuwait Investment Authority State of Kuwait	0.730%
Qatar Holding Company State of Qatar	0.730%
Bahrain Mumtalakat Holding Company Kingdom of Bahrain	0.438%
Oman Investment Authority* Sultanate of Oman	0.438%
Ministry of Finance United Arab Emirates	0.438%

** The Sultanate of Oman's shareholding representation in the Bank was previously under the ambit of the Omani State's General Reserve Fund. During 2020, the Sultan of Oman issued a Royal Decree establishing the Oman Investment Authority, which stipulated the transfer of all investments related to the State's General Reserve Fund to the Oman Investment Authority including the shareholding in GIB.*

ORGANISATION – RULES AND ROLES

GIB maintains a corporate governance structure that delineates and segregates the functions, roles and responsibilities of the Board and Management, and ensures that the requisite separate attribution of responsibilities between them is maintained:

- There is an effective and appropriately constituted Board responsible for the stewardship of the Bank and the supervision of its business; it receives from Management all information required to properly fulfil its duties and the duties of the committees that assist it; and it delegates to Management the authority and responsibility for managing the day-to-day business of the Bank.
- There is an effective and appropriately organised management structure responsible for the day-to-day management of the Bank and the implementation of Board-approved strategy, policies and controls.
- There is a clear division of roles and responsibilities between the Board and Management, and between the Chairman and the Chief Executive Officer (CEO).
- There are defined and documented mandates and responsibilities (as well as delegated authorities where applicable) for Senior Management.

The Bank's corporate governance structure and organisation chart is set out on page 67-68 of this Annual Report.

BOARD OF DIRECTORS

Under GIB's AoA, the Board comprises up to 10 members to be appointed or elected every three years. The AoA gives the right to each Shareholder holding 10 per cent of the share capital to appoint one member on the Board. The Shareholders exercising this right also have the right to terminate such appointment and replace the relevant Directors. The appointment of Directors is subject to prior approval from the CBB. In August 2018, the Public Investment Fund (PIF), as holder of 97.226% shareholding percentage, appointed the new Board of Directors for the period from August 2018 till August 2021.

GIB has a written appointment agreement with each Director. This agreement describes the Directors' powers, duties, responsibilities and accountabilities, as well as other matters relating to their appointment, including their term, the time commitment envisaged, their assignment on the Board Committees, the payment of financial considerations and expense reimbursement entitlement, and their access to independent professional advice when needed.

At the year end, the Board comprised eight Directors of whom seven are non-executive directors, including the Chairman and Vice-Chairman, and one executive Director, who together bring a wide range of skills and experience to the Board. Their biographies are set out on page 62-64 of this Annual Report.

Corporate governance report (continued)

INDEPENDENCE OF DIRECTORS

The independence or non-independence of the Directors is subject to an annual review by the Board. As at 31 December 2020, three Directors of the Bank were classified as non-independent in accordance with the CBB regulations, and the other Directors were classified as independent (see table below).

BOARD RESPONSIBILITIES

The Board is responsible for the overall business performance and strategy of the Bank.

The Board establishes the objectives of the Bank, the adoption and annual review of strategy, the management structure and responsibilities, and the systems and controls framework. It monitors Management performance, and the implementation of strategy by Management, keeps watch over conflicts of interest, and prevents abusive related party transactions.

The Board is also responsible for the preparation and fair representation of the consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal controls as the Board determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

The Board also convenes and prepares the agenda for Shareholders' meetings and assures equitable treatment of Shareholders including minority Shareholders.

Finally, the Board delegates to Management the responsibility for the day-to-day management of the Bank in accordance with policies, guidelines and parameters set by the Board.

In preparation for Board and Committee meetings, the Directors receive, in a timely manner, regular reports and all other information required for such meetings, supplemented by any additional information specifically requested by the Directors from time to time. The Directors also receive monthly financial reports and other regular management reports that enable them to evaluate the Bank's and Management's performance against agreed objectives. As prescribed in GIB's Articles of Association, the Board plans at least four meetings per year, with further meetings to occur at the discretion of the Board.

During the Board meetings which took place during 2020, four (4) directors have abstained from voting on five (5) credits proposals submitted during meetings or by circulation, due to personal interests, or being professionally affiliated to the borrowers. Moreover, there were no significant issues which were raised to the Board regarding GIB's business activities.

The details of Board membership and Directors' attendance during 2020 are set out in the following table:

DIRECTORS' ATTENDANCE JANUARY - DECEMBER 2020 MEETINGS

Board members	Board	Executive Committee	Audit Committee	Governance, Nomination Remuneration Committee	Risk Policy Committee	Innovation Committee	Executive Non-Executive	Independent Non-Independent
Dr. Abdullah bin Hasan Alabdulgader	6(6)	5(5)				7(7)	Non-Executive	Independent
Mr. Abdulla bin Mohammed Al Zamil	6(6)		6(6)	3(3)			Non-Executive	Independent
Mr. Abdulaziz bin Abdulrahman Al-Helaissi	6(6)	5(5)				7(7)	Executive	Non-Independent
Dr. Najem bin Abdulla Al Zaid	6(6)			3(3)	4(4)		Non-Executive	Independent
Mr. Sultan bin Abdul Malik Al-Sheikh	6(6)		6(6)			7(7)	Non-Executive	Non-Independent
Mr. Bander bin Abdulrahman bin Mogren	6(6)			3(3)			Non-Executive	Non-Independent
Mr. Frank Schwab	6(6)				4(4)	7(7)	Non-Executive	Independent
Mr. Rajeev Kakar	6(6)	5(5)	6(6)		4(4)		Non-Executive	Independent

Figures in (brackets) indicate the maximum number of meetings during the year.

Corporate governance report (continued)

BOARD COMMITTEES

The Committees of the Board derive their authorities and powers from the Board. Details of Committees' membership and attendance are listed in the tables below:

BOARD COMMITTEES' MEMBERSHIP 2020

Board committees	Member name	Member position
Executive Committee	Dr. Abdullah bin Hasan Alabdulgader	Chairman
	Mr. Abdulaziz bin Abdulrahman Al-Helaissi	Member
	Mr. Rajeev Kakar	Member
Audit Committee	Mr. Sultan bin Abdul Malek Al-Sheikh	Chairman
	Mr. Abdulla bin Mohammed Al Zamil	Member
	Mr. Rajeev Kakar	Member
Governance, Nomination & Remuneration Committee	Mr. Abdulla bin Mohammed Al Zamil	Chairman
	Dr. Najem bin Abdulla Al Zaid	Member
	Mr. Bander bin Abdulrahman bin Mogren	Member
Risk Policy Committee	Dr. Najem bin Abdulla Al Zaid	Chairman
	Mr. Frank Schwab	Member
	Mr. Rajeev Kakar	Member
Innovation Committee	Mr. Frank Schwab	Chairman
	Dr. Abdullah bin Hasan Alabdulgader	Member
	Mr. Abdulaziz bin Abdulrahman Al-Helaissi	Member
	Mr. Sultan bin Abdul Malik Al-Sheikh	Member
	Mrs. Anju Patwardhan	Invitee

BOARD AND COMMITTEES MEETINGS DURING 2020

Type of meeting	Meeting dates
Board of Directors	1. 18 February 2020 2. 20 April 2020 3. 27 July 2020 4. 28 October 2020 5. 15 December 2020 6. 24 December 2020
Executive Committee	1. 18 February 2020 2. 20 April 2020 3. 27 July 2020 4. 28 October 2020 5. 15 December 2020
Audit Committee	1. 17 February 2020 2. 19 April 2020 3. 17 June 2020 4. 26 July 2020 5. 27 October 2020 6. 14 December 2020
Governance, Nomination & Remuneration Committee	1. 17 February 2020 2. 19 March 2020 3. 14 December 2020
Risk Policy Committee	1. 17 February 2020 2. 19 April 2020 3. 26 July 2020 4. 27 October 2020
Innovation Committee	1. 17 February 2020 2. 19 April 2020 3. 11 June 2020 4. 26 July 2020 5. 24 September 2020 6. 27 October 2020 7. 14 December 2020

Corporate governance report (continued)

EXECUTIVE COMMITTEE

The mandate of the Executive Committee requires it, among other things, to:

1. Assist the Board in formulating the executive policy of the Bank and controlling its implementation.
2. Assist the Board by reviewing, evaluating, and making recommendations to the Board with regard to key strategic issues or material changes in key strategic objectives or direction.
3. Approve credit limits that exceed the authority of the CEO, subject to the limits approved by the Board.
4. Carry out additional responsibilities specifically mandated to it by the Board.
5. Exercise the powers of the Board on matters for which the Board has not otherwise given specific direction in circumstances in which it is impossible or impractical to convene a meeting of the Board (and subject to applicable law and GIB's Agreement of Establishment & Articles of Association). However, the Board may, acting unanimously, modify or amend any decision of the Committee on such matters.

In all cases, the members of the Committee must exercise their business judgement to act in what they reasonably believe to be in the best interests of the Bank and its Shareholders.

AUDIT COMMITTEE

The role of the Audit Committee is to review the Group's financial position and make recommendations to the Board on financial matters, internal controls, compliance and legal requirements. Its responsibilities include:

1. Assisting the Board in its oversight of (i) the integrity and reporting of the Bank's quarterly and annual financial statements, (ii) compliance with legal and regulatory requirements; (iii) the Bank's systems of internal controls; and (iv) the qualifications, independence and performance of the Bank's internal and external auditors.
2. Overseeing performance of the Bank's internal audit function and independent audits.

The mandate of the Audit Committee provides further particulars on financial reporting processes, process improvements, and additional ethical and legal compliance overview responsibilities. The Group Chief Auditor reports functionally to the Audit Committee and administratively to the CEO.

RISK POLICY COMMITTEE

The Committee assists the Board in fulfilling its oversight responsibilities in respect of setting the overall risk appetite, parameters and limits within which the Bank conducts its activities. On an on-going basis, the Committee:

1. Ensures that realistic policies in respect of management of all significant risks are drafted and approved appropriately.
2. Receives, reviews, challenges and recommends for approval by the Board any proposed amendments to the overall risk appetite of the Bank.
3. Monitors whether Management maintains a culture that rewards the recognition, communication and management of risks.
4. Ensures that roles and responsibilities for risk management are clearly defined, with Group and/ or division heads directly responsible, and that heads of risk management and the control functions are in supporting or monitoring roles, independent of business development.
5. Ensures that Management reports significant excesses and exceptions, as and when they arise, to the Committee for information and review.
6. Ensures that, on a timely basis, Management informs the Committee of all significant risks arising, and that it is comfortable with Management's responses and actions taken to address such findings.
7. Reviews the Bank's risk profile and significant risk positions and in so doing:
   - Receives reports on credit exposure by country, credit rating, industry/concentration, nonperforming loans and credit stress tests
   - Receives reports on liquidity and market risk positions (VaR)
   - Receives updates on operational risk management
   - Receives updates on cyber risks
   - Receives updates on strategic risks
   - Receives reports on changes to credit approvals or extension processes, credit risk measurement, market risk measurement and risk control measures
   - Receives updates on retail banking risks

Corporate governance report (continued)

GOVERNANCE, NOMINATION & REMUNERATION COMMITTEE

The principal objective of the Committee is to help the Board with ensuring that the Bank's remuneration levels remain competitive for GIB to continue to attract, retain and motivate competent staff to achieve the strategy and objectives of the Bank. The responsibilities of the Committee, as stated in its mandate, also include, but are not limited to, the following:

Nomination matters:

1. Assessing the skills and competencies required on the Board, the Committees of the Board, and Senior Management.
2. Assessing from time to time the extent to which the required skills are represented on the Board and Senior Management.
3. Establishing processes for reviewing the performance of the individual Directors and the Board as a whole.
4. Establishing processes for reviewing the performance of the individual Senior Executives and Senior Management as a whole.
5. Overseeing Directors' corporate governance educational activities.
6. Establishing processes for the identification of suitable candidates for Senior Management and identifying and recommending individuals qualified to become members of Senior Management.
7. Establishing a succession plan for Senior Management.

Remuneration matters:

Reviewing and making recommendations to the Board in respect of:

1. The executive remuneration and incentive policy which includes the fixed and variable remuneration for approved persons, and material risk-takers.
2. Policies relating to recruitment, retention, performance measurement and termination for the Directors, the CEO and Senior Management.
3. Approve, monitor and review the remuneration system to ensure the system operates as intended.
4. Approve the remuneration amounts for each approved person and material risk-taker, as well as total variable remuneration to be distributed, taking account of total remuneration including salaries, fees, expenses, bonuses and other employee benefits.
5. Review the stress testing and back testing results before approving the total variable remuneration to be distributed, including salaries, fees, expenses, bonuses and other employee benefits.

Governance matters:

1. Overseeing the development and maintenance of corporate governance policies.
2. Monitoring the Bank's compliance with regulatory requirements relating to corporate governance.
3. Review mandates and performance evaluations of the Board and its Committees and recommend to the Board any improvements deemed necessary or desirable to the mandates.
4. Review classification of individual Directors, and declaration of Directors and members of Senior Management regarding their outside activities and interests to determine whether any conflict of interest exists and take appropriate steps in that regard.
5. Oversee the Bank's public reporting on corporate governance matters.

INNOVATION COMMITTEE

The role of the Committee is to assist the Board in its responsibilities by overseeing and advising on the Bank's innovation and digitisation agenda, including but not limited to innovation and digital banking strategy and innovation portfolio. Its responsibilities include:

1. Support the Management as a sounding-board.
2. Review and recommend to the Board the approval of the Bank's innovation strategy and operating model that has been presented by Management. Review and discuss significant emerging innovation and technology related issues and trends.
3. Provide guidance and support in managing the organisation's cultural challenges.
4. Oversee Management's development and implementation of the Bank's innovation strategy and its alignment with the Bank's overall strategic objectives, including: a) Bank's progress in implementing its innovation pipeline; b) Post implementation results of all key innovations, including the achievement of expected benefits and returns on investment.

EVALUATION OF THE BOARD OF DIRECTORS

The mandates of the Corporate Governance and the Nomination & Remuneration Committees, as well as the Board Charter, reflect the requirement that the Board must conduct an evaluation of its performance, the performance of each Committee and of each individual Director, at least annually. The Board reviewed independent performance reports from each of its Committees as well as a report on its own performance by evaluating the major activities undertaken during the year in comparison with the respective mandates. The evaluation of individual Directors included measurable rating scales, self-evaluations and the Chairman's input. A report on the evaluations conducted each year is also provided to Shareholders at each AGM.

CONTENTS

Corporate governance report (continued)

SHARIAH SUPERVISORY BOARD

GIB's Board of Directors has established a "SSB", which was initially formed in 2012. The Shariah Board was subsequently reconstituted on 1st January, 2021 and the current Shariah Board members term is till 31st December, 2023.

The Shariah Supervisory Board is an independent body responsible for directing, reviewing, and supervising the Islamic activities in GIB in order to ensure that they are in compliance with Islamic Shariah rules and principles.

SSB MEMBERS (CURRENT)

Member name	Member name
Dr. Mohamed Ali Elgari	Chairman
Sheikh Nedham Yaqoobi	Executive Member
Sheikh Rashed Ibrahim Alghonaim	Member

SSB MEETINGS DURING 2020 *

Number	Meeting dates
1st Meeting	20 May, 2020
2nd Meeting	27 July, 2020
3rd Meeting	19 October, 2020

* The meetings were attended by the previous Shariah Supervisory Board members including Dr. Mohamed Ali Elgari (Chairman), Dr. Mohammad Daud Bakar (Executive Member), Dr. Mohammad Amin Ali Qattan (Member), Dr. Osama Al Dereai (Member).

REMUNERATION

The SSB's current remuneration has been determined in accordance with GIB's Board of Director's Resolution issued on October 28, 2020. Aggregate remuneration paid to SSB members in 2020 was US$ 100,000.

INDUCTION AND THE CONTINUING EDUCATION OF DIRECTORS

The Board and its Committees regularly receive updates on key developments in the regulatory and other areas that fall under their responsibilities.

The Board also stresses the importance of providing training and development opportunities for the Directors. The Board has passed a resolution to encourage Directors to seek any training they deem necessary (with the Bank bearing the expenses of such training), and the Directors are frequently briefed on the availability of training opportunities.

MANAGEMENT

The Senior Management team is responsible for the day-to-day management of the Bank entrusted to it by the Board. It is headed by the Group Chief Executive Officer and the Deputy Group Chief Executive Officer ("CEO Office"), who are supported by senior members of the management team and Board Secretary. The biographies of the key members of the Senior Management team are set out on page 65-66 of this Annual Report.

The following 1st level management committees assist the CEO Office in the management of the Bank:

1. Management Committee
2. Group Risk Committee
3. Assets and Liabilities Committee (ALCO)
4. Job Evaluation Committee
5. Information Security Management Committee
6. Operational Risk Management Committee
7. Tender Review Committee
8. Credit Committee
9. Strategy Execution and Transformation Steering Committee
10. Investment Committee
11. Fraud Risk Committee
12. Digital Committee
13. Project Evaluation Committee
14. Provisions Committee
15. Crisis Management Committee
16. Business Continuity and Disaster Recovery Committee
17. Compliance Committee

These Committees derive their authorities from the CEO Office, based on the authorities and limits delegated by the Board.

In fulfilling its principal responsibility for the day-to-day management of the Bank, the Senior Management team is required to implement Board-approved policies and effective controls, within the strategy and objectives set by the Board.

Letters of appointment are issued to members of the Senior Management team setting out their specific responsibilities and accountabilities that include assisting with and contributing to the following:

1. Formulation of the Bank's strategic objectives and direction.
2. Formulation of the Bank's annual budget and business plan.
3. Ensuring that high-level policies are in place for all areas, and that such policies are fully applied.
4. The setting and management of risk/return targets in line with the Bank's overall risk appetite.
5. Determining the Bank's overall risk-based performance measurement standards.
6. Reviewing business units' performance and initiating appropriate action.
7. Ensuring that the Bank operates to the highest ethical standards and complies with both the letter and spirit of the law, applicable regulations and codes of conduct.
8. Ensuring that the Bank is an exemplar of good business practice and customer service.

Their attention is also drawn to the fact that these obligations are in addition to their specific functional responsibilities and objectives, and those set out in the Bank's policies and procedures.

Corporate governance report (continued)

REMUNERATION

The Bank's total compensation policy, which includes the variable remuneration policy, sets out GIB's policy on remuneration for Directors and Senior Management, and the key factors that were taken into account in setting the policy.

The Bank adopts Sound Remuneration Practices in accordance to CBB requirements. The Board approved the framework and incentive components and obtained Shareholders' approval at the 2015 Annual General Meeting. The key features of the remuneration framework are summarised below.

Remuneration strategy

The Bank's basic compensation philosophy is to provide a competitive level of total compensation to attract, retain and motivate qualified and competent employees. The Bank's variable remuneration policy is driven primarily by a performance-based culture that aligns employee interests with those of the Shareholders of the Bank. These elements support the achievement of set objectives through balancing reward for both short-term results and long-term sustainable performance. The strategy is designed to share its success and to align employees' incentives with the risk framework and risk outcomes.

The quality and long-term commitment of all employees is fundamental to the success of the Bank. The Bank therefore aims to attract, retain and motivate the very best people who are committed to maintaining a career with the GIB, and who will perform their role in the long-term interests of Shareholders. The Bank's reward package comprises the following key elements:

- Fixed pay
- Benefits
- Annual performance awards
- Deferred remuneration plan

A robust and effective governance framework ensures that the Bank operates within clear parameters of its compensation strategy and policy. All compensation matters, and overall compliance with regulatory requirements, are overseen by the Governance, Nomination and Remuneration Committee of the Board ("GNRC").

The Bank's remuneration policy, in particular, considers the role of each employee, and has set guidance depending on whether an employee is a Material Risk Taker and/ or an Approved Person in business line, control or support functions. An Approved Person is an employee whose appointment would require prior regulatory approval because of the significance of the role within the Bank; and an employee is considered a Material Risk Taker if they head up significant business lines, and any individuals within their control have a material impact on the Bank's risk profile.

In order to ensure alignment between what is paid to employees and the business strategy, GIB assesses Bank-wide, divisional and individual performance against annual and long-term financial and non-financial objectives, summarised in line with the business planning and performance management process. This takes into account adherence to the Bank's values, risk and compliance measures and, above all, acting with integrity. Altogether, performance is therefore judged not only on what is achieved over the short- and long-term, but also importantly on how it is achieved, as the latter contributes to the long-term sustainability of the business.

GNRC role and focus

The GNRC has oversight of all reward policies for the Bank's employees. The GNRC is the supervisory and governing body for compensation policy, practices and plans. It is responsible for determining, reviewing and proposing variable remuneration policy for approval by the Board. It is responsible for setting the principles and governance framework for all compensation decisions. The GNRC ensures that all persons must be remunerated fairly and responsibly. The remuneration policy is reviewed on a periodic basis to reflect changes in market practices, and the business plan and risk profile of the Bank.

The aggregate remuneration paid to the GNRC members during the year in the form of sitting fees amounted to US$ 27,000.00

Scope of application of the remuneration policy

The principles of this remuneration policy apply on a Group-wide basis. However, application of deferral requirements and issue of non-cash instruments for foreign branches and subsidiaries of the Bank is determined by applicable local regulations and market norms.

Board remuneration

The Bank's board remuneration is determined by its Shareholders in line with its Articles of Association. The compensation is linked to actual attendance of meetings. The structure and level of the compensation for the members of the Board are approved by the Annual General Meeting, and consist of the following:

- Attendance fees payable to members attending different Board-related Committee meetings
- Allowance to cover travelling, accommodation and subsistence, while attending Board and related Committee meetings
- A pre-defined fixed amount representing an annual remuneration fee

In 2020, the aggregate remuneration paid to GIB BSC Board members was US$ 0.7 million [2019: 2.4 million]. At the Group level, aggregate remuneration paid to Board members and key Management was US$ 15.0 million [2019: US$ 15.6 million], of which US$ 2.2 million [2019: US$ 4.2million] was paid to the Board members

Corporate governance report (continued)

Variable remuneration for staff

The variable remuneration is performance related and consists primarily of the annual performance award. As a part of the staff's variable remuneration, the annual reward consists of delivery of operational and financial targets set each year, the individual performance of the employees in achieving those targets, and their contribution to delivering the Bank's strategic objectives.

The Bank has adopted a Board-approved framework to develop a transparent link between variable remuneration and performance. The framework is designed on the basis that the combination of meeting both financial performance and achievement of other non-financial factors would, all other things being equal, deliver a target award pool for the employees, prior to consideration of any allocation to business lines and employees individually. In the framework adopted to determine the variable remuneration pool, the GNRC aims to balance the distribution of the Bank's profits between Shareholders and employees.

The key performance metrics at the Bank level include a combination of short-term and long-term measures, and include profitability, solvency, liquidity and growth indicators. The performance management process ensures that all goals are appropriately cascaded down to respective business units and employees.

In determining the amount of variable remuneration, the Bank starts from setting specific targets, establishing market comparable bottom-up, setting a revenue target and other qualitative performance measures that would result in a target top-down award pool. The award pool is then adjusted to take account of risk via the use of risk-adjusted measures.

The GNRC carefully evaluates practices by which remuneration is paid for potential future revenues whose timing and likelihood remain uncertain. The GNRC demonstrates that its decisions are consistent with an assessment of the Bank's financial condition and future prospects.

The Bank uses a formalised and transparent process to adjust the award pool for quality of earnings. It is the Bank's objective to pay out variable remuneration out of realised and sustainable revenue. If the quality of earnings is not strong, the profit base could be adjusted based on the discretion of the GNRC.

For the Bank to have any funding for distribution of a variable remuneration pool, thresholds of financial targets have to be achieved. The performance measures ensure that the total variable remuneration is generally considerably contracted where subdued or negative financial performance of the Bank occurs. Furthermore, the target award pool, as determined above, is subject to risk adjustments in line with the risk adjustment and linkage framework.

The Bank has engaged Aon McLagan as the independent remuneration consultant for market benchmarking and to provide professional opinion to the GNRC as and when required.

Remuneration of control functions

The remuneration level of staff in the control and support functions allows the Bank to employ qualified and experienced personnel in these functions. The Bank ensures that the mix of fixed and variable remuneration for control and support function personnel is weighted in favour of fixed remuneration. The variable remuneration of control functions is based on function-specific objectives and is not to be determined by the individual financial performance of the business area they monitor.

The Bank's performance management system plays a major role in deciding the performance of the support and control units on the basis of the objectives set for them. Such objectives are more focused on non-financial targets that include risk, control, compliance and ethical considerations, as well as the market and regulatory environments, apart from value-adding tasks which are specific to each unit.

Variable remuneration for business units

The variable remuneration for the business units is primarily decided by the key performance objectives set through the performance management system of the Bank. Such objectives contain financial and non-financial targets, including risk control, compliance and ethical considerations, as well as the market and regulatory environments.

Risk assessment framework

The risk assessment framework of GIB aligns variable remuneration to the risk profile of the Bank, and also ensures that the remuneration policy reduces employees' incentives to take excessive and undue risk. The Bank considers both quantitative measures and qualitative measures in the risk assessment process, and risk adjustments are applied to ensure that the Bank's remuneration policies are aligned to its risk appetite.

The GNRC considers whether the variable remuneration policy is in line with the Bank's risk profile and ensures that through the ex-ante and ex-post risk assessment framework and processes, remuneration practices where potential future revenues, whose timing and likelihood remain uncertain, are carefully evaluated.

Risk adjustments consider all types of risks, including intangible and other risks such as reputation risk, liquidity risk and the cost of capital. The Bank undertakes risk assessment to review financial and operational performance against the business strategy and risk performance, prior to distribution of the variable remuneration. GIB ensures that total variable remuneration does not limit its ability to strengthen its capital base.

Corporate governance report (continued)

The variable remuneration pool considers the performance of the Bank, which is considered within the context of its risk management framework. This ensures that the variable pay pool is shaped by risk considerations and Bank-wide notable events.

The size of the variable remuneration pool and its allocation within the Bank considers the full range of current and potential risks, including:

- The capital required to support the risks taken
- The level of liquidity risk assumed in the conduct of business
- Consistency with the timing and likelihood of potential future revenues incorporated into current earnings

The GNRC keeps itself abreast of the Bank's performance against the risk management framework. The GNRC will use this information when considering remuneration to ensure that return, risk and remuneration are aligned.

Risk adjustments
The Bank has an ex-post risk assessment framework, which is a qualitative assessment to back-test actual performance against risk assumptions.

In years where the Bank suffers material losses in its financial performance, the risk adjustment framework would work as follows:

- There would be considerable contraction of the Bank's total variable remuneration.
- At the individual level, poor performance by the Bank would mean individual KPIs are not met, and hence employee performance ratings would be lower.
- Reduction in value of deferred shares or awards.
- Possible changes in vesting periods, and additional deferral applied to unvested rewards.
- Lastly, if the qualitative and quantitative impact of a loss incident is considered significant, a malus or clawback of previous awards may be considered.

The GNRC, with Board approval, can rationalise and make the following discretionary decisions:

- Increase/reduce the ex-post adjustment
- Consider additional deferrals or increase in the quantum of share awards
- Recovery through malus and clawback arrangements

Malus and clawback framework
The Bank's malus and clawback provisions allow the GNRC to determine that, if appropriate, unvested elements under the deferred plan can be forfeited/adjusted, or the delivered variable remuneration could be recovered in certain situations. The intention is to allow the Bank to respond appropriately if the performance factors, on which reward decisions were based, turn out not to reflect the corresponding performance in the longer-term. All deferred remuneration awards contain provisions that enable the Bank to reduce or cancel the awards of employees whose individual behaviour has had a materially detrimental impact on GIB during the concerned performance year. Any decision to take back an individual's award can only be taken by the GNRC.

The Bank's malus and clawback provisions allow the Board to determine that, if appropriate, vested/unvested elements under the deferred bonus plan can be adjusted/cancelled in certain situations. These events include, but are not limited to, the following:

- Reasonable evidence of misbehaviour or material error by the employee causing harm to the Bank's reputation, or where the employee's actions have amounted to misconduct, incompetence or negligence.
- The employee's business unit suffers a material downturn in its financial performance, or a material risk management failure, or a material restatement of the financial statements of the Bank.
- The employee deliberately misleads the market and/or Shareholders in relation to the financial performance of the Bank.
- A significant deterioration in the financial health of the Bank, or the relevant line of business incurring losses.

Clawback can be used if the malus adjustment on the unvested portion is insufficient, given the nature and magnitude of the issue.

Variable remuneration has following main components:

Upfront cash	The portion of the variable remuneration that is awarded and paid out in cash on conclusion of the performance evaluation process for each year.
Deferred cash	The portion of variable remuneration that is awarded and paid in cash on a pro-rata basis over a period of 3 years.
Upfront share awards	The portion of variable remuneration that is awarded and issued in the form of shares on conclusion of the performance evaluation process for each year.
Deferred shares	The portion of variable remuneration that is awarded and paid in the form of shares on a pro-rata basis over a period of 3 years.

All deferred awards are subject to malus provisions. All share awards are released to the benefit of the employee after a six-month retention period from the date of vesting. The number of share awards is linked to the Bank's Net Asset Value as per the rules of GIB's Share Incentive Scheme. Any dividend on these shares is released to the employee, along with the shares (i.e. after the retention period).

Corporate governance report (continued)

Deferred remuneration

All employees at the grade 12 and higher shall be subject to deferral of variable remuneration as follows:

Element of variable remuneration	Allocation of variable remuneration: CEO, MDs and the 5 most highly-paid business line employees	Allocation of variable remuneration: Grade 12 and higher	Deferral period	Retention	Malus	Clawback
Upfront cash	40%	50%	None	-	-	Yes
Upfront shares	-	10%	None	6 months	Yes	Yes
Deferred cash	10%	-	3 years*	-	Yes	Yes
Deferred share awards	50%	40%	3 years*	6 months	Yes	Yes

* The deferral vests on a pro-rata basis over a 3-year period.

The GNRC, based on its assessment of role profiles and risk taken by an employee, could increase the coverage of employees that would subject to deferral arrangements.

Details of remuneration

Board of Directors

GIB BSC

US$ millions	2020	2019
Directors Remuneration (including sitting fees)	0.7	1.9
Directors Travel Expenses	0.0	0.5
Directors Expenses	0.0	0.0
Directors Expenses	0.7	2.4

GIB Group

US$ millions	2020	2019
Directors Remuneration	2.1	3.6
Directors Travel Expenses	0.0	0.6
Directors Expenses	0.0	0.0
Directors Expenses	2.2	4.2

Employees

2020

US$ 000's	Number of staff	Fixed remuneration: Cash	Fixed remuneration: Others	Sign on bonuses (Cash / shares)	Guaranteed bonuses (Cash / shares)	Variable remuneration: Upfront: Cash	Variable remuneration: Upfront: Shares	Variable remuneration: Deferred: Cash	Variable remuneration: Deferred: Shares	Variable remuneration: Deferred: Others	Total
Approved persons											
- Business Lines	5	3,291	298	-	-	1,267	-	313	1,567	-	6,736
- Control & Support	11	2,851	295	-	-	360	64	-	257	-	3,828
Other Material Risk Takers	12	2,924	302	-	-	457	80	15	392	-	4,170
Other Staff	193	23,936	3,698	-	-	2,178	38	-	152	-	30,001
Overseas Staff	796	79,001	16,117	-	-	8,994	51	479	565	-	105,206
TOTAL	**1,017**	**112,003**	**20,710**	**-**	**-**	**13,256**	**233**	**807**	**2,933**	**-**	**149,942**

Corporate governance report (continued)

		2019									
		Fixed remuneration		Sign on bonuses	Guaranteed bonuses	Variable remuneration					
						Upfront		Deferred			
US$ 000's	Number of staff	Cash	Others	(Cash / shares)	(Cash / shares)	Cash	Shares	Cash	Shares	Others	Total
Approved persons											
- Business Lines	5	2,405	221	-	-	883	-	217	1,084	-	4,810
- Control & Support	15	4,125	442	-	-	624	109	-	437	-	5,737
Other Material Risk Takers	12	2,928	331	-	-	482	69	34	447	-	4,291
Other Staff	200	22,305	3,740	-	-	2,490	61	-	243	-	28,839
Overseas Staff	765	71,989	14,855	-	-	15,262	15	720	436	-	103,277
TOTAL	**997**	**103,752**	**19,589**	**-**	**-**	**19,741**	**254**	**971**	**2,647**	**-**	**146,954**

Other staff expenses reported in the consolidated statement of income that have not been included in the table above, amounting to US$ 7.9 million, comprise indirect staff costs including training, recruitment expenses, life assurance contributions, and differences between accrued staff expenses and the amounts actually paid.

Deferred awards

	2020				
	Cash	Shares		Others	Total
	US$'000s	Number	US$'000s	US$'000s	US$'000s
Opening balance	485	4,041,157	3,710	-	4,194
Awarded during the period	971	3,160,322	2,901	-	3,872
Paid out / released during the period	(258)	(2,216,119)	(2,034)	-	(2,292)
Service, performance and risk adjustments	-	-	-	-	-
Changes in value of unvested awards	-	-	(444)	-	(444)
Closing balance*	**1,198**	**4,985,360**	**4,133**	**-**	**5,331**

* Closing balance Share value based on NAV as on 31-12-20

Severance pay

The severance payments during the year amounted to US$ 900,897 [2019: 214,200] of which the highest paid to a single person amounted to US$ 162,048 [2019: US$ 75,150].

CORPORATE COMMUNICATIONS

The Bank's Public Disclosure Policy and Corporate Communications Strategy ensure that the disclosures made by GIB are fair, transparent, comprehensive and timely; and reflect the character of the Bank and the nature, complexity and risks inherent in its business activities. Main communications channels include the website, annual report, social media, employee communications, and announcements in the appropriate media.

This transparency is also reflected in the Bank's website (www.gib.com) which provides substantial information on the Bank, including its profile and milestones; vision, mission, values, strategy and objectives; its financial statements for the last five years at least; and its press releases.

CODE OF CONDUCT

The Bank's website also contains the Board-approved Code of Conduct that contains rules on conduct, ethics and on avoiding conflicts of interest, applicable to all the employees and Directors of the Bank. The Code of Conduct is designed to guide all employees and Directors through best practices to fulfil their responsibilities and obligations towards the Bank's stakeholders (Shareholders, clients, staff, regulators, suppliers, the public, and the host countries in which the Bank conducts business, etc.), in compliance with all applicable laws and regulations.

The Code addresses such issues as upholding the law and following best practices; acting responsibly, honestly, fairly and ethically; avoiding conflicts of interest; protecting Bank property and data; protecting client-confidential information and safeguarding the information of others; complying with inside information rules and with the prohibition on insider trading; preventing money laundering and terrorism financing; rejecting bribery and corruption; avoiding compromising gifts; as well as speaking up and 'whistle blowing'.

Corporate governance report (continued)

All employees and Directors of the Bank are reminded every year of their obligations under the Code of Conduct by means of an email from the Bank that includes a copy of the Code of Conduct (in English and Arabic), and everyone is required to sign an Acknowledgement and Declaration confirming that they have received and read the Code of Conduct and understand its requirements; have followed and will continue to follow these requirements; and agree that if they have any concern about any possible misconduct or breach of the Code of Conduct, they will raise the concern with the appropriate persons within the Bank as per the Code.

In addition, all employees of the Bank must sign an annual Declaration on outside employment and other activities, to ensure that no conflicts of interest exist. These Declarations are addressed to the Bank's Human Resources department. Similarly, all Directors and members of the Management Committee must complete and sign a similar annual Declaration, addressed to the Corporate Governance Committee of the Board.

DISCLOSURES

The Bank's website also provides access to GIB's annual reports, and all the information contained in these reports is therefore accessible globally. The information includes Management discussion on the business activities of the Bank, as well as discussion and analysis of the financial statements and risk management. The financial information reflects the latest International Financial Reporting Standards that were applicable for adoption in 2019.

The Board-approved Disclosure Policy is in accordance with the requirements of Basel 3 Pillar 3, in compliance with CBB rules. The objective of this policy is to ensure transparency in the disclosure of the financial and risk profiles of the Bank to all interested parties.

INTERNAL CONTROLS

Senior management is responsible for establishing, maintaining and monitoring GIB's internal control systems to ensure the effective functioning of GIB. The internal control systems comprise the establishment and implementation of policies, procedures, processes, systems and a risk framework across all functions of GIB, which are approved by the Board of Directors.

The *Board of Directors*, supported by the *Board Risk Policy Committee* and the *Audit Committee*, is responsible for ensuring that the internal systems and controls framework are effective for GIB's business and associated risks.

The *Board Risk Policy Committee* sets the organisation's risk appetite and also seeks to identify the principal risks facing the organisation, together with the management. It has oversight in respect of GIB's overall risk appetite, parameters and limits within which GIB conducts its activities to seek assurance on an ongoing basis that the management is responding appropriately to such risks in a timely manner.

To achieve this, the Board Risk Policy Committee ensures that GIB has an effective Enterprise-wide risk management framework in place and that all risk controls operating throughout GIB are in accordance with regulatory requirements and best practice standards for management of risks in banks. The ***Enterprise Risk Management (ERM)*** Framework based approach followed by GIB takes a comprehensive view of all risk families on a proactive basis – including Credit risk, Market risk, Operational risk, Interest rate risk, Liquidity risk, and non-financial risks such as strategic risk, information and cyber security risks, business model risk, reputational risk, concentration risk, etc. This enables management to effectively deal with uncertainty, and any associated risk and opportunity, enhancing the capacity to build stakeholder value. This includes aligning GIB's risk appetite and strategies, ensuring well thought out risk-response decisions, helps reduce the frequency and severity of operational losses, identifies and helps proactive management of multiple and cross-enterprise risks, prepares GIB to proactively realise the opportunities arisen, and improves the capital deployment effectiveness.

To ensure the effectiveness of the set Enterprise risk management framework, the Board Risk Policy Committee relies on adequate line functions for independent monitoring and assurance functions within GIB, using a ***'Three Lines of Defence'*** Risk Management model to ensure that control roles are independent and responsibilities are segregated – with the ***'First Line of Defence'*** owning and managing risk as direct line functions, the ***'Second Line of Defence'*** overseeing through specialists in risk management, financial control, and compliance functions, and the ***'Third Line of Defence'*** providing independent assurance through specialist functions like Internal audit and External Statutory Audit teams. GIB follows a ***Forward-looking Stress Testing Framework*** across all risk families to identify possible events or changes in market conditions that could adversely impact GIB, and this helps in identifying action plans for timely and adequate risk mitigating actions.

The *Chief Risk Officer* reports functionally to the ***Board Risk Policy Committee*** and administratively to the ***Chief Executive Officer***, making ***Risk Management*** an independent function of management, with the ability to effectively implement the Enterprise-wide risk management framework and provide independent monitoring without constraints. Risk Management is properly and adequately resourced with a team of professionals with appropriate knowledge, skills, and experience.

Corporate governance report (continued)

The *Audit Committee* oversees the effectiveness of GIB's internal controls systems by reviewing and evaluating the systems of internal controls and meets with Internal Audit, External Audit and management to assess the adequacy and effectiveness of the systems of internal controls and obtaining reasonable assurances from them on a periodic basis. The Audit Committee periodically receives reports as to the existence of any significant deficiency or material weakness in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect GIB's ability to record, process, summarise and report financial information and as to the existence of any fraud, whether or not material, that involves management or other employees who have a significant role in GIB's internal control over financial reporting. Further, the Audit Committee Chairman provides updates to the Board on the key discussions and decisions considered by the Audit Committee.

The *Internal Audit Unit* reports functionally to the Audit Committee and administratively to the Chief Executive Officer, making it independent of management, with the ability to make objective judgements, and having the authority to conduct its work across the whole organisation without constraint. Internal Audit is properly and adequately resourced with a team of professionals with appropriate knowledge, skills, and experience. It follows a risk-based approach in developing and executing the internal audit plan in order to support the allocation of audit resources to those areas that represent significant risks to be conducted on a more frequent basis and assess the adequacy and effectiveness of GIB's systems of internal controls and to provide a reasonable assurance to the Audit Committee.

The process of *Internal Control* is facilitated through a set of separate functions, which report directly to senior management. These functions include risk management, financial control, and compliance. This multi-faceted approach aids the effective management of risk by identifying, measuring and monitoring controls from a variety of perspectives.

GIB maintains a disciplined approach to risk-taking by upholding a comprehensive set of risk management policies, processes and limits, employing qualified people with the appropriate skills, investing in technology and training, and actively promoting a culture of sound risk management at all levels.

In relation to *Operational risk*, GIB has implemented an operational risk management framework which includes tools such as risk and control self-assessment, key risk indicators and the escalation of operational risk events and remedial measures to prevent recurrence. These tools provide the business areas the opportunity to reassess the control effectiveness within their business processes. Any control deficiencies identified as a result of utilisation of these tools by the Business Units are reported ultimately to the Board Risk Policy Committee. Any key issues requiring the attention of senior management are escalated to GIB's Management Committee.

The *Information Security function* ensures the adequate protection of GIB's and its customers' information by securing network and security infrastructure from internal and external threats, by the implementation of "Defence in Depth" approach, i.e., layered security controls. The overall information security management system of GIB is designed in-line with industry standards and best practices and comprises of an integrated model of people, process and technologies, including 24/7 security operation centre, cyber security risk management, vulnerability and incident management processes, periodic penetration test, threat intelligence, brand protection services and preventive and detective end point and perimeter security solutions. GIB's *Compliance and Anti-money laundering function* performs its functions and duties through a continuous process of compliance risk assessment and ensures compliance with all applicable regulatory requirements. The Compliance Unit has a direct reporting line to the Audit Committee.

GIB endeavours to inculcate a strong appreciation for risk and internal controls through periodic training programmes for its employees and to increase their awareness of the importance of risk assessment, and their responsibility maintaining the system of internal controls.

Whilst the risk of failures in internal controls cannot be entirely eliminated, Management mitigates and manages such risk by maintaining the appropriate infrastructure, controls, systems, procedures and ensuring that trained and competent people are employed to protect the interest of GIB and its stakeholders.

Opinion on Internal Control by the Audit Committee

For the period ended 31 December 2020, the Audit Committee was made aware of the opportunities for enhancement in the internal controls of GIB. These recommendations were addressed, or are in the process of being addressed, by management. Furthermore, these recommendations are tracked and validated independently by Internal Audit and an update on the implementation is provided to the Audit Committee on periodic basis.

POLICY ON CONNECTED COUNTERPARTIES

The Board-approved Policy on Connected Counterparties governs GIB's dealings with such parties. The policy defines which parties are considered to be connected with GIB within the criteria set by the CBB, and imposes not only the limitations placed by the CBB but also additional criteria imposed by GIB. The policy sets out the internal responsibilities for reporting GIB's connected counterparties exposures to the CBB, and the disclosures to be made in GIB's financial statements and annual reports, in line with applicable disclosure requirements.

Corporate governance report (continued)

POLICY ON RELATED PARTY TRANSACTIONS

GIB has a Board-approved Code of Conduct which governs the conflict of interests and related party transactions. The Bank's dealings with its Shareholders are conducted on an arms-length basis in respect of its exposure to and deposits received from them. If loans are extended to related parties, these are approved on the basis of authorities delegated by the Board to the CEO. If the loans exceed these authorities, then further approval from the Executive Committee or the Board is requested. The Bank will not deal with any of its Directors in a lending capacity. It should be noted that Article 16 of the Articles of Association prevents Directors of the Bank from having any interest, directly or indirectly, in any contract with the Bank.

In the event of proposed dealings with companies associated with Director, the proposals are (i) referred to the Board for approval with the abstention of the Director involved from voting or (ii) raised to the attention of the Board Risk Committee and Board if such approvals are within the credit limits of the CEO.

All loans to Senior Management members (including the CEO and his direct reports), as well as staff of GIB, are governed by the policies applicable to staff. These policies are reviewed by the Governance, Nomination and Remuneration Committee of the Board at least annually. All dealings with companies associated with a GIB Director or member of the Senior Management are referred to the Board for approval.

MATERIAL TRANSACTIONS THAT REQUIRE BOARD APPROVAL

The Bank has delegated credit authority to the CEO based on a risk-rating matrix. When considering transactions, any exposure to an entity that exceeds the CEO's limit will require the approval of the Board Executive Committee or the Board.

COMPLIANCE

The Compliance framework adopted by the Board reflects the principles for promoting sound compliance practices at GIB. It also demonstrates the Bank's adherence to applicable legal and regulatory requirements, and to high professional standards. The role of the Compliance function is to assist Senior Management in ensuring that the activities of GIB and its staff are conducted in conformity with applicable laws and regulations, and generally with sound practices pertinent to those activities. The Group Head of Compliance and Group MLRO reports directly to the Board through the Audit Committee.

Compliance risk is the risk of legal or regulatory sanctions, material financial loss or damage to the reputation of the Bank arising from failure to comply with the requirements of applicable laws, rules, regulations and related self-regulatory organisations' standards and codes of conduct (collectively, applicable laws, rules and regulations). Group Compliance independently assesses compliance risk and evaluates the business and control units for adherence to applicable laws, rules and regulations, including identifying compliance issues and risks, performing independent spot checks, and reporting on the state of compliance activities across the Bank.

The Bank's approach to the management of compliance risk is described in the Group Compliance Policy, which outlines the requirements of the Bank's group compliance program, and defines roles and responsibilities of Board, Senior Management, Business and Control units, Internal Audit, and the three lines of defence in managing compliance risk. The requirements work together to drive a comprehensive risk-based approach for the proactive identification, management and escalation of compliance risks throughout the Bank.

The Group Compliance Policy also sets the requirements for reporting compliance risk information to executive management as well as the Board or appropriate Board level committees in support of Group Compliance responsibility for conducting independent oversight of the Bank's compliance risk management activities. The Board provides oversight of compliance risk mainly through its Audit Committee.

In ensuring that the tone emanates from the top, the CEO issues a yearly message to all of GIB employees reminding everyone of the importance of complying with all laws and regulations applicable to GIB's operations. Good compliance behaviour is also rewarded by having it as a mandatory measurement criterion in staff evaluations. Strict adherence to maintaining proper compliance conduct is ensured as it is a mandatory measurement criterion in staff evaluations.

During 2020, the Bank was penalised an amount of BHD 700 by the Central Bank of Bahrain due to failure in clean up the erroneously open accounts in the BCRB system (Consumer and Corporate).

This statement in the Annual Report is being made to fulfil the Central Bank of Bahrain requirements under Public Disclosure Module section PD-1.3.37, and the Enforcement Module sections EN-6.1.3 & EN-1.3.3.

Corporate governance report (continued)

ANTI-MONEY LAUNDERING

The Bank's current Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) procedures and guidelines conform to the legal and regulatory requirements of the Kingdom of Bahrain. These legal and regulatory requirements largely reflect the FATF recommendations on Money Laundering. GIB's AML/CFT procedures and guidelines apply to all of the Bank's offices, branches and subsidiaries, wherever located. In addition, the GIB entities located outside Bahrain are subject to the laws and requirements of the jurisdictions where they operate, and if local standards differ, the higher standards apply.

Systems are in place to ensure that business relationships are commenced with clients whose identity and activities can reasonably be established to be legitimate; to collect and record all relevant client information; to monitor and report suspicious transactions; to provide periodic AML/CFT training to employees; and to review with external auditors the effectiveness of the AML/CFT procedures and controls. The Bank's AML/CFT procedures prohibit dealing with shell banks. A proactive structure of officers is in place to ensure Group-wide compliance with AML/CFT procedures, and the timely update of the same to reflect the changes in regulatory requirements. This structure consists of the Group Head of Compliance and the Group Money Laundering Reporting Officer, MLROs, and Deputy MLROs.

CORPORATE GOVERNANCE FRAMEWORK – INTERNAL AUDIT REVIEW

The Internal Audit review of the Bank's Corporate Governance framework is conducted annually as a separate project since the introduction of the Corporate Governance Rules in 2010. Accordingly, the latest audit was undertaken as of August 16th, 2020. The report was issued with "Satisfactory" rating on September 30th. The purpose of the audit was to provide a level of assurance about the processes of corporate governance within the Bank. The scope of the audit included reviewing the existing policies, procedures and current practices followed by GIB in light of the CBB rules contained in the HC Module of the CBB Rulebook.

The overall conclusion of the audit was that the Corporate Governance framework of GIB appears to be operating effectively and is providing a sound framework to control the risks inherent in GIB's current business activities.

STATUS OF COMPLIANCE WITH THE CBB RULES (MODULE HC)

GIB complies with the CBB rules on Corporate Governance outlined in Module HC of the CBB Rulebook, and instances of non-compliance in 2020 are explained as follows:

- Module HC-1.3.7A relating to hosting meetings in the Kingdom of Bahrain, however, Ministerial Decree 26 of 2020 issued by the Minister of Commerce permitted Bahraini incorporated companies to hold their meetings virtually due to COVID -19. Most GIB directors are non-Bahrain residents, and are unable to attend due to health and travel restrictions.
- Module HC-1.4.5, HC-1.4.6, HC-1.4.11, & HC-1.5.2 regarding independence rules. The Bank discussed the recently introduced independence rules with the CBB on the HC Module updates which affect the criteria for board independent members' classification, and the CBB confirmed that GIB's current board composition and classification is grandfathered from the new requirements for the remainder of the current board term (expiring on 25 August 2021)
- Module HC-7.2.4 regarding communication of information to Shareholders through GIB's website, which is inapplicable as it conflicts with GIB's Agreement of Establishment & AoA stipulate that information should be shared with shareholders by registered mail.
- Conflict with GIB's Agreement of Establishment & AoA, mainly in connection with the remuneration of Directors in Module HC-5.5.2, HC-5.5.4 and HC-5.5.5.
- Module HC-5.4.37 regarding the variable remuneration not being applicable to GIB due to the adoption of the phantom shares scheme for deferred bonuses.
- Module HC-3.2.1 the Chairman of the Audit committee is employed by the major shareholder (PIF) and does not meet the criteria of "Independent Director.' However, GIB was granted exemption by CBB until the completion of the BoD member term in 2021.
- Module HC-6.5.4, HC-6.6.5 & HC-6.6.7 related to branches of foreign bank licensees and hence is not applicable.
- Module HC-6.5.17, HC-6.5.18, HC-6.5.66, HC-6.5.67 & HC-6.5.68 related to outsourcing the Audit function and hence is not applicable.
- Module HC-6.5.51 - Outstanding Audit comments to be addressed within 6/12 months as per the risk rating. Various units within the Bank were instructed to comply with this CBB rule. Also, overdue comments are tracked by Management Committee on weekly basis.

Under Article 2 of GIB's Agreement of Establishment approved by Decree Law No. (30) for the year 1975 (as amended from time to time) (the "Agreement of Establishment"), GIB is subject to the Agreement of Establishment and its AoA (together the "GIB Constitutional Documents"), and in the event of any conflict between the GIB Constitutional Documents and the internal law of the Kingdom of Bahrain, the terms of the Constitutional Documents shall prevail. As a result, certain Corporate Governance requirements under HC-1, HC-4 and HC-5 that are in conflict with the AoA such as the nomination of Directors, the attendance requirements for Directors, the prohibition against proxies at Board Meetings, and the Board of Directors total remuneration, have not been adopted.

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Board of Directors biographies

Dr. Abdullah bin Hasan Alabdulgader
Elected Chairman on 15th December 2017
Director since 2009

Dr. Alabdulqader is consulting and serving as a professional non-executive director (NED) in banking, investment, telecommunication, technology, and transportation. He brings extensive knowledge and experience in corporate governance, auditing, remuneration, capital markets regulations, and risk management. Currently, he is NED at Gulf International Bank-Saudi Arabia, BNY Mellon Saudi, Saudi Arabian Investment Company (Sanabil), Saudi Arabian Railroads Company (SAR), Al Faisaliah Group, STC Bahrain, and Saudi Public Pension Agency. He chairs the Regulatory and Policy Oversight Committee at the Saudi Stock Exchange (Tadawul).

Dr. Alabdulqader was Professor of Business Administration at King Fahd University of Petroleum and Minerals. In 2004, he moved to the newly established Saudi capital market regulator (Capital Market Authority). As a founding Commissioner, he contributed to the development of the Kingdom's capital market and led the launch of the Saudi corporate governance code. He continued promoting corporate governance in the region after leaving CMA. He was the founding Executive Director of the GCC Board Directors Institute, a non-profit organisation that provides board effectiveness training and assessment. Dr. Alabdulqader holds a PhD in Business Administration from University of Colorado, USA, and an MBA and BSc in Business Administration from King Fahd University of Petroleum and Minerals. He has 36 years' professional experience.

Mr. Abdulla bin Mohammed Al Zamil
Vice Chairman since 2018
Director since 2009

Mr. Abdulla bin Mohammed Al Zamil is the Chief Executive Officer of Zamil Industrial Investment Company, having previously served as Chief Operating Officer. Prior to this, he was the Senior Vice President at Zamil Air Conditioners, where he started his career as an industrial engineer. He is also the Chairman of Saudi Global Ports, Zamil Air Conditioners Holding Co., Zamil Steel Holding Co., Gulf Insulation Group, Gulf International Bank-Saudi Arabia and GIB Capital. His board memberships include Ranco & Zamil Concrete Industries and Zamil Offshore Services Company. Board memberships of government entities include the Eastern Province Council. Mr. Al Zamil holds an MBA (with a concentration in Finance) from King Fahd University of Petroleum and Minerals, Saudi Arabia, and a BSc in Industrial Engineering from the University of Washington, USA. He has 34 years' professional experience.

Board of Directors biographies (continued)

Mr. Abdulaziz bin Abdulrahman Al-Helaissi
Director since 2016
Group Chief Executive Officer, Gulf International Bank

Mr. Abdulaziz bin Abdulrahman Al-Helaissi is the Group Chief Executive Officer and a board member of Gulf International Bank B.S.C.

Prior to joining GIB in February 2016, Mr. Al-Helaissi was the Deputy Governor for Supervision at the Saudi Arabian Monetary Authority (SAMA), having started there in May 2013. At SAMA, his responsibilities included the oversight of the Banking and Insurance sectors as well as finance company regulations (mortgage, leasing, and other nonbank finance institutions). He was additionally responsible for consumer protection. Prior to SAMA, Mr. Al-Helaissi was Senior Country Officer and Managing Director, Saudi Arabia for JPMorgan Chase as well as Head of Global Corporate Banking for the Middle East and North Africa. Earlier in his career, he was Saudi British Bank's (affiliate of HSBC), Central Province Area General Manager, covering all key lines of business, including corporate and consumer banking. He has also served on a number of boards, including the Saudi Stock Exchange (Tadawul).

Mr. Al-Helaissi holds a BA in Economics from the University of Texas in Austin, USA and has 31 years of banking and regulatory experience primarily in Saudi Arabia.

Mr. Sultan bin Abdul Malek Al-Sheikh
Director since 2018

Mr. Sultan bin Abdul Malek Al-Sheikh is a Director at the Local Holdings Investment Division at the Public Investment Fund of Saudi Arabia (PIF). He is also a board member of the Helicopter Company, Tahakom Investment Company, Saudi Company for Exchanging Digital Information (Tabadul), Al Marai Company, Gulf International Bank - Saudi Arabia, and Saudi Fisheries Company, as well as being an Executive Committee member of Saudi Telecom Company. Prior to joining PIF, Mr. Al-Sheikh held key positions in reputable financial institutions. He served as an Associate and Vice President of Investment Banking at Saudi Fransi Capital. Mr. Al-Sheikh also worked as an Officer in the Securities Listing Department at the Saudi Capital Market Authority (CMA) and as a Relationship Manager at the National Commercial Bank (NCB) of Saudi Arabia. Mr. Al-Sheikh holds a MSc in Finance from the George Washington University, USA, and a BSc in Finance from King Fahd University of Petroleum and Minerals, Saudi Arabia. He has 17 years' professional experience.

Mr. Bander bin Abdulrahman bin Mogren
Director since 2018

Mr. Bander bin Abdulrahman bin Mogren is the Chief Operating Officer at the Public Investment Fund of Saudi Arabia (PIF). He is also a member of the PIF Nomination Committee, a board member of the Saudi Development and Investment Company and the Chairman of its Remuneration Committee, and a board member of the Saudi Real Estate Company and a member of its Nomination Remuneration Committee. Mr. Mogren is a board member of King Abdullah Financial District and the Chairman of its Nomination Committee, a board member of Jassara, and a member of the Nomination Remuneration committees of Tadawul, Sanabil Investments, Noon and the National Center for Privatization, Neom, Qiddiya and Central Riyadh Development Company. He is also a board member and Governance, Nomination and Remuneration Committee member of Gulf International Bank - Saudi Arabia.

Previously, he was Managing Director of Human Resources and Corporate Services at NCB Capital, and Head of Human Resources at Jadwa Investment; as well as having held managerial positions at STC. Mr. Mogren holds a BA in Human Resources and Business Administration from Eastern Washington University, USA. He has 19 years' professional experience.

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Board of Directors biographies (continued)

Dr. Najem bin Abdulla Al Zaid
Director since 2018

Dr. Najem bin Abdulla Al Zaid is the Founding Partner of ZS&R law firm in association with Hogan Lovells. He is the Vice Chairman of the Saudi Electricity Company and a member of the Tadawul Regulatory Policies and Oversight Committee. Further, he is a Governance Committee member at Saudi International Petrochemical Company, a Governance Committee member at Arabian Centres Company and a Board and Board Risk Committee member at Gulf International Bank - Saudi Arabia. He also served as the Vice Chairman of The Mediterranean & Gulf Cooperative Insurance & Reinsurance Company and as a board member of the National Centre for Privatization & PPP. Prior to founding ZS&R, Dr. Al Zaid was the Chief Governance and Legal Officer at Al Rajhi Bank Group and had previously served as the Commissioner and a board member of the Saudi Capital Market Authority, appointed by royal decree. He also worked as Counsel at the Islamic Development Bank Group.

Dr. Al Zaid holds a Doctor of Juridical Science from the George Washington University Law School, USA, a Master of Laws from the University of Minnesota Law School, USA, a High Diploma in Law from the Institute of Public Administration, Saudi Arabia and a BA in Islamic Jurisprudence & Law from Umm AlQura University, Saudi Arabia. Further, he successfully completed the Harvard Law School Leadership Program and the London Business School Management Development Program. He has 26 years' professional experience.

Mr. Rajeev Kakar
Director since 2018

Mr. Rajeev Kakar is a board member of Eurobank Ergasias SA (Greece), Commercial International Bank (Egypt), UTI Asset Management Company (India), Satin Credit Care Networks (India), and is a Global Advisory Board member at the University of Chicago's Booth School of Business. He is also a board member at Gulf International Bank – Saudi Arabia.

From 2006-2018, he was the Global Co-Founder of Fullerton Financial Holdings, a wholly owned subsidiary of Temasek Holdings, Singapore; and also served concurrently as the Global CEO of Consumer Banking, Regional CEO for Central Europe, Middle East and Africa; and as the founder, Managing Director and CEO of Dunia Finance, Fullerton's UAE subsidiary. Prior to that, he was at Citibank for 20 years, finishing as the Regional CEO & Division Executive - Turkey, Middle East and Africa.

Mr. Kakar holds an MBA, Finance & Marketing from the Indian Institute of Management, and a Bachelor of Technology, Mechanical Engineering from the Indian Institute of Technology. He has 34 years' professional experience.

Mr. Frank Schwab
Director since 2018

Mr. Frank Schwab is a strategic advisor, a co-founder of FinTech Forum Frankfurt, and a member of the Risk Advisory Committee at PayU in Amsterdam. He also serves as an Advisory Board Member at SONECT, Senior Advisor at Nagarro Germany, and member of the Supervisory Board at Addiko Bank. His main topics are new ideas, crypto currencies, innovation, technology and banking.

Previously, Mr. Schwab was the CEO of GIZS GmbH & Co KG (Sparkassen-Finanzgruppe / paydirekt) and Fidor TecS AG. He was also the Chairman of Hufsy in Copenhagen, and a senior advisor to McKinsey on banking transformation in Germany. He has held numerous management roles at Deutsche Bank AG, including Director for Strategy, Architecture, Business Development and Innovation; Group Technology & Operations; Private & Business Clients; IT & Operations; as well as Head of Internet & E-Commerce Technology. He also lectured for several years at the Mannheim Business School Creativity and Innovation Management.

Mr. Schwab holds an Executive MBA from Ashridge, UK and completed a Bank Officer Apprenticeship with Deutsche Bank, Mannheim, Germany, and study of Computer Science and Business Administration at the University of Mannheim. He has 24 years' professional experience.

Senior management biographies

Abdulaziz Al-Helaissi
Group Chief Executive Officer and Board Member,
Chairman – Gulf International Bank (UK) Limited

Abdulaziz Al-Helaissi has 31 years' banking and regulatory experience and holds BA in Economics from the University of Texas in Austin, USA. His various board memberships have included Tadawul (Saudi Stock Exchange).

Katherine Garrett-Cox
Managing Director and Chief Executive Officer
Gulf International Bank (UK) Limited

Katherine Garrett-Cox has over 31 years' experience in the global asset management industry, managing institutional and retail funds across a broad range of investment disciplines and holds a BA in History from Durham University, UK and studied Leadership and Public Policy for the 21st Century at John F. Kennedy School of Government, Harvard University, USA.

Mushari Al Otaibi
Group Chief Operating Officer

Mushari Al Otaibi has over 29 years' experience in Back Office Operations, Human Resources, Retail Banking and Wealth Management. Mushari attended the High Performers Leadership Programme at INSEAD, France, and the Finance for Non-Finance Executives Programme at London Business School in UK.

Marwan Abiad
Group Chief Financial Officer

Marwan Abiad has 38 years' international experience in banking, insurance, risk management, finance, accounting, technology and operations. He holds a BBA and an MBA from the American University of Beirut, Lebanon and CPA, CFA and FRM charters.

Mohammed AlAjmi
Group Head of Retail Banking

Mohammed has over 20 years of experience in Saudi Financial and Banking Industry and holds a Graduate of Law degree from King Saud University, Riyadh.

Jamal Al Kishi
Chief Executive Officer GIB BSC
Deputy Group CEO

Jamal Al Kishi has 25 years of regional banking experience and holds a BSc in Engineering from Arizona State University and an MBA in Finance and Banking from King Fahd University of Petroleum and Minerals, Saudi Arabia.

Osamah Shaker
Chief Executive Officer and Board Member
GIB Capital

Osamah Shaker has over 22 years' experience in investment banking, asset management and banking regulatory control and holds a MSc in Statistics from Colorado State University, USA, and a Bachelor of Administrative Science degree in Quantitative Methods, from King Saud University, Riyadh.

Khaled Abbas
Group Wholesale Banking Head

Khaled Abbas has more than 24 years' regional banking experience and holds a BSc in Business Studies from Lebanese American University, Beirut, Lebanon and has obtained executive education degrees from both Darden Business School at the University of Virginia, USA and INSEAD, France.

Sara Abdulhadi
Group Chief Investment and Treasury Officer

Sara Abdulhadi has more than 17 years of experience in global markets activities and strategic planning with a background in investments, derivative and FX trading; along with liquidity and funding management and holds an MSc in Investment Management from Cass Business School, City University, London and a BSc in Accounting from King Saud University, Riyadh.

CONTENTS

Senior management biographies (continued)

Arun Hari
Group Chief Risk Officer

Arun Hari has over 29 years of experience in corporate banking and risk management and holds a BSc in Mathematics from Mahatma Gandhi University, India and an MBA from Southern New Hampshire University, USA.

Khalid Mahmood
Group Chief Auditor

Khalid Mahmood has over 34 years' experience in banking, regulatory compliance and audit and holds an Associated Accounting Diploma from the University of Bahrain; and attended the Gulf Executive Program at Darden School of Business, University of Virginia, USA.

Yasser Al-Anssari
Group Compliance Head and Group Money Laundering Reporting Officer

Yasser Al-Anssari has over 23 years' experience in compliance and governance in the Kingdom of Saudi Arabia and holds a BSc in Management with Compliance from the University of Manchester, UK. He is a Certified Compliance Officer; a Certified Anti-Money Laundering Specialist (CAMS); and holds two Graduate Diplomas in Anti Money Laundering and International Compliance from the International Compliance Association.

Helen Lloyd
Group Chief Human Resources Officer

Helen Lloyd has over 32 years' international experience in human resources development, learning and cultural transformation and holds an MBA from Heriot Watt University, UK; and a BA from the University of South Africa (UNISA). She attended the Management Development Programme at UNISA School of Business Leadership.

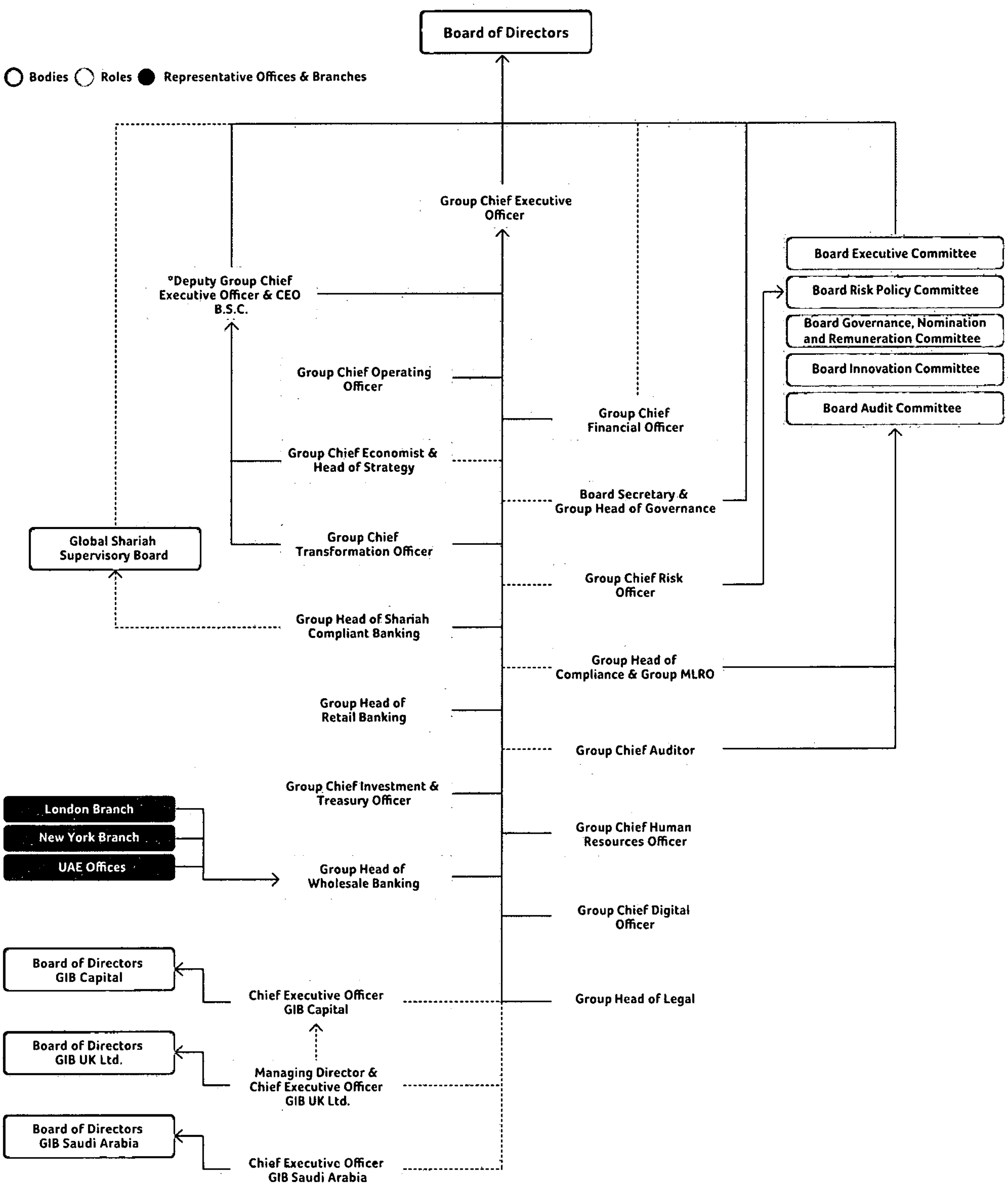
Vikas Sethi
Acting Group Chief Digital Officer

Vikas Sethi has 25 years of global experience in leveraging technology to deliver business outcomes in Financial Services, Consulting, Banking and Cards industries across multiple geographies. Vikas holds a Bachelor's degree in Engineering from the National Institute of Technology Surathkal in India and an MBA from the Ohio State University in the USA.

Rima Bhatia
Group Chief Economist and Head of Strategy

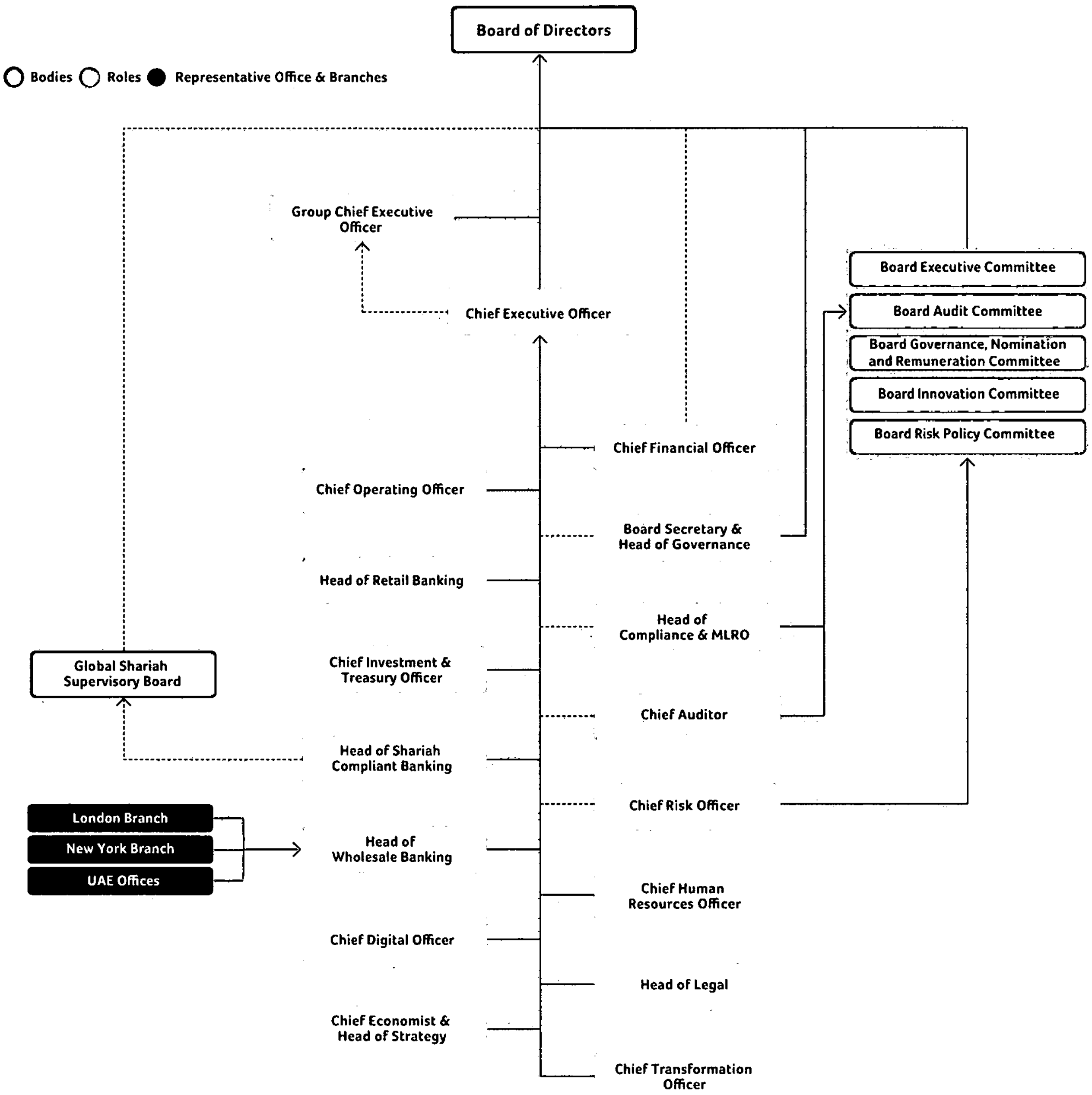
Rima Bhatia has 29 years' experience of forward-looking analysis on economic and financial developments, as well as leading the Bank's strategy function. She holds an MBA in Finance & Economics and a BSc in Business Administration from the University of Bahrain, Kingdom of Bahrain and attended an Executive Program at Harvard University, Boston, USA.

GIB Group organisation structure



Group Heads who 'double hat' as B.S.C. Heads also have a reporting line into the DGCEO & CEO, B.S.C.
* In the capacity as Deputy Group CEO, the Deputy Group Chief Executive Officer & CEO B.S.C. has a solid reporting line to the Group CEO

GIB B.S.C. organisation structure



Consolidated financial statements

For the year ended 31st December 2020

Contents

Independent auditors' report to the shareholders of Gulf International Bank B.S.C.

Report on the Audit of the Consolidated Financial Statements

Opinion

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

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2020, and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") as modified by the Central Bank of Bahrain ("CBB").

Basis for opinion

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

Key audit matters

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

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

1. Impairment of loans and advances under IFRS9

Key audit matter	How the key audit matter was addressed in the audit
The Group exercises significant judgement using subjective assumptions over both when and how much to record as loan impairment, and estimation of the amount of the Expected Credit Losses ("ECL") for loans and advances. The COVID-19 pandemic has impacted management determination of the ECL. This has resulted in an increased level of uncertainty associated with management judgement, which may result in outputs significantly different from the future credit losses and staging of the customers. Loans and advances form a major portion of the Group's assets, and due to the significance of the judgement used in classifying loans and advances into various stages stipulated in IFRS 9 and determining related ECL requirements, this audit area is considered a key audit risk. As at 31 December 2020, the Group's gross loans and advances amounted to US$ 10,771.3 million and the related impairment provisions amounted to US$ 337.8 million, comprising of US$ 107.7 million of provision against Stage 1 and 2 exposures and US$ 230.1 million against exposures classified under Stage 3.	• We gained an understanding of the Group's key credit processes comprising granting, booking, monitoring and provisioning, including an understanding of the design and operating effectiveness of relevant controls over the ECL model, including model build and approval, ongoing monitoring/validation, model governance and mathematical accuracy. • We read the Group's IFRS 9 based impairment provisioning policy and compared it with the requirements of IFRS 9 as well as relevant regulatory guidelines and pronouncements. • We assessed the soundness of the Group's loan grading processes. **Stage 1 and Stage 2 Provisions:** • For ECL against exposures classified as Stage 1 and Stage 2, we obtained an understanding of the Group's provisioning methodology, the underlying assumptions and the sufficiency of the data used by management. • We obtained an understanding of the Group's internal rating model for loans and advances. We have read the annual external validation report on the internal rating model to assess the appropriateness of the rating model.

Independent auditors' report to the shareholders of Gulf International Bank B.S.C. (continued)

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

Key audit matters (continued)

1. Impairment of loans and advances under IFRS9 (continued)

<table>
<tr><th>Key audit matter</th><th>How the key audit matter was addressed in the audit</th></tr>
<tr><td>The accounting policies relating to estimating ECL are presented in the accounting policies, and the associated credit risk disclosure is presented in note 29 to the consolidated financial statements.</td><td>
• We checked the appropriateness of the Group's determination of significant increase in credit risk and the resultant basis for classification of exposures into various stages
• For forward looking assumptions used by the Group in its ECL calculations, we held discussions with management and corroborated the assumptions using publicly available information. We also assessed the reasonableness of changes made to the economic scenarios to reflect the effect of COVID-19
• For a sample of exposures, we checked the appropriateness of the Group's staging
• For Probability of Default ("PD") used in the ECL calculations we checked the Through the Cycle ("TTC") PDs with internal historical data and checked the appropriateness of conversion of the TTC PDs to Point in Time PDs
• We checked the appropriateness of the Loss Given Default used by the Group's management in the ECL calculations
• For a sample of exposures, we checked the appropriateness of determining Exposure at Default, including the consideration of repayments in the cash flows and the resultant arithmetical calculations
• We checked the completeness of loans and advances and credit related contingent items included in the ECL calculations as of 31 December 2020
• We involved Financial Services Risk Management and Information System specialists to verify the appropriateness of the model
• We considered the adequacy of the disclosures in the consolidated financial statements in accordance with IFRS 9. Refer to the accounting policies, accounting judgements, estimates and assumptions, disclosures of loans and advances and credit risk management in notes 3, 4, 11 and 29 respectively to the consolidated financial statements
• We assessed the basis of determination of the management overlays considering the impact of the COVID-19 global pandemic against the requirements of the Group's ECL policy
Stage 3 (Specific) Provisions:
• For a sample of exposures determined to be individually impaired, we obtained an understanding of the latest developments in the counterparty's situation and examined management's estimate of future cash flows and checked the resultant provision calculations.
• For each exposure in the sample selected, we re-performed the provision calculation by considering the appropriateness of the management assumptions used and where possible benchmarked the provision held to that across industry.
</td></tr>
</table>

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Independent auditors' report to the shareholders of Gulf International Bank B.S.C. (continued)

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

Other information included in the Group's 2019 Annual Report

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

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

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

Responsibilities of the Board of Directors for the consolidated financial statements

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

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

Auditor's responsibilities for the audit of the consolidated financial statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

Independent auditors' report to the shareholders of Gulf International Bank B.S.C. (continued)

We also provide the Group's Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and communicate to them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or the safeguards applied.

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

Report on Other Legal and Regulatory Requirements

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

a) the Bank has maintained proper accounting records and the consolidated financial statements are in agreement therewith;

b) the financial information contained in the Chairman's Statement is consistent with the consolidated financial statements;

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

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

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

Ernst + Young

Partner's registration no.145
25 February 2021
Manama, Kingdom of Bahrain

Consolidated Statement of Financial Position

	Note	31.12.20 US$ millions	31.12.19 US$ millions
ASSETS			
Cash and other liquid assets	6	**6,571.9**	8,085.1
Securities purchased under agreements to resell	7	**1,170.0**	1,410.0
Placements	8	**5,953.4**	6,171.4
Trading securities	9	**107.0**	142.2
Investment securities	10	**4,486.8**	3,828.4
Loans and advances	11	**10,433.5**	9,876.1
Other assets	12	**827.5**	728.5
Total assets		**29,550.1**	30,241.7
LIABILITIES			
Deposits from banks	14	**708.6**	929.3
Deposits from customers	14	**19,577.9**	21,223.3
Securities sold under agreements to repurchase	15	**175.2**	523.1
Other liabilities	16	**1,151.0**	767.3
Senior term financing	17	**4,924.9**	3,502.4
Total liabilities		**26,537.6**	26,945.4
EQUITY			
Share capital	18	**2,500.0**	2,500.0
Reserves	19	**379.2**	336.0
Retained earnings		**(807.4)**	(540.1)
Equity attributable to the shareholders of the Bank		**2,071.8**	2,295.9
Non-controlling interest	42	**940.7**	1,000.4
Total equity		**3,012.5**	3,296.3
Total liabilities & equity		**29,550.1**	30,241.7

The consolidated financial statements were approved by the Board of Directors on 24th February 2021 and signed on its behalf by:-

Abdullah bin Hasan Alabdulgader	**Sultan bin Abdul Malek Al-Sheikh**	**Abdulaziz A. Al-Helaissi**
Chairman of the Board	Chairman of the Board Audit Committee	Group Chief Executive Officer

Consolidated Statement of Income

	Note	Year ended 31.12.20 US$ millions	Year ended 31.12.19 US$ millions
Interest income	21	505.9	841.3
Interest expense	21	273.1	560.9
Net interest income		232.8	280.4
Fee and commission income	22	59.0	64.7
Trading (loss) / income	23	(14.2)	17.0
Foreign exchange income	24	15.8	14.2
Other income	25	14.3	8.4
Total income		307.7	384.7
Staff expenses		157.9	156.2
Premises expenses		25.8	23.0
Other operating expenses	26	93.2	106.7
Total operating expenses		276.9	285.9
Net income before provisions and tax		30.8	98.8
Provision charge for loans and advances	11	(339.3)	(30.3)
Provision release for investment securities		1.9	0.2
Provision charge for contingent liabilities	27	-	(2.4)
Provision charge for other assets	27	(3.1)	(0.1)
Net (loss) / income before tax		(309.7)	66.2
Taxation reversal / (charge)		1.7	(3.2)
Net (loss) / income		(308.0)	63.0
Attributable to:			
Shareholders of the Bank		(249.6)	62.0
Non-controlling interest		(58.4)	1.0
		(308.0)	63.0

Abdullah bin Hasan Alabdulgader
Chairman of the Board

Sultan bin Abdul Malek Al-Sheikh
Chairman of the Board Audit Committee

Abdulaziz A. Al-Helaissi
Group Chief Executive Officer

Consolidated Statement of Comprehensive Income

	Year ended 31.12.20 US$ millions	Year ended 31.12.19 US$ millions
Net (loss) / income	**(308.0)**	63.0
Other comprehensive income:-		
Items that may subsequently be reclassified to consolidated statement of income:-		
Cash flow hedges:-		
- net changes in fair value	**(0.1)**	2.0
Deferred tax :-		
- net changes in defered tax	**(1.2)**	-
	(1.3)	2.0
Items that will not be reclassified to consolidated statement of income:-		
Net changes in fair value of equity investments classified as fair value through other comprehensive income (FVTOCI)	**9.9**	27.0
Remeasurement of defined benefit pension fund	**15.6**	8.7
	25.5	35.7
Total other comprehensive income	**24.2**	37.7
Total comprehensive (loss) / income	**(283.8)**	100.7
Attributable to:		
Shareholders of the Bank	**(224.1)**	99.7
Non-controlling interest	**(59.7)**	1.0
	(283.8)	100.7

Consolidated Statement of Changes in Equity

	Equity attributable to the shareholders of the Bank					
	Share capital	Reserves	Retained earnings	Total	Non-controlling interest	Total
	US$ millions	US$ millions	US$ millions	US$ millions	US$ millions	US$ millions
At 1st January 2020	**2,500.0**	**336.0**	**(540.1)**	**2,295.9**	**1,000.4**	**3,296.3**
Net (loss) for the year	-	-	**(249.6)**	**(249.6)**	**(58.4)**	**(308.0)**
Other comprehensive income / (loss) for the year	-	**25.5**	-	**25.5**	**(1.3)**	**24.2**
Total comprehensive income / (loss) for the year	-	**25.5**	**(249.6)**	**(224.1)**	**(59.7)**	**(283.8)**
Transfer to retained earnings	-	**17.7**	**(17.7)**	-	-	-
At 31st December 2020	**2,500.0**	**379.2**	**(807.4)**	**2,071.8**	**940.7**	**3,012.5**
At 1st January 2019	2,500.0	345.6	(649.4)	2,196.2	-	2,196.2
Purchase of shares in subsidiary entity by non-controlling interest	-	-	-	-	999.8	999.8
Net income for the year	-	-	62.0	62.0	1.0	63.0
Other comprehensive income for the year	-	37.7	-	37.7	-	37.7
Total comprehensive income for the year	-	37.7	62.0	99.7	1.0	100.7
Foreign exchange translation adjustment	-	-	-	-	(0.4)	(0.4)
Transfer to retained earnings	-	(56.9)	56.9	-	-	-
Transfer from retained earnings	-	9.6	(9.6)	-	-	-
At 31st December 2019	2,500.0	336.0	(540.1)	2,295.9	1,000.4	3,296.3

Consolidated Statement of Cash Flows

	Note	Year ended 31.12.20 US$ millions	Year ended 31.12.19 US$ millions
OPERATING ACTIVITIES			
Net (loss) / income before tax		(309.7)	66.2
Adjustments to reconcile net income to net cash flow from operating activities:-			
Provision charge for loans and advances		339.3	30.3
Provision release for investment securities		(1.9)	(0.2)
Provision charge for contingent liabilities		-	2.4
Provision charge for other assets		3.1	0.1
Tax paid		1.5	(3.7)
Realised losses on debt investment securities		2.2	0.6
Amortisation of investment securities		7.4	7.3
Amortisation of senior term financing		0.8	0.5
Net increase in statutory deposits with central banks		(18.4)	(57.5)
Net decrease / (increase) in securities purchased under agreements to resell		240.0	(394.1)
Net decrease in placements		218.0	599.4
Net decrease in trading securities		35.2	35.5
Net increase in loans and advances		(896.7)	(88.6)
Decrease in accrued interest receivable		103.8	49.7
Increase / (decrease) in accrued interest payable		290.7	(47.8)
Net (increase) / decrease in other net assets		(441.1)	13.3
Net decrease in deposits from banks		(220.7)	(1,442.9)
Net (decrease) / increase in deposits from customers		(1,645.4)	2,900.9
Net decrease in securities sold under agreement to repurchase		(347.9)	(212.3)
Net cash (outflow) / inflow from operating activities		**(2,639.8)**	1,459.1
INVESTING ACTIVITIES			
Purchase of investment securities		**(819.6)**	(510.2)
Maturity of investment securities		**350.7**	669.6
Net cash (outflow) / inflow from investing activities		**(468.9)**	159.4
FINANCING ACTIVITIES			
Issuance of senior term financing		**1,765.8**	1,090.5
Maturity of senior term financing		**(344.1)**	(926.6)
Non-controlling interest capital injection		**-**	999.8
Net cash inflow from financing activities		**1,421.7**	1,163.7
(Decrease) / increase in cash and cash equivalents		**(1,687.0)**	2,782.2
Net foreign exchange difference		**155.4**	131.2
Cash and cash equivalents at 1st January		**7,796.6**	4,883.2
Cash and cash equivalents at 31st December	6	**6,265.0**	7,796.6

Notes to the Consolidated Financial Statements

For the year ended 31st December 2020

1. Incorporation and registration

The parent company of the Group, Gulf International Bank B.S.C. (the Bank), is a Bahraini Shareholding Company incorporated in the Kingdom of Bahrain by Amiri Decree Law No. 30 dated 24th November 1975 and is registered as a conventional wholesale bank and a conventional retail bank with the Central Bank of Bahrain. The registered office of the Bank is located at Al-Dowali Building, 3 Palace Avenue, Manama, Kingdom of Bahrain.

The Bank and its subsidiaries (the Group), is principally engaged in the provision of wholesale commercial, asset management and investment banking services, and recently entered a niche segment within retail consumer banking. The Group operates through subsidiaries, branch offices and representative offices located in five countries worldwide. The total number of staff at the end of the financial year was 1,017 (2019:997).

2. Basis of preparation

2.1 Statement of compliance

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

a) recognition of modification losses on financial assets arising from payment holidays provided to customers impacted by COVID-19, without charging additional interest, in equity instead of profit or loss as required by IFRS 9 'Financial Instruments'. Any other modification gain or loss on financial assets is recognised in accordance with the requirements of IFRS 9. Please refer note 2.3 for further details; and

b) recognition of financial assistance received from the government and / or regulators in response to its COVID-19 support measures, and meeting the government grant requirements, in equity instead of profit or loss. This will only be to the extent of any modification loss recorded in equity as a result of (a) above, and the balance amount to be recognised in profit or loss. Any other financial assistance is recognised in accordance with the requirements of IAS 20. Please refer to note 2.3 for further details.

2.2 Basis of measurement and presentation

The consolidated financial statements have been prepared under the historical cost convention as modified by the revaluation of trading securities, equity investment securities, derivative financial instruments and pension liabilities as explained in more detail in the following accounting policies. Recognised assets and liabilities that are hedged by derivative financial instruments are also stated at fair value in respect of the risk that is being hedged. The accounting policies have been consistently applied by the Group and are consistent with those of the previous year, except for the adoption of applicable new accounting standards with effect from 1st January 2020 as referred to below and the changes noted in 2.1 "Statement of Compliance".

- Amendments to IFRS 3: Definition of a Business
- Amendments to IFRS 7, IFRS 9 and IAS 39: Interest Rate Benchmark Reform
- Amendments to IAS 1 and IAS 8: Definition of Material
- Conceptual Framework for Financial Reporting issued on 29 March 2018

2.3 Novel Coronavirus (COVID-19)

The outbreak of novel coronavirus ("COVID-19") since early 2020, its spread across mainland China and then globally caused disruptions to businesses and economic activities globally. This has caused the global economy to slowdown with uncertainties in the economic environment. As a result, governments and central banks have responded with monetary and fiscal interventions to stabilise economic conditions.

The Group's management revisited its significant judgements in applying the Group's accounting policies and the methods of computation and the key sources of estimation applied to the annual financial statements for the year ended 31 December 2020.

Whilst it is challenging now, to predict the full extent and duration of its business and economic impact, the Group's management carried out an impact assessment on the overall Group's operations and business aspects including factors like supply chain, travel restrictions, oil prices, product demand, etc. and concluded that, as of the issuance date of these consolidated financial statements, in view of the current uncertainty, any future change in the assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the assets or liabilities affected in the future periods.

As the situation is rapidly evolving with future uncertainties, management will continue to assess the impact based on prospective developments.

Notes to the Consolidated Financial Statements

For the year ended 31st December 2020

2. Basis of preparation (continued)

2.3 Novel Coronavirus ("COVID-19") (continued)

The Group has evaluated the current situation through conducting stress testing scenarios on expected movements of oil prices and their impact on key credit, liquidity, operational, solvency and performance indicators, in addition to other risk management practices to manage the potential business disruption that the COVID-19 outbreak may have on its operations and financial performance. The Group's impact assessment resulted in the following changes to the expected credit loss methodology and valuation estimates and judgements as at and for the year ended 31st December 2020:

- Expected credit losses

For the year ended 31st December 2020, the Group has updated inputs and assumptions used for the determination of expected credit losses ("ECLs") in response to uncertainties caused by COVID-19 and oil prices volatility. ECLs were estimated based on a range of forecast economic conditions as at that date. Considering that the situation is fast evolving, the Group has considered the impact of higher volatility in the forward-looking macroeconomic factors, when determining the severity and likelihood of economic scenarios for ECL determination.

This volatility has been reflected through adjustment in the methods of scenario construction and the underlying weightages assigned to these scenarios. The forward-looking factors used to derive the point-in-time (PIT) probability of default (PD) incorporate the following assumptions for the key markets of the Kingdom of Saudi Arabia and United Arab Emirates: real GDP growth between -1.2% to 0.9% (31 December 2019: 1.4% to 4.4%); and fiscal deficit as a percentage of GDP between -8.1% and -11.8% over the next 12 months (31 December 2019: 0.1% to 14.0%). The aforementioned values of macro-economic factors have been derived by assigning probabilities to the base case, negative case and positive case scenarios in the ratio of 50:25:25, respectively (31 December 2019: 50:35:15). The situation is fast evolving and accordingly any downside scenarios will be reassessed if adverse conditions continue.

The Group also updated the relevant forward-looking information of the Group's international operations with respect to the weightings of the relevant macroeconomic scenarios relative to the economic climate of the respective markets in which it operates.

In addition to the assumptions outlined above, the Group continues to closely monitor the potential repayment risk impact of COVID-19 on affected industry sectors. However, the Group has also recognised management overlays of US$ 14.9 million based on anticipated changes in the through-the-cycle probability of defaults.

- Government grant - GIB BSC

Government assistance amounting to US$ 1.3 million is recorded in the consolidated statement of income during the current period as the Bank had no modification losses booked in equity (in line with note 2). Therefore, the Group has not been impacted by the CBB circular OG/226/2020. The Group is in full compliance with IFRS with regards to recording the government assistance. The amount is recorded as a deduction from the related expenses. In addition and being a socially responsible organisation, the Bank has contributed US$ 1.2 million as donation to "Feena Khair" national campaign to support the individuals and business entities most affected by the crisis.

- Government grant - GIB KSA

In order to compensate all the related costs that the Group is expected to incur under the SAMA and other public authorities program, the Group has received a profit free deposit of US$ 141.8 million from SAMA. The benefit of the subsidised funding rate has been accounted for on a systematic basis, in accordance with government grant accounting requirements. The management has exercised certain judgements in the recognition and measurement of this grant income.

- Accounting for modified financing assets - GIB KSA

As part of the deferred payments program, the Group is required to defer payments for six months on lending facilities to those companies that qualify as MSMEs in GIB KSA as per SAMA guidelines. The payment reliefs are considered as short-term liquidity support to address the borrowers' potential cash flow issues. The Bank has effected the payment reliefs by deferring the instalments falling due within the period from 14 March 2020 to 14 September 2020 for a period of six months. However, in Q2 2020, the Group has extended the tenor of the applicable loans granted with no additional costs to be borne by the customer. In Q3 2020, the Group was required to defer payments for an additional three months from 15 September 2020 to 14 December 2020. In the absence of other factors, participation in this deferment is not considered a significant increase in credit risk. The impact due to the modification loss was fully compensated by the income recognised from the profit free deposit from SAMA as detailed above.

Notes to the Consolidated Financial Statements
For the year ended 31st December 2020

2. Basis of preparation (continued)

2.4 Consolidation principles

The consolidated financial statements include the accounts of Gulf International Bank B.S.C. and its subsidiaries. Subsidiaries are companies and other entities, including special purpose entities, which the Bank controls. The Bank controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The subsidiary's accounts are derecognised from the consolidated financial statements from the point when the control ceases. All intercompany balances and transactions, including unrealised gains and losses on transactions between Group companies, have been eliminated. The principal subsidiaries and the Group's ownership of each are set out in note 41.

2.5 Foreign currencies

The consolidated financial statements are presented in US Dollars, representing the Group's functional and presentation currency. Transactions in foreign currencies are converted to US Dollars at the spot rate of exchange prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into US Dollars at market rates of exchange prevailing at the balance sheet date.

3. Accounting policies

The principal accounting policies adopted in the preparation of the consolidated financial statements are set out below:-

3.1 Financial assets and liabilities

Financial assets and liabilities comprise all assets and liabilities reflected in the consolidated statement of financial position, although excluding employee benefit plans and property and equipment.

a) Recognition and measurement

The Group recognises financial assets and liabilities in the consolidated statement of financial position when, and only when, the Group becomes party to the contractual provisions of the instrument.

Financial instruments are classified at inception into one of the following categories, which then determine the subsequent measurement methodology:-

Financial assets are classified into one of the following three categories:-

- financial assets at amortised cost;
- financial assets at fair value through other comprehensive income (FVTOCI); or
- financial assets at fair value through the profit or loss (FVTPL).

Financial liabilities are classified into one of the following two categories:-

- financial liabilities at amortised cost; or
- financial liabilities at fair value through the profit or loss (FVTPL).

Financial assets are initially recognised at fair value including transaction costs attributable to the financial asset, with the exception of trade receivables which are recognised at fair value. Financial liabilities are initially recognised at fair value, representing the proceeds received net of premiums, discounts and transaction costs that are directly attributable to the financial liability.

All regular way purchases and sales of financial assets and liabilities classified as FVTPL are recognised on the trade date, i.e. the date on which the Group commits to purchase or sell the financial asset or liability. All regular way purchases and sales of other financial assets and liabilities are recognised on the settlement date, i.e. the date on which the asset or liability is received from or delivered to the counterparty. Regular way purchases or sales are purchases or sales of financial assets that require delivery within the time frame generally established by regulation or convention in the market place.

Subsequent to initial measurement, financial assets and liabilities are measured at either amortised cost or fair value. The classification and the basis for measurement are subject to the Group's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets, as detailed below:-

Financial assets at amortised cost

Financial assets 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 on the principal amount outstanding.

If the first criteria is not met, the financial assets are classified and measured at fair value through other comprehensive income (FVTOCI). If both criteria are not met, the financial assets are classified and measured at fair value through the profit or loss (FVTPL).

Notes to the Consolidated Financial Statements

For the year ended 31st December 2020

3. Accounting policies (continued)

3.1 Financial assets and liabilities (continued)

a) Recognition and measurement (continued)

Additionally, even if a financial asset meets the amortised cost criteria, the Group may choose to designate the financial asset at FVTPL. Such an election is irrevocable and applicable only if the FVTPL classification significantly reduces a measurement or recognition inconsistency.

Financial assets at fair value through other comprehensive income (FVTOCI)

At initial recognition, the Group can make an irrevocable election to classify an equity investment that is not held for trading as FVTOCI.

For this purpose, a financial asset is deemed to be held for trading if the equity investment meets any of the following conditions:-

- 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 evidence of 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.

The irrevocable election is on an instrument-by-instrument basis. 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.

Financial assets at fair value through the profit or loss (FVTPL)

Financial assets not otherwise classified above are classified and measured as FVTPL.

Financial liabilities at amortised cost

All financial liabilities, other than those classified as financial liabilities at FVTPL, are classified as financial liabilities at amortised cost and are measured at amortised cost using the effective interest rate method as described in note 3.4(a).

Financial liabilities at fair value through the profit or loss

Financial liabilities not otherwise classified above are classified as financial liabilities at FVTPL. This classification includes derivatives that are liabilities measured at fair value.

b) Modification of assets and liabilities

Financial assets

If the terms of a financial asset are modified, the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, the original financial asset is derecognised and a new financial asset is recognised at either amortised cost or fair value. If the cash flows are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Group recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in the statement of income.

Financial liabilities

The Group derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at either amortised cost or fair value. The difference between the carrying amount of the financial liability derecognised and the new financial liability with modified terms is recognised in the statement of income.

3.2 Impairment of financial assets

Impairment allowances for expected credit losses (ECL) are recognised for financial instruments that are not measured at FVTPL. No impairment loss is recognised on equity investments.

An ECL provision is made at an amount equal to the lifetime ECL, except for the following, for which they are measured as a 12-month ECL:-

- debt investment securities that are determined to have a low credit risk (equivalent to investment grade rating) at the reporting date; and
- other financial instruments for which the credit risk has not increased significantly since their initial recognition.

Notes to the Consolidated Financial Statements
For the year ended 31st December 2020

3. Accounting policies (continued)

3.2 Impairment of financial assets (continued)

The Group classifies its financial instruments into stage 1, stage 2 and stage 3, based on the applied impairment methodology, as described below:-

- Stage 1: for financial instruments where there has not been a significant increase in credit risk since initial recognition and that are not credit-impaired on origination, the Group recognises an allowance based on the 12-month ECL;
- Stage 2: for financial instruments where there has been a significant increase in credit risk since initial recognition but that are not credit-impaired, the Group recognises an allowance for the lifetime ECL; and
- Stage 3: for credit-impaired financial instruments, the Group recognises the lifetime ECL.

12-month ECL (stage 1) is the portion of ECL that results from probable default events on a financial instrument within 12 months after the reporting date.

Lifetime ECL (stage 2) is a probability-weighted estimate of credit losses and is determined based on the difference between the present value of all cash shortfalls. The cash shortfall is the difference between all contractual cash flows that are due to the Group and the present value of the recoverable amount, for financial assets that are not credit-impaired at the reporting date.

For stage 3 financial instruments, the provisions for credit-impairment are determined based on the difference between the net carrying amount and the recoverable amount of the financial asset. The recoverable amount is measured as the present value of expected future cash flows, including amounts recoverable from guarantees and collateral, discounted based on the interest rate at the inception of the credit facility or, for debt instruments, at the current market rate of interest for a similar financial asset.

Provisions for credit-impairment are recognised in the consolidated statement of income and are reflected in an allowance account against loans and advances, investment securities, and placements.

Financial assets are written off after all restructuring and collection activities have taken place and there is no realistic prospect of recovery. Subsequent recoveries are included in other income.

Financial assets that are measured at amortised cost 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, the granting of a concession that, for economic or legal reasons relating to the borrower's financial difficulties, would not otherwise be considered, indications that it is probable that the borrower will enter bankruptcy or other 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.

Financial assets which have been renegotiated or modified are no longer considered to be past due and are replaced on performing status when all principal and interest payments are up to date and future payments are reasonably assured. Financial assets subject to individual impairment assessment and whose terms have been renegotiated, are subject to on-going review to determine whether they remain impaired or should be considered past due. All renegotiated or modified facilities are classified as stage 2 or stage 3 for a minimum period of 12 months from the date of renegotiation. The ECL on renegotiated financial instruments is measured based on whether the terms of renegotiation resulted in the derecognition of an existing asset.

3.3 Offsetting financial assets and liabilities

Financial assets and financial liabilities are only offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Notes to the Consolidated Financial Statements

For the year ended 31st December 2020

3. Accounting policies (continued)

3.4 Revenue recognition

a) Interest income and interest expense

Interest income and interest expense for all interest-bearing financial assets and liabilities except those classified as FVTPL are recognised using the effective interest rate method. The effective interest rate method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or interest expense over the expected life of the asset or liability. The effective interest rate is the rate that exactly discounts estimated future cash flows through the expected life of the financial asset or liability or, where appropriate, a shorter period, to the net carrying amount of the financial asset or liability. The application of the effective interest rate method has the effect of recognising interest income and interest expense evenly in proportion to the amount outstanding over the period to maturity or repayment.

In calculating the effective interest rate, cash flows are estimated taking into consideration all contractual terms of the financial asset or liability but excluding future credit losses. Fees, including loan origination fees and early redemption fees, are included in the calculation of the effective interest rate to the extent that they are considered to be an integral part of the effective interest rate.

Interest income is suspended when either interest or principal on a credit facility is overdue by more than 90 days whereupon all unpaid and accrued interest is reversed from income. Interest on non-accrual facilities is included in income only when received. Credit facilities are restored to accrual status only after all delinquent interest and principal payments have been brought current and future payments are reasonably assured.

b) Fees and commissions

Fees and commissions that are integral to the effective interest rate of a financial asset or liability are included in the calculation of the effective interest rate.

Other fees and commissions are recognised as the related services are performed or received, and are included in fee and commission income.

c) Trading and foreign exchange income

Trading and foreign exchange income arise from earnings generated from customer business and market making, and from changes in fair value resulting from movements in interest and exchange rates, equity prices and other market variables. Changes in fair value and gains and losses arising on the purchase and sale of trading instruments are included in trading income, together with the related interest income, interest expense and dividend income.

d) Dividend income

Dividend income is recognised as follows:-

- dividends from equity instruments classified as FVTPL are recognised when the right to receive the dividend is established and are included in trading income.
- dividends from equity instruments classified as FVTOCI are recognised when the right to receive the dividend is established and are included in other income.

3.5 Securities financing arrangements

Securities purchased under agreements to resell (reverse repurchase agreements) and securities sold under agreements to repurchase (repurchase agreements) are treated as collateralised lending and borrowing transactions and are recorded in the consolidated statement of financial position at the amounts the securities were initially acquired or sold. Interest earned on reverse repurchase agreements and interest incurred on repurchase agreements are included in interest income and interest expense respectively.

3.6 Premises and equipment

Land is stated at cost. Other premises and equipment are stated at cost less accumulated depreciation. The residual values and useful lives of premises and equipment are reviewed at each balance sheet date, and adjusted where appropriate. Depreciation is calculated using the straight-line method over various periods. Where the carrying amount of premises or equipment is greater than the estimated recoverable amount, the carrying amount is reduced to the recoverable amount.

Generally, costs associated with the maintenance of existing computer software are recognised as an expense when incurred. However, expenditure that enhances and extends the benefits of computer software programs beyond their original specifications and lives is recognised as a capital improvement and capitalised as part of the original cost of the software.

Notes to the Consolidated Financial Statements

For the year ended 31st December 2020

3. Accounting policies (continued)

3.7 Other provisions

Other provisions are recognised when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

3.8 Derivative financial instruments and hedge accounting

Derivative financial instruments are contracts, the value of which is derived from one or more underlying financial instruments or indices, and include futures, forwards, swaps and options in the interest rate, foreign exchange, equity and credit markets.

Derivative financial instruments are recognised in the consolidated statement of financial position at fair value. Fair values are derived from prevailing market prices, discounted cash flow models or option pricing models as appropriate.

In the consolidated statement of financial position, derivative financial instruments with positive fair values (unrealised gains) are included in other assets and derivative financial instruments with negative fair values (unrealised losses) are included in other liabilities.

The changes in the fair values of derivative financial instruments entered into for trading purposes or to hedge other trading positions are included in trading income.

The recognition of changes in the fair values of derivative financial instruments entered into for hedging purposes is determined by the nature of the hedging relationship. For the purposes of hedge accounting, derivative financial instruments are designated as a hedge of either: (i) the fair value of a recognised asset or liability (fair value hedge), or (ii) the future cash flows attributable to a recognised asset or liability or a firm commitment (cash flow hedge).

The Group's criteria for a derivative financial instrument to be accounted for as a hedge include:-

- the hedging instrument, the related hedged item, the nature of the risk being hedged, and the risk management objective and strategy must be formally documented at the inception of the hedge,
- it must be clearly demonstrated that the hedge is expected to be highly effective in offsetting the changes in fair values or cash flows attributable to the hedged risk in the hedged item, including how the Group will address the hedge ratio,
- the effectiveness of the hedge must be capable of being reliably measured, and
- there is an economic relationship between the hedging instrument and the hedged item and the effect of credit risk does not dominate the fair value changes of that relationship.

Changes in the fair values of derivative financial instruments that are designated, and qualify, as fair value hedges and that prove to be highly effective in relation to the hedged risk, are included in trading income together with the corresponding change in the fair value of the hedged asset or liability that is attributable to the risk that is being hedged. Unrealised gains and losses arising on hedged assets or liabilities which are attributable to the hedged risk are adjusted against the carrying amounts of the hedged assets or liabilities in the consolidated statement of financial position. If the hedge no longer meets the criteria for hedge accounting, any adjustment to the carrying amount of a hedged interest-bearing financial instrument is amortised to income over the remaining period to maturity.

Changes in the fair values of derivative financial instruments that are designated, and qualify, as cash flow hedges and that prove to be highly effective in relation to the hedged risk, are recognised in other comprehensive income. Unrealised gains or losses recognised in other comprehensive income are transferred to the consolidated statement of income at the same time that the income or expense of the corresponding hedged item is recognised in the consolidated statement of income and are included in the same income or expense category as the hedged item. Unrealised gains or losses on any ineffective portion of cash flow hedging transactions are included in trading income.

The interest component of derivatives that are designated, and qualify, as fair value or cash flow hedges is included in interest income or interest expense relating to the hedged item over the life of the derivative instrument.

Hedge accounting is discontinued when the derivative hedging instrument either expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. Gains and losses arising on the termination of derivatives designated as cash flow hedges are recognised in interest income or interest expense over the original tenor of the terminated hedge transaction.

Some hybrid instruments contain both a derivative and non-derivative component. In such cases, the derivative is categorised as an embedded derivative. Embedded derivatives are separated from the host contract and accounted for separately if certain criteria are met. Where it is not practically possible to separate the embedded derivative, the entire hybrid instrument is categorised as a financial asset at FVTPL and measured at fair value. Changes in fair value are included in trading income.

Hedges directly affected by interest rate benchmark reform (IBOR reform)

For the purpose of evaluating whether there is an economic relationship between the hedged items and the hedging instruments, the Group assumes that the benchmark interest rate is not altered as a result of IBOR reform.

Notes to the Consolidated Financial Statements

For the year ended 31st December 2020

3. Accounting policies (continued)

3.9 Financial guarantees

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specific debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantees are issued to financial institutions and other counterparties on behalf of customers to secure loans, overdrafts and other banking facilities, and to other parties in relation to the performance of customers under obligations related to contracts, advance payments made by other parties, tenders and retentions.

Financial guarantees are initially recognised at fair value on the date the guarantee is issued. The guarantee liability is subsequently measured at the higher of the initial measurement, less amortisation to recognise the fee income earned over the period, or the present value of any expected payments to settle the liability when a payment under the contract has become probable. The expected loss on financial guarantees is measured at the expected payment to reimburse the holder less any amounts that the Group expects to recover. Any increase in a liability relating to guarantees is recognised in the consolidated statement of income. In the consolidated statement of financial position, financial guarantees are included in other liabilities.

3.10 Post retirement benefits

The majority of the Group's employees are eligible for post retirement benefits under either defined benefit or defined contribution pension plans which are provided through separate trustee-administered funds, insurance plans or are directly funded by the Group. The Group also pays contributions to government managed pension plans in accordance with the legal requirements in each location.

The Group's contributions to defined contribution pension plans are expensed in the year to which they relate.

The calculation of obligations in respect of the defined benefit pension plans are performed by qualified actuaries using the projected unit credit method. The Group's net obligation is calculated by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of the plan assets. When the calculation results in a potential asset for the Group, the recognised asset is limited to a ceiling so that it does not exceed the economic benefits available in the form of refunds from the plans or reductions in future contributions.

Remeasurements of the net defined benefit liability or asset, which comprise actuarial gains and losses, the return of plan assets (excluding interest) and the effect of the asset ceiling, are recognised immediately in the consolidated statement of other comprehensive income. The Group determines the net interest expense or income on the net defined benefit liability or asset for the year by applying the discount rate used to measure the defined benefit obligation at the beginning of the year to the opening net defined benefit liability or asset. Net interest expense and other expenses related to the defined benefit plans are recognised in the consolidated statement of income.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in the consolidated statement of income. The Group recognises gains and losses on the settlement of defined benefit plans when the settlement occurs.

3.11 Taxation

a) Current tax

Current taxation is the expected tax payable on the taxable income for the year, using tax rates enacted at the reporting date, and includes any adjustments to tax payable in respect of previous years.

b) Deferred tax

Deferred tax is provided, using the liability method, for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. A deferred tax asset is recognised only to the extent that it is probable that future taxable income will be available against which the unutilised tax losses and credits can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Deferred tax assets and liabilities are offset only if certain criteria are met. Currently enacted tax rates are used to determine deferred taxes.

3.12 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents comprise cash and other liquid assets, excluding statutory deposits with central banks.

Notes to the Consolidated Financial Statements

For the year ended 31st December 2020

3. Accounting policies (continued)

3.13 Segment reporting

An operating segment is a distinguishable component of the Group that is engaged in business activities from which revenues are earned and expenses are incurred, including revenues and expenses that relate to transactions with any of the Group's other operating segments. All segments have discrete financial information which is regularly reviewed by the Group's Management Committee, being the Group's chief operating decision maker, to make decisions about resources allocated to the segment and to assess its performance. The Group's Management Committee assesses the segments based on net interest income which accounts for the majority of the Group's revenues.

3.14 Fiduciary activities

The Group administers and manages assets owned by clients which are not reflected in the consolidated financial statements. Asset management fees are earned for providing investment management services and for managing mutual fund products. Asset administration fees are earned for providing custodial services. Fees are recognised as the services are provided and are included in fee and commission income.

3.15 Dividends

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

3.16 Shariah-compliant banking

The Group offers various Shariah-compliant products to its customers. The Shariah-compliant activities are conducted in accordance with Shariah principles and are subject to the supervision and approval of the Group's Shariah Supervisory Board. The disclosures set out in the consolidated financial statements in relation to these activities are prepared in accordance with Financial Accounting Standard 18 issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI).

3.17 Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

3.18 Future accounting developments

The International Accounting Standards Board (IASB) have issued a number of new standards, amendments to standards, and interpretations that are not yet effective and have not been applied in the preparation of the consolidated financial statements for the year ended 31st December 2020. The relevant new standards, amendments to standards, and interpretations, are as follows:-

Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16) (IBOR reform Phase 2) – effective 1 January 2021

The amendments address issues that might affect financial reporting as a result of IBOR reform, including the effects of changes to contractual cash flows or hedging relationships arising from the replacement of an interest rate benchmark with an alternative benchmark rate and also requires an entity to disclose additional information about the entity's exposure to risks arising from interest rate benchmark reform and related risk management activities. The amendments provide practical relief from certain requirements in IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 relating to the following:

Changes in the basis for determining contractual cash flows of financial assets, financial liabilities and lease liabilities

The amendments will require an entity to account for a change in the basis for determining the contractual cash flows of a financial asset or financial liability that is required by interest rate benchmark reform by updating the effective interest rate of the financial asset or financial liability.

At 31 December 2020, the Group has US$2,096.2 million USD LIBOR based loans that will be subject to IBOR reform. The Group expects that the interest rate benchmark for these loans will be changed to an alternative framework in 2023 and the Group is assessing the impact that will arise as a result of applying the amendments to these changes.

Notes to the Consolidated Financial Statements

For the year ended 31st December 2020

3. Accounting policies (continued)

3.18 Future accounting developments (continued)

Hedge accounting

The amendments provide exceptions to the hedge accounting requirements in the following areas:

- Allow amendment of the designation of a hedging relationship to reflect changes that are required by the IBOR reform.
- When a hedged item in a cash flow hedge is amended to reflect the changes that are required by the IBOR reform, the amount accumulated in the cash flow hedge reserve will be deemed to be based on the alternative benchmark rate on which the hedged future cash flows are determined.
- When a group of items is designated as a hedged item and an item in the group is amended to reflect the changes that are required by the IBOR reform, the hedged items are allocated to sub-groups based on the benchmark rates being hedged.
- If an entity reasonably expects that an alternative benchmark rate will be separately identifiable within a period of 24 months, it is not prohibited from designating the rate as a non-contractually specified risk component if it is not separately identifiable at the designation date.

At 31 December 2020, the Group had derivatives classified as fair value hedging instruments of US$2,844 million USD LIBOR risk. The Group expects that indexation of the hedged items and hedging instruments to USD LIBOR will be replaced with Secured Overnight Financing Rate (SOFR) in 2023. Whenever the replacement occurs, the Group expects to apply the amendments related to hedge accounting. However, there is uncertainty about when and how replacement may occur. When the change occurs to the hedged item or the hedging instrument, the Group will remeasure the cumulative change in fair value of the hedged item or the fair value of the interest rate swap, respectively, based on SOFR. Hedging relationships may experience hedge ineffectiveness if there is a timing or other mismatch between the transition of the hedged item and that of the hedging instrument to SOFR.

The Group plans to apply the above amendments from 1 January 2021 and its adoption will not impact amounts reported for 2020 or prior periods.

Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39 and IFRS 7 (IBOR reform phase 1)

IBOR reform phase 1 includes a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and or amount of benchmark based cash flows of the hedged item or the hedging instrument. The Group has applied IFRS 9 for the purpose of hedge accounting. Under IFRS 9, a hedging relationship qualifies for hedge accounting if there is an economic relationship between the hedge item and hedging instrument among other criteria. The assessment of hedge effectiveness is made prospectively. As a result of interest rate benchmark reform, there may be uncertainties about the timing and / or amount of benchmark-based cash flows of the hedged item or the hedging instrument during the period before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate (an RFR). This may lead to uncertainty whether an economic relationship exists and whether prospectively the hedging relationship is expected to be effective.

3.19 Capital management

The Group uses regulatory capital ratios and its economic capital framework to monitor its capital base. The Group manages its capital structure and makes adjustments to the structure taking account of changes in economic conditions and strategic business plans.

4. Accounting judgements estimates and assumptions

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

The use of judgements, estimates and assumptions is principally limited to the determination of provisions for impairment, the valuation of financial instruments, the valuation of the Group's defined benefit pension plans, and in determining control relationships over investees, as explained in more detail below:-

4.1 Provisions for impairment

Financial assets are evaluated for impairment on the basis set out in note 3.2.

In determining impairment of financial assets, judgement is required in the estimation of the amount and timing of future cash flows as well as an assessment of whether the credit risk on the financial asset has increased significantly since initial recognition and incorporation of forward-looking information in the measurement of ECL. The information about the judgements made are set out in note 29.1.

Notes to the Consolidated Financial Statements

For the year ended 31st December 2020

4. Accounting judgements estimates and assumptions (continued)

4.2 Fair value of financial assets and liabilities

Where the fair value of financial assets and liabilities cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is derived from observable markets where available, but where this is not feasible, a degree of judgement is required in determining assumptions used in the models. Changes in assumptions used in the models could affect the reported fair value of financial assets and liabilities.

4.3 Retirement benefit obligations

Management, in coordination with independent qualified actuaries, are required to make assumptions regarding the defined benefit pension plans. The principal actuarial assumptions for the defined benefit pension plans are set out in note 13 and include assumptions on the discount rate, return on pension plan assets, mortality, future salary increases, and inflation. Changes in the assumptions could affect the reported asset, service cost and return on pension plan assets.

4.4 Determination of control over investees

The Group acts as fund manager to a number of investment funds. The determination of whether the Group controls an investment fund is based on an assessment of the aggregate economic interests of the Group in the fund and includes an assessment of any carried interests, expected management fees, and the investors' rights to remove the Group as fund manager.

Management are required to conclude whether the Group acts as an agent for the investors in the fund, or if the underlying fund is controlled by the Group.

4.5 Going concern

The Group's management has performed an assessment of the Group's ability to continue as a going concern and is satisfied that the Group has the resources to continue the business in the foreseeable future. Furthermore, the 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, these consolidated financial statements continue to be prepared on a going concern basis.

5. Classification of assets and liabilities

The classification of assets and liabilities by accounting categorisation was as follows:-

	Financial assets at amortised cost	Financial assets & liabilities at FVTPL	Financial assets & liabilities at FVTOCI	Financial liabilities at amortised cost	Non-financial assets & liabilities	Total
	US$ millions	US$ millions	US$ millions	US$ millions	US$ millions	US$ millions
At 31st December 2020						
Cash and other liquid assets	6,571.9	-	-	-	-	6,571.9
Securities purchased under agreements to resell	1,170.0	-	-	-	-	1,170.0
Placements	5,953.4	-	-	-	-	5,953.4
Trading securities	-	107.0	-	-	-	107.0
Investment securities	4,333.0	-	153.8	-	-	4,486.8
Loans and advances	10,433.5	-	-	-	-	10,433.5
Other assets	174.7	409.1	14.2	-	229.5	827.5
Total assets	**28,636.5**	**516.1**	**168.0**	**-**	**229.5**	**29,550.1**
Deposits from banks	-	-	-	708.6	-	708.6
Deposits from customers	-	-	-	19,577.9	-	19,577.9
Securities sold under agreements to repurchase	-	-	-	175.2	-	175.2
Other liabilities	-	636.9	15.5	271.6	227.0	1,151.0
Senior term financing	-	-	-	4,924.9	-	4,924.9
Equity	-	-	-	-	3,012.5	3,012.5
Total liabilities and equity	**-**	**636.9**	**15.5**	**25,658.2**	**3,239.5**	**29,550.1**

Notes to the Consolidated Financial Statements

For the year ended 31st December 2020

5. Classification of assets and liabilities (continued)

	Financial assets at amortised cost	Financial assets & liabilities at FVTPL	Financial assets & liabilities at FVTOCI	Financial liabilities at amortised cost	Non-financial assets & liabilities	Total
	US$ millions	US$ millions	US$ millions	US$ millions	US$ millions	US$ millions
At 31st December 2019						
Cash and other liquid assets	8,085.1	-	-	-	-	8,085.1
Securities purchased under agreements to resell	1,410.0	-	-	-	-	1,410.0
Placements	6,171.4	-	-	-	-	6,171.4
Trading securities	-	142.2	-	-	-	142.2
Investment securities	3,681.7	-	146.7	-	-	3,828.4
Loans and advances	9,876.1	-	-	-	-	9,876.1
Other assets	271.0	231.5	-	-	226.0	728.5
Total assets	29,495.3	373.7	146.7	-	226.0	30,241.7
Deposits from banks	-	-	-	929.3	-	929.3
Deposits from customers	-	-	-	21,223.3	-	21,223.3
Securities sold under agreements to repurchase	-	-	-	523.1	-	523.1
Other liabilities	-	290.1	19.2	325.4	132.6	767.3
Senior term financing	-	-	-	3,502.4	-	3,502.4
Equity	-	-	-	-	3,296.3	3,296.3
Total liabilities and equity	-	290.1	19.2	26,503.5	3,428.9	30,241.7

The other assets and other liabilities classified as financial assets and liabilities at FVTPL comprise the fair values of derivatives designated as fair value and cash flow hedges.

The fair value analysis of derivative financial instruments is set out in note 33.4.

6. Cash and other liquid assets

	31.12.20	31.12.19
	US$ millions	US$ millions
Cash and balances with central banks	**4,844.8**	6,730.6
Cash and balances with banks	**1,217.2**	848.1
Government bills	**203.0**	167.9
Certificates of deposit	**-**	50.0
Cash and cash equivalents	**6,265.0**	7,796.6
Statutory deposits with central banks	**306.9**	288.5
Cash and other liquid assets	**6,571.9**	8,085.1

Statutory deposits with central banks are subject to local regulations which provide for restrictions on the deployment of these funds.

7. Securities purchased under agreements to resell

The Group enters into collateralised lending transactions (reverse repurchase agreements) in the ordinary course of its operating activities. The collateral is in the form of highly rated debt securities. The collateralised lending transactions are conducted under standardised terms that are usual and customary for such transactions.

Notes to the Consolidated Financial Statements
For the year ended 31st December 2020

8. Placements

Placements at 31st December 2020 included placements with central banks amounting to US$ 2,200.0 million (2019: US$2,026.4 million). The placements with central banks represented the placement of surplus liquid funds.

9. Trading securities

	31.12.20	31.12.19
	US$ millions	US$ millions
Managed funds	99.3	78.0
Equity securities	7.7	64.2
	107.0	142.2

Managed funds comprised funds placed for investment with specialist managers.

10. Investment securities

10.1 Composition

The credit rating profile of investment securities, based on the lowest rating assigned by the major international rating agencies, was as follows:-

	31.12.20		31.12.19	
	US$ millions	%	US$ millions	%
AAA to A- / Aaa to A3	3,652.7	84.3	3,209.6	87.2
BBB+ to BBB- / Baa1 to Baa3	338.8	7.8	158.3	4.3
BB+ to B- / Ba1 to B3	341.5	7.9	313.8	8.5
Total debt securities	4,333.0	100.0	3,681.7	100.0
Equity investments	153.8		146.7	
	4,486.8		3,828.4	

Investment securities principally comprised investment-grade rated debt securities issued by major international financial institutions and government-related entities.

Investment securities rated BB+ to B- / Ba1 to B3 at 31st December 2020 and 31st December 2019 principally comprised GCC sovereign debt securities.

Debt securities are classified as investment securities at amortised cost and equity investments are classified as FVTOCI.

10.2 Provisions for impairment

The movements in the provisions for credit impairment of investment securities were as follows:-

	Collective provisions		Specific provisions	2020	Collective provisions		Specific provisions	2019
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	US$ millions	US$ millions	US$ millions	US$ millions	US$ millions	US$ millions	US$ millions	US$ millions
At 1st January	3.6	0.7	-	4.3	4.5	-	-	4.5
Transfer to stage 2	-	-	-	-	(0.7)	0.7	-	-
Net remeasurement of loss allowance	(1.2)	(0.7)	-	(1.9)	(0.2)	-	-	(0.2)
At 31st December	2.4	-	-	2.4	3.6	0.7	-	4.3

The stage 1 and stage 2 provisions reflect the probability-weighted estimate of expected credit losses. The provisions comprise both quantitative and qualitative information and analysis, based on the Group's historical experience and taking into consideration both internal and external indicators and including forward-looking information.

Notes to the Consolidated Financial Statements

For the year ended 31st December 2020

11. Loans and advances

11.1 Composition

	31.12.20	31.12.19
	US$ millions	US$ millions
Gross loans and advances	10,771.3	10,295.7
Provisions for impairment	(337.8)	(419.6)
Net loans and advances	**10,433.5**	9,876.1

11.2 Industrial classification

	31.12.20	31.12.19
	US$ millions	US$ millions
Trading and services	1,804.4	2,053.1
Energy, oil and petrochemical	1,866.1	1,861.5
Financial	1,615.7	1,479.0
Transportation	1,621.2	1,374.4
Manufacturing	1,066.7	1,099.3
Real estate	620.4	910.5
Construction	471.8	664.6
Communication	231.1	181.7
Agriculture and mining	280.0	170.5
Government	492.7	138.0
Retail	182.6	133.5
Other	518.6	229.6
	10,771.3	10,295.7
Provisions for impairment	(337.8)	(419.6)
	10,433.5	9,876.1

11.3 Provisions for impairment

	Collective provisions		Specific provisions		Collective provisions		Specific provisions	
	Stage 1	Stage 2	Stage 3	2020 Total	Stage 1	Stage 2	Stage 3	2019 Total
	US$ millions	US$ millions	US$ millions	US$ millions	US$ millions	US$ millions	US$ millions	US$ millions
At 1st January	34.2	97.1	288.3	419.6	30.5	110.1	623.3	763.9
Transfer to stage 1	1.2	(1.2)	-	-	0.1	(0.1)	-	-
Transfer to stage 2	(2.9)	2.9	-	-	(1.9)	1.9	-	-
Transfer to stage 3	(0.4)	(78.7)	79.1	-	-	(15.4)	15.4	-
Exchange rate movements	-	-	0.4	0.4	-	-	0.3	0.3
Net remeasurement of loss allowance	32.7	22.8	283.8	339.3	5.5	0.6	24.2	30.3
Amounts utilised	-	-	(421.5)	(421.5)	-	-	(374.9)	(374.9)
At 31st December	64.8	42.9	230.1	337.8	34.2	97.1	288.3	419.6

The stage 1 and stage 2 provisions reflect the probability-weighted estimate of expected credit losses. The provisions comprise both quantitative and qualitative information and analysis, based on the Group's historical experience and taking into consideration both internal and external indicators and includes forward-looking information.

Stage 3 provisions reflect credit-impaired provisions based on the difference between the net carrying amount and the recoverable amount of the loan.

Notes to the Consolidated Financial Statements

For the year ended 31st December 2020

11. Loans and advances (continued)

11.3 Provisions for impairment (continued)

Total provisions in relation to credit-related contingent exposures at 31st December 2020 included US$56.2 million (2019: US$53.1 million) of which US$47.9 million (2019: US$46.5 million) represents stage 3 provisions. Total stage 3 provisions at 31st December 2020, excluding stage 3 provisions in relation to credit-related contingent exposures, represented 50.1 percent of the related stage 3 loans (2019: 63.4 per cent).

Amounts utilised during the years ended 31st December 2020 and 31st December 2019 mainly represented provisions utilised on the transfer of the related loans to the memorandum records. Recovery efforts on these loans are still ongoing with the intention to maximise potential recoveries.

Total provisions at 31st December 2020 included US$56.2 million of provisions in relation to credit-related contingent exposures (2019: US$53.1 million).

11.4 Past due loans

The gross and carrying amounts of loans for which either principal or interest was over 90 days past due were as follows:-

	Gross 31.12.20	Carrying Amount 31.12.20	Gross 31.12.19	Carrying Amount 31.12.19
	US$ millions	US$ millions	US$ millions	US$ millions
Corporates	362.6	133.2	497.1	215.3
Financial sector	-	-	13.5	7.7
Retail banking	0.9	0.2	0.8	0.1
	363.5	133.4	511.4	223.1

Gross past due loans at 31st December 2020 included US$ 363.5 million of loans that were classified as stage 3 exposures (2019: US$511.4 million). Gross past due loans at 31st December 2020 included exposures of US$18.5 million (2019: US$129.8 million) which were fully collaterised.

11.5 Restructured and modified loans

During the years ended 31st December 2020 and 31st December 2019, the Group modified the contractual terms of a number of facilities for commercial purposes. Such modifications did not result in the derecognition of any assets, and the resulting modification gains were immaterial to the Group's consolidated statement of income. The nature of modifications is set out in note 29.1.

During the year ended 31st December 2020, the Group restructured one loan US$49.6 million and made concessions due to a deterioration in customer's financial position (31st December 2019: nil)

11.6 Collateral

The Group did not take possession of any collateral during the years ended 31st December 2020 and 31st December 2019.

12. Other assets

	31.12.20	31.12.19
	US$ millions	US$ millions
Derivative financial instruments	409.1	231.5
Accrued interest, fees and commissions	113.1	216.1
Premises and equipment	69.5	77.2
Right-of-use assets	89.8	64.2
Prepayments	42.7	52.3
Deferred items	27.5	32.3
Pension asset	14.2	-
Other, including accounts receivable	61.6	54.9
	827.5	728.5

Derivative financial instruments represent the positive fair values of derivative financial instruments entered into for trading purposes, or designated as fair value or cash flow hedges. An analysis of the fair value of derivative financial instruments is set out in note 33.4.

The decrease in accrued interest, fees and commissions at 31st December 2020 was principally due to a decrease in market benchmark interest rates.

Notes to the Consolidated Financial Statements

For the year ended 31st December 2020

13. Post retirement benefits

The Group contributes to defined benefit and defined contribution pension plans which cover substantially all of its employees.

The Bank maintains pension plans for the majority of its employees. Contributions are based on a percentage of salary. The amounts to be paid as retirement benefits are determined by reference to the amounts of the contributions and investment earnings thereon. The total cost of contributions to defined benefit and defined contribution pension plans for the year ended 31st December 2020 amounted to US$ 14.3 million (2019: US$13.2 million).

The Bank's subsidiary, Gulf International Bank (UK) Limited (GIBUK), maintains a funded defined benefit scheme, whilst the Saudi Arabian subsidiaries, Gulf International Bank – Saudi Arabia (GIB KSA) and GIB Capital C.J.S.C. (GIB Capital), maintain unfunded defined benefit schemes. Both pension schemes are covered in more detail in this note.

13.1 Gulf International Bank (UK) Limited (GIBUK)

The Bank's UK-based subsidiary, Gulf International Bank (UK) Limited (GIBUK), maintains a funded defined benefit final salary pension plan for a number of its employees. The assets of the plan are held independently of the subsidiary's assets in a separate trustee administered fund. The fund is subject to the UK regulatory framework for pensions.

The fund exposes the Group to the risk of paying unanticipated contributions in times of adverse experience. Such events could be members living for longer than expected, higher than expected inflation or salary growth, and the risk that increases in the fund's obligations are not met by a corresponding improvement in the value of the fund's assets.

a) The amount recognised in the consolidated statement of financial position is analysed as follows:-

	31.12.20	31.12.19
	US$ millions	US$ millions
Fair value of plan assets	**222.8**	206.3
Present value of fund obligations	**(208.6)**	(210.9)
Net liability in the consolidated statement of financial position	**14.2**	(4.6)

The net liability or asset is a valuation measure derived using an actuarial mathematical model. The modelling is performed by an independent actuary based upon the measurement criteria stipulated by the accounting standard IAS19 - Employee Benefits. A pension asset does not indicate a realisable receivable from the pension plan and a liability does not indicate a funding requirement to the pension plan in the short term.

The valuation measure indicates a point in time view of the fair value of the plan's assets less a discounted measure of the plan's future obligations over a duration of 19 years.

b) The movements in the fair value of plan assets were as follows:-

	2020	2019
	US$ millions	US$ millions
At 1st January	**206.3**	181.6
Included in the consolidated statement of income:-		
- Interest income on the plan assets	**3.9**	5.2
Included in the consolidated statement of other comprehensive income:-		
- Remeasurements:-		
- Return on plan assets excluding interest income	**9.5**	18.2
Other movements:-		
- Exchange rate movements	**7.9**	6.2
- Contributions paid by the participant	**-**	-
- Contributions paid by the Group	**4.2**	0.4
- Benefits paid by the plan	**(9.0)**	(5.3)
At 31st December	**222.8**	206.3

The plan assets at 31st December 2020 comprised a 37 per cent (2019: 38 per cent) exposure to equities and a 27 per cent (2019: 35 per cent) exposure to multi-asset funds, with the balance of the exposure to hedging funds and debt. The plan assets have a quoted price in an active market and the hedging funds are designed to hedge the majority of inflation and interest rate risk.

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For the year ended 31st December 2020

13. Post retirement benefits (continued)

13.1 Gulf International Bank (UK) Limited (GIBUK) (continued)

c) The movements in the present value of fund obligations were as follows:-

	2020	2019
	US$ millions	US$ millions
At 1st January	**210.9**	193.0
Included in the consolidated statement of income:-		
- Current service cost	**0.5**	0.5
- Interest cost on the fund obligations	**4.0**	5.5
Included in the consolidated statement of other comprehensive income:-		
- Remeasurements due to changed actuarial assumptions:-		
- Past service cost	**(0.6)**	-
- Financial assumptions	**23.3**	24.7
- Demographic assumptions	**0.9**	(1.5)
- Experience	**(27.5)**	(12.7)
Other movements:-		
- Exchange rate movements	**6.1**	6.7
- Contributions paid by the participant	**-**	-
- Benefits paid by the plan	**(9.0)**	(5.3)
At 31st December	**208.6**	210.9

d) The movements in the net asset / (liability) recognised in the consolidated statement of financial position were as follows:-

	2020	2019
	US$ millions	US$ millions
At 1st January	**(4.6)**	(12.2)
Net expense included in consolidated statement of income	**(0.5)**	(1.0)
Remeasurement included in consolidated statement of comprehensive income	**15.2**	8.0
Contributions paid by the Group	**4.2**	0.5
Exchange rate movements	**(0.1)**	0.1
At 31st December	**14.2**	(4.6)

The Group paid US$4.2 million in contributions to the plan during 2020 and expects to pay US$0.6 million during 2021.

e) The principal actuarial assumptions used for accounting purposes were as follows:-

	2020	2019
Discount rate (per cent)	**1.3**	2.0
Retail price inflation (per cent)	**2.9**	3.0
Consumer price inflation (per cent)	**2.2**	2.1
Pension increase rate (per cent)	**2.1**	2.1
Salary growth rate (per cent)	**3.0**	3.0
Average life expectancy (years)	**90**	89

f) Sensitivity information

The present value of the fund's obligations, which has a weighted average duration of 19 years, was calculated based on certain actuarial assumptions. Should any one of the key assumptions change by an amount that is probable whilst holding the other assumptions constant, the present value of the fund's obligations would increase as follows:-

	2020	2019
	US$ millions	US$ millions
Life expectancy increased by 1 year	**0.2**	0.2
Discount rate decreased by 0.5 per cent	**0.2**	0.2
Inflation increased by 0.5 per cent	**0.2**	0.2

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For the year ended 31st December 2020

13. Post retirement benefits (continued)

13.2 Gulf International Bank - Saudi Arabia (GIB KSA) and GIB Capital C.J.S.C. (GIB Capital)

Gulf International Bank - Saudi Arabia (GIB KSA) and GIB Capital C.J.S.C. (GIB Capital) maintain unfunded defined benefit schemes based on the prevailing Saudi Arabia Labour Laws.

The schemes expose the Group to the risk of paying unanticipated contributions in times of adverse experience. Such events include members living for longer than expected, higher than expected inflation or salary growth, and the risk that withdrawals may be higher than assumed.

a) The amount recognised in the consolidated statement of financial position is analysed as follows:-

	31.12.20	31.12.19
	US$ millions	US$ millions
Fair value of plan assets	**-**	-
Present value of fund obligations	**15.5**	14.6
Net liability in the consolidated statement of financial position	**15.5**	14.6

The net liability or asset is a valuation measure derived using an actuarial mathematical model. The modelling is performed by an independent actuary based upon the measurement criteria stipulated by the accounting standard IAS19 - Employee Benefits. A pension liability does not indicate a funding requirement to the pension plan in the short term.

The valuation measure indicates a point in time view of the fair value of the plan's assets less a discounted measure of the plan's future obligations over a duration of 11 years for GIB KSA and 10 years for GIB Capital.

b) The movements in the present value of fund obligations were as follows:-

	2020	2019
	US$ millions	US$ millions
At 1st January	**14.6**	12.9
Included in the consolidated statement of income:-		
- Current service cost	**2.8**	2.6
- Interest cost on the fund obligations	**0.5**	0.6
Included in the consolidated statement of other comprehensive income:-		
- Remeasurements due to changed actuarial assumptions:-		
- Financial assumptions	**0.1**	0.1
- Demographic assumptions	**-**	-
- Experience	**(0.6)**	(0.8)
Other movements:-		
- Benefits paid by the plan	**(1.9)**	(0.8)
At 31st December	**15.5**	14.6

c) The principal actuarial assumptions used for accounting purposes were as follows:-

		2020
	Gulf International Bank - Saudi Arabia	**GIB Capital**
Discount rate (per cent)	2.4	**2.4**
Mortality rate (per cent)	75.0	**75.0**
Salary growth rate (per cent)	2.0	2.4

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For the year ended 31st December 2020

13. Post retirement benefits (continued)

13.2 Gulf International Bank - Saudi Arabia (GIB KSA) and GIB Capital C.J.S.C. (GIB Capital) (continued)

d) Sensitivity information

The present value of the fund's obligations, which has a weighted average duration of 11 years for GIB KSA and 10 years for GIB Capital, was calculated based on certain actuarial assumptions. Should any one of the key assumptions change by an amount that is probable whilst holding the other assumptions constant, the present value of the fund's obligations would increase / (decrease) as follows:-

	2020	2019
	US$ millions	US$ millions
Discount rate increased by 0.5 per cent	**(0.8)**	(0.8)
Discount rate decreased by 0.5 per cent	**0.9**	0.8
Long term salary increased by 0.5 per cent	**0.8**	0.8
Long term salary decreased by 0.5 per cent	**(0.8)**	(0.8)

14. Deposits

The geographical composition of total deposits was as follows:-

	31.12.20	31.12.19
	US$ millions	US$ millions
GCC countries	**12,673.5**	14,351.7
Other Middle East and North Africa countries	**759.7**	621.8
Other countries	**6,853.3**	7,179.1
	20,286.5	22,152.6

GCC deposits comprise deposits from the Gulf Cooperation Council (GCC) country governments and central banks and other institutions headquartered in the GCC states.

At 31st December 2020, GCC deposits represented 62.5 per cent of total deposits (2019: 64.8 per cent).

15. Securities sold under agreements to repurchase

The Group enters into collateralised borrowing transactions (repurchase agreements) in the ordinary course of its financing activities. Collateral is provided in the form of securities held within the investment securities portfolio. At 31st December 2020, the fair value of investment securities that had been pledged as collateral under repurchase agreements was US$206.6 million (2019: US$551.8 million). The collateralised borrowing transactions are conducted under standardised terms that are usual and customary for such transactions.

16. Other liabilities

	31.12.20	31.12.19
	US$ millions	US$ millions
Derivative financial instruments	**636.9**	290.1
Accrued interest	**101.4**	208.9
Deferred items	**134.2**	71.4
Right-of-use liabilities	**92.8**	61.2
Pension liabilities	**15.5**	19.2
Other, including accounts payable and accrued expenses	**170.2**	116.5
	1,151.0	767.3

Derivative financial instruments represent the negative fair values of derivative financial instruments entered into for trading purposes, or designated as fair value or cash flow hedges. An analysis of the fair value of derivative financial instruments is set out in note 33.4.

Deferred items represent amounts received, e.g. loan origination fees, that are being amortised to income over the period of the related financial asset.

An analysis of the pension liabilities is set out in note 13.

Notes to the Consolidated Financial Statements

For the year ended 31st December 2020

17. Senior term financing

	Maturity	31.12.20	31.12.19
		US$ millions	US$ millions
Floating rate loans	2020 - 2024	**2,943.6**	2,082.3
Floating rate repurchase agreements	2020 - 2028	**322.9**	391.5
Floating rate note	2021	**529.8**	529.8
Floating rate note	2022	**499.6**	498.8
Floating rate note	2025	**129.1**	-
Fixed rate note	2025	**499.9**	-
		4,924.9	3,502.4

18. Share capital

The authorised share capital at 31st December 2020 comprised 3.0 billion shares of US$1 each (2019: 3.0 billion shares of US$1 each). The issued share capital at 31st December 2020 comprised 2.5 billion shares of US$1 each (2019: 2.5 billion shares of US$1 each). All issued shares are fully paid.

19. Reserves

	Share premium	Compulsory reserve	Voluntary reserve	Cash flow hedge reserve	Investment securities revaluation reserve	Defined pension reserve	Deferred tax and other reserve	Total
	US$ millions	US$ millions	US$ millions	US$ millions	US$ millions	US$ millions	US$ millions	US$ millions
At 1st January 2020	**7.6**	**230.6**	**168.1**	**0.1**	**(62.9)**	**(7.5)**	**-**	**336.0**
Net fair value gains on cash flow hedges	-	-	-	(0.1)	-	-	-	(0.1)
Net fair value gains on equity investments classified as FVTOCI	-	-	-	-	11.4	-	-	11.4
Transfers to retained earnings	-	-	-	-	17.7	-	-	17.7
Movement during the period	-	-	-	-	-	15.4	(1.2)	14.2
Net (decrease) / increase	-	-	-	(0.1)	29.1	15.4	(1.2)	43.2
At 31st December 2020	**7.6**	**230.6**	**168.1**	**-**	**(33.8)**	**7.9**	**(1.2)**	**379.2**
At 1st January 2019	7.6	225.8	163.3	(1.9)	(33.4)	(15.8)	-	345.6
Net fair value losses on cash flow hedges	-	-	-	2.0	-	-	-	2.0
Net fair value gains on equity investments classified as FVTOCI	-	-	-	-	27.4	-	-	27.4
Transfers from / (to) retained earnings	-	4.8	4.8	-	(56.9)	-	-	(47.3)
Movement during the period	-	-	-	-	-	8.3	-	8.3
Net decrease / increase	-	4.8	4.8	2.0	(29.5)	8.3	-	(9.6)
At 31st December 2019	7.6	230.6	168.1	0.1	(62.9)	(7.5)	-	336.0

In accordance with the Bank's Articles of Association, 10 per cent of the Bank's net profit for the year is required to be transferred to each of the compulsory and voluntary reserves. Transfers to the compulsory reserve are required until such time as this reserve represents 50 per cent of the issued share capital of the Bank. The voluntary reserve may be utilised at the discretion of the Board of Directors. The compulsory reserve may be utilised as per the terms of the Bank's Articles of Association.

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For the year ended 31st December 2020

20. Dividends

No dividend is proposed in respect of the financial years ended 31st December 2020 and 31st December 2019.

21. Net interest income

	Year ended 31.12.20	Year ended 31.12.19
	US$ millions	US$ millions
Interest income		
Placements and other liquid assets	**94.9**	244.0
Investment securities	**93.3**	134.0
Loans and advances	**317.7**	463.3
Total interest income	**505.9**	841.3
Interest expense		
Deposits from banks and customers	**150.2**	418.6
Securities sold under agreements to repurchase	**6.0**	11.4
Term financing	**116.9**	130.9
Total interest expense	**273.1**	560.9
Net interest income	**232.8**	280.4

Interest income on loans and advances includes loan origination fees that form an integral part of the effective interest rate of the loan.

Accrued interest on impaired and past due loans included in interest income for the year ended 31st December 2020 amounted to nil (2019: nil). There was no accrued but uncollected interest included in interest income on past due loans or past due investment securities for either the year ended 31st December 2020 or 31st December 2019.

22. Fee and commission income

	Year ended 31.12.20	Year ended 31.12.19
	US$ millions	US$ millions
Fee and commission income		
Commissions on letters of credit and guarantee	**28.6**	29.2
Investment banking and management fees	**21.0**	26.8
Loan commitment fees	**5.6**	4.3
Retail banking fees	**1.3**	2.0
Loan agency fees	**1.6**	1.6
Other fee and commission income	**3.8**	3.2
Total fee and commission income	**61.9**	67.1
Fee and commission expense	**(2.9)**	(2.4)
Net fee and commission income	**59.0**	64.7

Investment banking and management fees comprise fees relating to the provision of investment management and financial services, including asset and fund management, underwriting activities, and services relating to structured financing, privatisations, initial public offerings, and mergers and acquisitions.

Investment banking and management fees for the year ended 31st December 2020 included fee income relating to the Group's fiduciary activities amounting to US$ 11.3 million (2019: US$14.3 million).

Fee and commission expense principally comprises security custody fees and bank charges and commissions.

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23. Trading income

	Year ended 31.12.20	Year ended 31.12.19
	US$ millions	US$ millions
Equity securities	**4.4**	5.7
Interest rate derivatives	**0.1**	6.4
Commodity options	**0.8**	0.1
Debt securities	**-**	0.2
Managed funds	**(19.5)**	4.6
	(14.2)	17.0

Trading income comprises gains and losses arising both on the purchase and sale, and from changes in the fair value, of trading instruments, together with the related interest income, interest expense and dividend income. Trading income accordingly incorporates all income and expenses related to the Group's trading activities.

Interest rate derivatives income principally comprises customer-initiated contracts which have been offset in the market with matching contracts. There is no remaining market risk associated with these contracts.

24. Foreign exchange income

Foreign exchange income principally comprises customer-initiated foreign exchange contracts which have been offset in the market with matching contracts. There is no remaining market risk associated with these offset customer-related foreign exchange contracts.

Foreign exchange includes spot and forward foreign exchange contracts, and currency futures and options.

25. Other income

	Year ended 31.12.20	Year ended 31.12.19
	US$ millions	US$ millions
Recoveries on previously written off assets	**6.5**	0.2
Dividends on equity investments classified as FVTOCI	**4.9**	5.2
Net realised gains / (losses) on investment debt securities	**2.2**	(0.6)
Sundry income	**0.7**	3.6
	14.3	8.4

Recoveries on previously written off assets comprise recoveries on assets that had previously been either written off or transferred to the memorandum records.

Net realised losses on investment debt securities for the year ended 31st December 2020 principally related to the sale of securities due to credit concerns.

Sundry income for the year ended 31st December 2019 principally comprised a US$3.4 million profit realised on the sale of a loan. The loan was classified as stage 2 for ECL provisioning purposes.

26. Other operating expenses

Other operating expenses for the year ended 31st December 2019 included a US$20.5 million exceptional expense arising on an adjustment to the carrying amounts of certain fixed assets. The adjustment to the carrying amounts resulted from a reassessment of the expected future benefits to be derived from the assets.

27. Provision for other assets / contingent liabilities

A US$3.0 million provision charge for other assets during the year ended 31st December 2020 (2019: US$0.1million) represented a provision in relation other receivables. A US$2.4 million provision charge for contingent liabilities during the year ended 31st December 2019 represented a provision in relation to a standby letter of credit facility.

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For the year ended 31st December 2020

28. Segmental information

Segmental information is presented in respect of the Group's business and geographical segments. The primary reporting format, business segments, reflects the manner in which financial information is evaluated by the Board of Directors and the Group Management Committee.

28.1 Business segments

For financial reporting purposes, the Group is organised into four main operating segments:-

- Wholesale banking: the provision of wholesale commercial financing and other credit facilities for corporate and institutional customers.
- Treasury: the provision of a broad range of treasury and capital market products and services to corporate and financial institution clients, money market, proprietary investment and trading activities and the management of the Group's balance sheet, including funding.
- Asset management and investment banking: the provision of asset and fund management services, and of financial advisory services relating to structured financing, privatisations, initial public offerings, and mergers and acquisitions.
- Head office and support units: income arising on the investment of the Group's net free capital funds and expenses incurred by support units, including the investment in the retail banking strategy prior to the launch of all planned retail banking products and services.

The results reported for the business segments are based on the Group's internal financial reporting systems, which report interest revenue and interest expense on a net basis. The accounting policies of the segments are the same as those applied in the preparation of these consolidated financial statements and are set out in note 3. Transactions between business segments are conducted on normal commercial terms and conditions. Transfer pricing between the business units is based on the market cost of funds.

Segment results, assets and liabilities comprise items directly attributable to the business segments. Liabilities reported for head office and support units comprise retail-related deposits and senior term finance facilities and related accrued interest, the cost of which is recharged to the relevant operating business segments.

The business segment analysis is as follows:-

	Wholesale banking	Treasury	Asset management and investment banking	Head office and support units	Total
	US$ millions	US$ millions	US$ millions	US$ millions	US$ millions
2020					
Net interest income	**115.8**	**66.9**	**-**	**50.1**	**232.8**
Total income	**159.7**	**77.8**	**13.8**	**56.4**	**307.7**
Segment result	**(238.2)**	**66.1**	**(5.1)**	**(132.5)**	**(309.7)**
Taxation charge					**1.7**
Net income after tax					**(308.0)**
Segment assets	**10,417.6**	**18,427.8**	**50.5**	**654.2**	**29,550.1**
Segment liabilities	**4,350.3**	**15,949.3**	**-**	**6,238.0**	**26,537.6**
Total equity					**3,012.5**
Total liabilities and equity					**29,550.1**
2019					
Net interest income	145.8	78.3	-	56.3	280.4
Total income	186.1	99.3	28.7	70.6	384.7
Segment result	119.6	88.8	7.6	(149.8)	66.2
Taxation charge					(3.2)
Net loss after tax					63.0
Segment assets	9,925.8	19,648.1	48.6	619.2	30,241.7
Segment liabilities	2,905.4	18,764.7	-	5,275.3	26,945.4
Total equity					3,296.3
Total liabilities and equity					30,241.7

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28. Segmental information (continued)

28.2 Geographical segments

Although the Group's four main business segments are managed on a worldwide basis, they are considered to operate in two geographical markets: the GCC and the rest of the world.

The geographical composition of total income and total assets based on the location in which transactions are booked and income is recorded was as follows:-

	2020		2019	
	Total income	**Total assets**	Total income	Total assets
	US$ millions	**US$ millions**	US$ millions	US$ millions
GCC	**277.4**	**18,904.3**	324.9	18,296.8
Other countries	**30.3**	**10,645.8**	59.8	11,944.9
	307.7	**29,550.1**	384.7	30,241.7

The geographical analyses of deposits and risk assets are set out in notes 14 and 30 respectively.

29. Risk management

The principal risks associated with the Group's businesses are credit risk, market risk, liquidity risk and operational risk. The Group has a comprehensive risk management framework in place for managing these risks which is constantly evolving as the business activities change in response to credit, market, product and other developments. The risk management framework is guided by a number of overriding principles including the formal definition of risk management governance, an evaluation of risk appetite expressed in terms of formal risk limits, risk oversight independent of business units, disciplined risk assessment and measurement including Value-at-Risk (VaR) methodologies and portfolio stress testing, and risk diversification. The Board of Directors set the Group's overall risk parameters and risk tolerances, and the significant risk management policies. A Board Risk Policy Committee reviews and reports to the Board of Directors on the Group's risk profile and risk taking activities, including approving obligor limits by rating, industry and geography, and the review of rating back-testing exercises. A Management Committee, chaired by the Group Chief Executive Officer, has the primary responsibility for sanctioning risk taking activities and risk management policies within the overall risk parameters and tolerances defined by the Board of Directors. A Group Risk Committee, under the chairmanship of the Chief Risk Officer and comprising the Group's most senior risk professionals, provides a forum for the review and approval of risk measurement methodologies, risk control processes and the approval of new products, including approval of LGDs and eligible collateral for ECL calculations. The Group Risk Committee also reviews all risk policies and limits that require the formal approval of the Management Committee. The risk management control process is based on a detailed structure of policies, procedures and limits, and comprehensive risk measurement and management information systems for the control, monitoring and reporting of risks. The Provisioning Committee approves the categorisation of an exposure as stage 1, stage 2 or stage 3. Periodic reviews by internal auditors and regulatory authorities subject the risk management processes to additional scrutiny which help to further strengthen the risk management environment.

The principal risks associated with the Group's businesses and the related risk management processes are described in detail in the Basel 3 Pillar 3 disclosure report in the Annual Report, and are summarised below together with additional quantitative analyses:-

29.1 Credit risk

Credit risk is the risk that counterparties will be unable to meet their obligations to the Group. Credit risk arises principally from the Group's lending and investment activities in addition to other transactions involving both on- and off-balance sheet financial instruments, including the specific risk for equity instruments. Disciplined processes are in place at both the business unit and corporate level that are intended to ensure that risks are accurately assessed and properly approved and monitored. Formal credit limits are applied at the individual transaction, counterparty, country and portfolio levels. Overall exposures are also evaluated to ensure a broad diversification of credit risk. The credit management process involves the monitoring of concentrations by product, industry, single obligor, risk grade and geography, and the regular appraisal of counterparty credit quality through the analysis of qualitative and quantitative information.

Credit risk is actively managed and rigorously monitored in accordance with well-defined credit policies and procedures. Prior to the approval of a credit proposal, a detailed credit risk assessment is carried out which includes an analysis of the obligor financial condition, market position, business environment and quality of management. The risk assessment generates an internal credit risk rating for each exposure, which affects the credit approval decision and the terms and conditions of the transaction. For cross border transactions an analysis of country risk is also conducted. The Group bases its credit decision for an individual counterparty on the aggregate Group exposure to that counterparty and all its related entities. Groupwide credit limit setting and approval authorisation requirements are conducted within Board approved guidelines, and the measurement, monitoring and control of credit exposures are done on a Group-wide basis in a consistent manner.

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29. Risk management (continued)

29.1 Credit risk (continued)

The Group also mitigates its credit exposures on foreign exchange and derivative financial instruments through the use of master netting agreements and collateral arrangements.

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and taking into consideration both internal and external indicators and expert credit assessment and inclusion of forward-looking information.

The Group considers all counterparties internally rated 2 and above, between 2- and 3+, between 3 and 4+, and 4 and below, to be significantly deteriorated where they have been downgraded 6 notches, 5 notches, 4 notches and 3 notches respectively since initial recognition, and where the current pricing has not been adjusted to reflect the new risk profile of the counterparty.

Debt investment securities are considered to have low credit risk when their credit risk rating is equivalent to an investment grade rating or a debt investment security with similar credit risk characteristics.

The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in the probability of default (PDs) and qualitative factors, including whether the exposure has been watch-listed, whether the exposure is more than 30 days past due and as a backstop based on delinquency.

Definitions of default and curing

The Group considers a financial asset to be in default when the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as liquidating collateral; or the borrower is past due more than 90 days on any credit obligation to the Group. In assessing whether a borrower is in default, the Group considers both qualitative factors such as breaches of covenants and quantitative factors such as overdue status and non-payment on another obligation of the same issuer to the Group.

The Group considers a financial asset to be cured, and accordingly reclassified from stage 3 to stage 2 when none of the default criteria have been present for a period of at least 12 consecutive months. The financial asset is then transferred from stage 2 to stage 1 after a cure period of a further six months.

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 ECL. Based on advice from the Chief Economist and consideration of a variety of external actual and forecast information, the Group formulates a fundamental view of the future direction of relevant economic variables as well as a reasonable range of possible scenarios.

The Group has identified economic factors such as the International Monetary Fund (IMF) and Central Bank forecasts for fiscal balances and GDP growth in key markets of the Kingdom of Saudi Arabia, United Arab Emirates and United States of America as well as the views of the Chief Economist. Given the nature of the Group's exposures and availability of historical statistically reliable information, the Group derives the point-in-time (PIT) probability of default (PD) using the through-the-cycle (TTC) PD data for each rating category. The Group uses the Vasicek model to link the TTC PDs with forward looking economic factors to drive PIT PD estimates for each rating category. The Vasicek model takes into consideration forward looking economic forecasts under three scenarios (base case, negative case, and positive case), historical economic data, the asset correlation of each rating category (as per the Basel IRB economic capital formula), and TTC PDs for deriving PIT PDs. The relationship between the economic factors and default and loss rates have been developed using internal historical data and relevant external market data.

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29. Risk management (continued)

29.1 Credit risk (continued)

Measurement of ECL

The key input parameters into the measurement of ECL are the probability of default (PD), loss given default (LGD) and exposure at default (EAD). These parameters are derived from internally developed statistical models, other historical data using both internal and external factors, and incorporates forward-looking information.

PD estimates are estimates at a certain date. For corporate exposures, corporate PD estimates are internally derived using the Bank's central default tendency for the Corporate portfolio. For financial institutions and sovereign government exposures, the PDs are based on external rating data of all global financial institutions rated by Standard & Poor's.

The PIT PD estimates are converted to PIT PDs using the Vasicek model. For exposures that have tenors in excess of one year and that are assessed on lifetime PDs, cumulative lifetime PDs are calculated by compounding the 12-month PIT PDs.

LGD is the magnitude of the likely loss if there is a default. The Group estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties, based on historical data using both internal and external factors.

EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amounts allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the EAD is converted to balance sheet equivalents.

Subject to a maximum of 12-month PD for financial assets for which credit risk has not significantly increased, the Group measures ECL considering the risk of default over the maximum contractual period over which it is exposed to credit risk.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics including instrument type, credit risk ratings and geographic location of the borrower.

The Group calculates PIT PD estimates under three scenarios, a base case, negative case and positive case. A probability weighted ECL is then calculated by assigning probabilities, based on current market conditions, to each scenario. The probabilities assigned to the base case, negative case and positive case scenarios refer to note 2.3.

Modified financial assets

The contractual terms of a loan may be modified for a number of reasons including changing market conditions, and other factors not related to the current or potential credit deterioration of a customer. When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects a comparison of its remaining lifetime PD at the reporting date based on modified terms, with the remaining lifetime PD estimated based on data at initial recognition and the original contractual terms.

The Group renegotiates loans to customers in financial difficulties to maximise collection opportunities and minimise the risk of default. The Group grants forbearance on a selective basis if there is evidence that the customer has made all reasonable efforts to honour the original contractual terms and the customer is expected to be able to meet the revised terms. Forbearance is a qualitative indicator of a significant increase in credit risk, and a customer would need to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be credit-impaired, or in default, or the PD has decreased such that the provision for credit-impairment reverts to being measured at an amount equal to the 12-month ECL.

Notes to the Consolidated Financial Statements
For the year ended 31st December 2020

29. Risk management (continued)

29.1 Credit risk (continued)

a) Maximum exposure to credit risk

The gross maximum exposure to credit risk before applying collateral, guarantees and other credit enhancements was as follows:-

	31.12.20	31.12.19
Balance sheet items:	**US$ millions**	US$ millions
Cash and other liquid assets	**6,571.9**	8,085.1
Securities purchased under agreements to resell	**1,170.0**	1,410.0
Placements	**5,953.4**	6,171.4
Investment securities	**4,333.0**	3,681.7
Loans and advances	**10,433.5**	9,876.1
Accrued interest, fees and commissions	**113.1**	216.1
Total on-balance sheet credit exposure	**28,574.9**	29,440.4
Off-balance sheet items:		
Credit-related contingent items	**5,168.4**	4,881.4
Foreign exchange-related items	**44.3**	64.7
Derivative-related items	**607.1**	492.2
Equity and commodity contracts	**10.8**	4.4
Total off-balance sheet credit exposure	**5,830.6**	5,442.7
Total gross credit exposure	**34,405.5**	34,883.1

b) Credit risk profile

The Group monitors, manages and controls credit risk exposures based on an internal credit rating system that rates individual obligors based on a rating scale from 1 to 10, subject to positive (+) and negative (-) modifiers for rating grades 2 to 6. The internal credit rating is a measure of the credit-worthiness of a single obligor, based on an assessment of the credit risk relating to senior unsecured, medium-term, foreign currency credit exposure. The primary objectives of the internal credit rating system are the maintenance of a single uniform standard for credit quality measurement, and to serve as the primary basis for Board-approved risk parameters and delegated credit authority limits.

The internal credit rating system also serves as a key input into the Group's risk-adjusted return on capital (RAROC) performance measurement system.

The internal ratings map directly to the external rating grades used by the international credit rating agencies as follows:-

Internal rating grade	Internal classification	Fitch and Standard & Poor's	Moody's
Investment grade			
Rating grade 1	Standard	AAA	Aaa
Rating grade 2	Standard	AA	Aa
Rating grade 3	Standard	A	A
Rating grade 4	Standard	BBB	Baa
Sub-investment grade			
Rating grade 5	Standard	BB	Ba
Rating grade 6	Standard	B	B
Rating grade 7	Standard	CCC	Caa
Classified			
Rating grade 8	Substandard	CC	Ca
Rating grade 9	Doubtful	C	C
Rating grade 10	Loss	D	-

Notes to the Consolidated Financial Statements

For the year ended 31st December 2020

29. Risk management (continued)

29.1 Credit risk (continued)

b) Credit risk profile (continued)

	Placements, reverse repos & other liquid assets	Securities	Loans and advances	31.12.20 Credit-related contingent items
	US$ millions	US$ millions	US$ millions	US$ millions
Stage 1 (12-month ECL)				
Rating grades 1 to 4-	13,514.2	3,991.5	5,906.5	2,966.2
Rating grades 5+ to 5-	178.1	341.5	3,110.0	584.0
Rating grades 6+ to 6-	3.0	-	166.5	114.0
Carrying amount (net)	13,695.3	4,333.0	9,183.0	3,664.2
Stage 2 (Lifetime ECL but not credit-impaired)				
Rating grades 4 to 4-	-	-	248.7	42.4
Rating grades 5+ to 5-	-	-	525.2	197.3
Rating grades 6+ to 6-	-	-	316.0	87.6
Rating grade 7	-	-	27.2	5.4
Carrying amount (net)	-	-	1,117.1	332.7
Stage 3 (Lifetime ECL and credit-impaired)				
Rating grades 6+ to 6-	-	-	-	-
Rating grade 7	-	-	-	-
Rating grade 8	-	-	133.4	19.9
Rating grade 9	-	-	-	20.8
Rating grade 10	-	-	-	27.6
Carrying amount (net)	-	-	133.4	68.3
Other credit risk exposures				
Performance bonds	-	-	-	1,103.2
Carrying amount	-	-	-	1,103.2
	13,695.3	4,333.0	10,433.5	5,168.4

The above analysis is reported net of the following provisions for impairment:-

Stage 1	-	(2.4)	(64.8)	-
Stage 2	-	-	(42.9)	-
Stage 3	-	-	(230.1)	-
Total	-	(2.4)	(337.8)	-

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For the year ended 31st December 2020

29. Risk management (continued)

29.1 Credit risk (continued)

b) Credit risk profile (continued)

				31.12.19
	Placements, reverse repos & other liquid assets	Securities	Loans and advances	Credit-related contingent items
	US$ millions	US$ millions	US$ millions	US$ millions
Stage 1 (12-month ECL)				
Rating grades 1 to 4-	15,213.8	3,367.9	5,839.3	2,859.3
Rating grades 5+ to 5-	451.5	303.8	2,991.6	644.1
Rating grades 6+ to 6-	1.2	-	260.1	44.8
Carrying amount (net)	15,666.5	3,671.7	9,091.0	3,548.2
Stage 2 (Lifetime ECL but not credit-impaired)				
Rating grade 4-	-	-	12.8	0.4
Rating grades 5+ to 5-	-	-	285.0	91.2
Rating grades 6+ to 6-	-	10.0	152.7	93.8
Rating grade 7	-	-	111.5	5.3
Carrying amount (net)	-	10.0	562.0	190.7
Stage 3 (Lifetime ECL and credit-impaired)				
Rating grades 6+ to 6-	-	-	166.4	1.5
Rating grade 7	-	-	21.2	49.4
Rating grade 8	-	-	22.0	25.5
Rating grade 9	-	-	13.5	34.7
Rating grade 10	-	-	-	21.5
Carrying amount (net)	-	-	223.1	132.6
Other credit risk exposures				
Performance bonds	-	-	-	1,009.9
Carrying amount	-	-	-	1,009.9
	15,666.5	3,681.7	9,876.1	4,881.4
The above analysis is reported net of the following provisions for impairment:-				
Stage 1	-	(3.6)	(34.2)	-
Stage 2	-	(0.7)	(97.1)	-
Stage 3	-	-	(288.3)	-
Total	-	(4.3)	(419.6)	-

Stage 3 financial assets represent assets for which there is objective evidence that the Group will not collect all amounts due, including both principal and interest, in accordance with the contractual terms of the obligation.

The Group holds collateral against loans and advances in the form of physical assets, cash deposits, securities and guarantees. The amount and type of collateral is dependent upon the assessment of the credit risk of the counterparty. The market / fair value of the collateral is actively monitored on a regular basis and requests are made for additional collateral in accordance with the terms of the underlying agreements. Collateral is not usually held against securities or placements and no such collateral was held at either 31st December 2020 or 31st December 2019.

The Group held collateral amounting to US$178.8 million that was considered as a credit enhancement and hence reduced the ECL of stage 3 financial assets at 31st December 2020 (2019: US$140.1 million).

An analysis of the credit risk in respect of foreign exchange and derivative financial instruments is set out in note 33 while the notional and risk-weighted exposures for off-balance sheet credit-related financial instruments are set out in note 34.

Notes to the Consolidated Financial Statements

For the year ended 31st December 2020

29. Risk management (continued)

c) Credit risk concentration

The Group monitors concentrations of credit risk by sector and by geographic location. The industrial classification of loans and advances is set out in note 11.2. The geographical distribution of risk assets is set out in note 30. An analysis of the credit risk in respect of foreign exchange and derivative financial instruments is set out in note 33.

d) Settlement risk

Settlement risk is the risk of loss due to the failure of a counterparty to honour its obligations to deliver cash, securities, or other assets as contractually agreed.

For certain types of transactions, the Group mitigates this risk by conducting settlements through a settlement or clearing agent to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations. Settlement limits form part of the credit approval and limit monitoring process.

29.2 Market risk

Market risk is the risk of loss due to adverse changes in interest rates, foreign exchange rates, equity prices and market conditions, such as liquidity. The principal market risks to which the Group is exposed are interest rate risk, foreign exchange risk and equity price risk associated with its trading, investment and asset and liability management activities. The portfolio effects of holding a diversified range of instruments across a variety of businesses and geographic areas contribute to a reduction in the potential negative impact on earnings from market risk factors.

a) Trading market risk

The Group's trading activities principally comprise trading in debt and equity securities, foreign exchange and derivative financial instruments. Derivative financial instruments include futures, forwards, swaps and options in the interest rate, foreign exchange, equity, credit and commodity markets. The Group manages and controls the market risk within its trading portfolios through limit structures of both a VaR and non-VaR nature. Non-VaR based constraints relate, inter alia, to positions, volumes, concentrations, allowable losses and maturities. VaR is a risk measurement concept which uses statistical models to estimate, within a given level of confidence, the maximum potential negative change in the market value of a portfolio over a specified time horizon resulting from an adverse movement in rates and prices. It is recognised that there are limitations to the VaR methodology. These limitations include the fact that the historical data may not be the best proxy for future price movements. The Group performs regular back testing exercises to compare actual profits and losses with the VaR estimates to monitor the statistical validity of the VaR model. VaR is calculated based on the Group's market risk exposures at the close of the business each day. Intra-day risk levels may vary from those reported at the end of the day. In addition, losses beyond the specified confidence level are not captured by the VaR methodology. VaR is not a measure of the absolute limit of market risk and losses in excess of the VaR amounts will, on occasion, arise. To manage the risk associated with extreme market movements, the Group conducts stress testing which measures the impact of simulated abnormal changes in market rates and prices on the market values of the portfolios. The composition of the debt and equity trading securities is set out in note 9. An analysis of derivative financial instruments, including the VaR of foreign exchange and derivative trading contracts, is set out in note 33.

Managing interest rate benchmark reform and associated risks overview

A fundamental reform of major interest rate benchmarks is being undertaken globally subsequent to the decision taken by global regulators, including the replacement of some interbank offered rates (IBORs) with alternative nearly risk-free rates (RFR) (referred to as 'IBOR reform'). The Group has exposures to IBORs on its financial instruments that will be replaced or reformed as part of these market-wide initiatives. There is uncertainty over the timing and the methods of transition in some jurisdictions that the Group operates in.

The Group anticipates that IBOR reform will impact its risk management and hedge accounting. The Group has established a project to manage the transition for any of its contracts that could be affected. The Group's risk management committee monitors and manages this project for the Group's transition to alternative rates. The committee evaluates the extent to which contracts reference IBOR cash flows, whether such contracts will need to be amended as a result of IBOR reform and how to manage communication about IBOR reform with counterparties. The committee reports to the Group's Board of Directors quarterly and collaborates with other business functions as needed. It provides periodic reports to management of interest rate risk and risks arising from IBOR reform.

IBOR reform exposes the Group to various risks, which the project is managing and monitoring closely. These risks include but are not limited to the following:

- Conduct risk assessment arising from discussions with clients and market counterparties due to the amendments required to existing contracts necessary to effect IBOR reform
- Financial risk to the Bank and its clients that markets are disrupted due to IBOR reform giving rise to financial losses
- Pricing risk from the potential lack of market information if liquidity in IBORs reduces and RFRs are illiquid and unobservable
- Operational risk arising from changes to the Group's IT systems and processes, also the risk of payments being disrupted if an IBOR ceases to be available
- Accounting risk if the Group's hedging relationships fail and from unrepresentative income statement volatility as financial instruments transition to RFRs

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For the year ended 31st December 2020

29. Risk management (continued)

29.2 Market risk (continued)

a) Trading market risk (continued)

Derivatives

ISDA is currently reviewing its standardised contracts in the light of IBOR reform and plans to amend certain floating-rate options in the 2006 ISDA definitions to include fall-back clauses that would apply on the permanent discontinuation of certain key IBORs. ISDA is expected to publish an IBOR fall-back supplement to amend the 2006 ISDA definitions and an IBOR fall-back protocol to facilitate multilateral amendments to include the amended floating-rate options in derivative transactions that were entered into before the date of the supplement. The Group currently plans to adhere to the protocol if and when it is finalised and to monitor whether its counterparties will also adhere. If this plan changes or there are counterparties who will not adhere to the protocol, the Group will negotiate with them bilaterally about including new fall-back clauses.

The table below shows the Group's exposure at the year end to significant IBORs subject to reform that have yet to transition to RFRs. These exposures will remain outstanding until the IBOR ceases and will therefore transition in future (the table excludes exposures to IBOR that will expire before transition is required).

31 December 2020	Non-derivative financial assets -carrying value	Non-derivative financial liabilities -carrying value	Derivatives - nominal amount
	US$ millions	US$ millions	
IBOR	-	-	14.6
LIBOR	2,096.2	1,175.6	12,680.3
Cross currency swaps LIBOR (to IBOR)	-	-	118.2

Hedge accounting

The specific impact on the Group's hedging activities is being carefully managed as part of the overall project to achieve IBOR reform. The Group has evaluated the extent to which its cash flow hedging relationships are subject to uncertainty driven by IBOR reform as at 31 December 2020. The Group's hedged items and hedging instruments continue to be indexed to USD LIBOR. These benchmark rates are quoted each day and the IBOR cash flows are exchanged with counterparties as usual.

The calculation methodology of Euribor changed during 2019. In July 2019, the Belgian Financial Services and Markets Authority granted authorisation with respect to Euribor under the European Union Benchmarks Regulation. This allows market participants to continue to use Euribor for both existing and new contracts and the Group expects that Euribor will continue to exist as a benchmark rate for the foreseeable future.

If a hedging relationship is directly affected by uncertainty arising from IBOR reform, then the Group assumes for this purpose that the benchmark interest rate is not altered as a result of IBOR reform in accordance with the reliefs provided under IBOR reform phase 1 as explained in note 3.8

The below table provides the nominal amounts of interest rate swaps in a hedging relationships that will be affected by IBOR reform as financial instruments transition to RFRs by average maturity. The derivative hedging instruments provide a close approximation to the extent of the risk exposure the Group manages through hedging relationships.

31 December 2020	Derivatives - nominal amount	Average maturity (in years)
	US$ millions	US$ millions
Interest rate swaps		
IBOR	14.6	4.0
LIBOR	2,804.0	3.9
Cross currency swaps LIBOR (to IBOR)	40	3.5

Notes to the Consolidated Financial Statements
For the year ended 31st December 2020

29. Risk management (continued)

29.2 Market risk (continued)

a) Trading market risk (continued)

The VaR for the Group's trading positions, as calculated in accordance with the basis set out in note 35, was as follows:-

				2020				2019
	31.12.20	Average	High	Low	31.12.19	Average	High	Low
	US$ millions	US$ millions	US$ millions	US$ millions	US$ millions	US$ millions	US$ millions	US$ millions
Total VaR	2.9	4.6	5.8	2.5	2.7	3.8	5.0	2.2
Total undiversified stressed VaR	4.3	7.2	8.2	4.3	8.0	10.3	12.5	6.5

b) Non-trading market risk

Structural interest rate risk arises in the Group's core balance sheet as a result of mismatches in the repricing of interest rate sensitive financial assets and liabilities. The associated interest rate risk is managed within VaR limits and through the use of models to evaluate the sensitivity of earnings to movements in interest rates. The repricing profile and related interest rate sensitivity of the Group's financial assets and liabilities are set out in note 32. The Group does not maintain material foreign currency exposures. In general, the Group's policy is to match financial assets and liabilities in the same currency or to mitigate currency risk through the use of currency swaps. Details of significant foreign currency net open positions are set out in note 33.5. Movements in the fair value of equity investment securities are accounted for in other comprehensive income. At 31st December 2020, a 5.0 per cent change in the market price of equity investments accounted for at FVTOCI would have resulted in an increase/decrease in equity of US$7.7 million (2019: US$7.3 million).

The more significant market risk-related activities of a non-trading nature undertaken by the Group, the related risks associated with those activities, and the types of derivative financial instruments used to manage and mitigate such risks are summarised as follows:-

Activity	Risk	Risk mitigant
Management of the return on variable rate assets funded by shareholders' funds	Reduced profitability due to a fall in short-term interest rates	Receive fixed interest rate swaps
Fixed rate assets funded by floating rate liabilities	Sensitivity to increases in short-term interest rates	Pay fixed interest rate swaps
Investment in foreign currency assets	Sensitivity to strengthening of US$ against other currencies	Currency swaps
Profits generated in foreign currencies	Sensitivity to strengthening of US$ against other currencies	Forward foreign exchange contracts and purchased currency options

29.3 Liquidity risk

Liquidity risk is the risk that sufficient funds are not available to meet the Group's financial obligations on a punctual basis as they fall due.

Liquidity management policies are designed to ensure that funds are available at all times to meet the funding requirements of the Group, even in adverse conditions. In normal conditions the objective is to ensure that there are sufficient funds available not only to meet current financial commitments but also to facilitate business expansion. These objectives are met through the application of prudent liquidity controls. These controls provide security of access to funds without undue exposure to increased costs from the liquidation of assets or the aggressive bidding for deposits. The Group's liquidity controls ensure that, over the short-term, the future profile of cash flows from maturing assets is adequately matched to the maturity of liabilities. Liquidity controls also provide for the maintenance of a stock of liquid and readily realisable assets and a diversified deposit base in terms of both maturities and range of depositors.

The management of liquidity and funding is primarily conducted in the Group's individual geographic entities within limits set and approved by the Board of Directors. The limits take account of the depth and liquidity of the market in which the entity operates. It is the Group's general policy that each geographic entity should be self-sufficient in relation to funding its own operations.

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For the year ended 31st December 2020

29. Risk management (continued)

29.3 Liquidity risk (continued)

The Group's liquidity management policies include the following:-

- the monitoring of (i) future contractual cash flows against approved limits, and (ii) the level of liquid resources available in a stress event;
- the monitoring of balance sheet liquidity ratios;
- the monitoring of the sources of funding in order to ensure that funding is derived from a diversified range of sources;
- the monitoring of depositor concentrations in order to avoid undue reliance on individual depositors;
- the maintenance of a satisfactory level of term financing;
- the maintenance of appropriate standby funding arrangements; and
- the maintenance of liquidity and funding contingency plans. These plans identify early indicators of stress conditions and prescribe the actions to be taken in the event of systemic or other crisis, while minimising adverse long-term implications for the Group's business activities.

The Group has established approved limits which restrict the volume of liabilities maturing in the short-term. An independent risk management function monitors the future cash flow maturity profile against approved limits on a daily basis. The cash flows are monitored against limits applying to both daily and cumulative cash flows occurring over a 30 day period. The liquidity limits ensure that the net cash outflows over a 30 day period do not exceed the eligible stock of available liquid resources. The cash flow analysis is also monitored on a weekly basis by the Assets and Liabilities Committee (ALCO).

Customer deposits form a significant part of the Group's funding. The Group places considerable importance on maintaining the stability of both its customer and interbank deposits. The stability of deposits depends on maintaining confidence in the Group's financial strength and financial transparency.

The Group is also required to comply with Basel 3 liquidity ratio requirements as stipulated by its lead regulator, the Central Bank of Bahrain (CBB), which became effective during 2019. These requirements relate to maintaining a minimum 100% liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) which was revised down to 80% until 31st December 2020. The LCR is calculated as a ratio of the stock of High Quality Liquid Assets (HQLA) to the net outflows over the next 30 calendar days. The NSFR is calculated as a ratio of 'available stable funding' to 'required stable funding'. At 31st December 2020, the Group's LCR and NSFR were 155.2% and 156.0% respectively, (31st December 2019: 163.8% and 163.3% respectively).

The maturity profile of assets and liabilities is set out in note 31. An analysis of debt investment securities by rating classification is set out in note 29.1.

29.4 Operational risk

Operational risk is the risk of unexpected losses resulting from inadequate or failed internal controls or procedures, systems failures, fraud, business interruption, compliance breaches, human error, management failure or inadequate staffing.

A framework and methodology has been developed to identify and control the various operational risks. While operational risk cannot be entirely eliminated, it is managed and mitigated by ensuring that the appropriate infrastructure, controls, systems, procedures, and trained and competent people are in place throughout the Group. A strong internal audit function makes regular, independent appraisals of the control environment in all identified risk areas. Adequately tested contingency arrangements are also in place to support operations in the event of a range of possible disaster scenarios.

29.5 Capital management

The Group's lead regulator, the Central Bank of Bahrain (CBB), sets and monitors capital requirements for the Group as a whole. The parent company and individual banking operations are directly supervised by their local regulators.

As referred to in more detail in note 36, the Group adopted the Basel 3 capital adequacy framework with effect from 1st January 2015 as required by the CBB.

In applying current capital requirements, the CBB requires the Group to maintain a prescribed minimum ratio of total regulatory capital to total risk-weighted assets. The CBB's minimum risk asset ratio is 12.5 per cent compared to a minimum ratio of 8 per cent prescribed by the Basel Committee on Banking Supervision. The Group calculates regulatory capital requirements for general market risk in its trading portfolios using a Value-at-Risk model and uses the CBB's prescribed risk-weightings under the standardised approach to determine the risk-weighted amounts for credit risk and specific market risk. Operational risk is calculated in accordance with the standardised approach. The regulatory capital requirement is calculated by applying the CBB's prescribed range of beta coefficients, ranging from 12 to 18 per cent, to the average gross income for the preceding three financial years for each of eight predefined business lines.

Notes to the Consolidated Financial Statements

For the year ended 31st December 2020

29. Risk management (continued)

29.5 Capital management (continued)

The Group's regulatory capital is analysed into two tiers:-

- Tier 1 capital, comprising issued share capital, share premium, retained earnings and reserves, adjusted to exclude revaluation gains and losses arising on the remeasurement to fair value of derivative cash flow hedging transactions.
- Tier 2 capital, comprising qualifying subordinated term finance and stage 1 and stage 2 impairment provisions for loans and advances, after applicable haircuts and ceiling limitations.

The CBB applies various limits to elements of the regulatory capital base including the contributions of innovative tier 1 securities and qualifying tier 2 capital towards the minimum total capital ratios.

The Group's risk exposures are categorised as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures.

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain the future development of the business. The impact of the level of capital on shareholders' return is also recognised as well as the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position. The Group manages its capital structure and makes adjustments to the structure taking account of changes in economic conditions and strategic business plans. The capital structure may be adjusted through the dividend payout and the issue of new shares.

The Group complied with all externally imposed capital requirements throughout the years ended 31st December 2020 and 31st December 2019.

There have been no material changes in the Group's management of capital during the years ended 31st December 2020 and 31st December 2019.

The capital adequacy ratio calculation is set out in note 36.

30. Geographical distribution of risk assets

	Placements, reverse repos & other liquid assets	Securities	Loans and advances	Credit-related contingent items	31.12.20 Total	31.12.19 Total
	US$ millions	US$ millions	US$ millions	US$ millions	US$ millions	US$ millions
GCC	3,983.3	3,618.4	10,160.4	4,636.5	22,398.6	20,715.4
Other Middle East & North Africa	0.1	-	105.4	24.4	129.9	1.6
Europe	8,014.3	281.0	-	146.7	8,442.0	10,171.4
North America	1,285.4	439.5	153.7	290.9	2,169.5	2,705.4
Asia	412.2	254.9	14.0	69.9	751.0	800.8
	13,695.3	4,593.8	10,433.5	5,168.4	33,891.0	34,394.6

At 31st December 2020, risk exposures to customers and counterparties in the GCC represented 61.8 per cent (2019: 60.3 per cent) of total risk assets. The risk asset profile reflects the Group's strategic focus on wholesale banking activities in the GCC states.

Placements, reverse repos and other liquid assets exposure to Europe principally comprised exposure to financial institutions located in the United Kingdom, Netherlands and Switzerland.

An analysis of derivative and foreign exchange instruments is set out in note 33.

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For the year ended 31st December 2020

31. Maturities of assets and liabilities

The maturity profile of the carrying amount of assets, liabilities and equity, based on the contractual maturity dates, was as follows:-

	Within 3 months	4 months to 1 year	Years 2 and 3	Years 4 and 5	Over 5 years and other	Total
	US$ millions	US$ millions	US$ millions	US$ millions	US$ millions	US$ millions
At 31st December 2020						
Cash and other liquid assets	6,571.9	-	-	-	-	6,571.9
Securities purchased under agreements to resell	740.0	430.0	-	-	-	1,170.0
Placements	4,344.3	1,239.5	367.8	1.8	-	5,953.4
Trading securities	-	-	-	-	107.0	107.0
Investment securities	125.0	67.6	847.2	658.9	2,788.1	4,486.8
Loans and advances	4,529.1	1,720.2	1,945.0	1,396.4	842.8	10,433.5
Other assets	467.6	36.1	28.6	18.3	276.9	827.5
Total assets	16,777.9	3,493.4	3,188.6	2,075.4	4,014.8	29,550.1
Deposits	17,821.3	2,373.0	92.2	-	-	20,286.5
Securities sold under agreements to repurchase	175.2	-	-	-	-	175.2
Other liabilities	618.0	44.3	43.6	27.8	417.3	1,151.0
Term financing	4.2	1,329.7	1,881.4	1,435.1	274.5	4,924.9
Equity	-	-	-	-	3,012.5	3,012.5
Total liabilities & equity	18,618.7	3,747.0	2,017.2	1,462.9	3,704.3	29,550.1
At 31st December 2019						
Total assets	18,585.1	3,155.8	2,282.5	1,905.8	4,312.5	30,241.7
Total liabilities & equity	20,800.7	2,585.4	2,759.2	202.1	3,894.3	30,241.7

The asset and liability maturities presented in the table above are based on contractual repayment arrangements and as such do not take account of the effective maturities of deposits as indicated by the Group's deposit retention records. Formal liquidity controls are nevertheless based on contractual asset and liability maturities.

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For the year ended 31st December 2020

31. Maturities of assets and liabilities (continued)

	Within 3 months	4 months to 1 year	Years 2 and 3	Years 4 and 5	Over 5 years and other
	US$ millions	US$ millions	US$ millions	US$ millions	US$ millions
At 31st December 2020					
Deposits	**17,850.7**	**2,411.0**	**92.4**	**-**	**-**
Securities sold under agreements to repurchase	**175.2**	**3.1**	**-**	**-**	**-**
Term financing	**4.5**	**1,419.5**	**2,008.5**	**1,532.1**	**293.0**
Derivative financial instruments					
- contractual amounts payable	**6.5**	**135.0**	**326.2**	**226.7**	**292.6**
- contractual amounts receivable	**(40.3)**	**(94.5)**	**(127.3)**	**(51.1)**	**(95.6)**
Total undiscounted financial liabilities	**17,996.6**	**3,874.1**	**2,299.8**	**1,707.7**	**490.0**
At 31st December 2019					
Deposits	20,137.1	2,269.4	6.9	14.3	-
Securities sold under agreements to repurchase	365.1	384.8	-	-	-
Term financing	107.2	196.5	3,025.6	188.8	351.9
Derivative financial instruments					
- contractual amounts payable	52.4	144.1	487.7	209.1	247.5
- contractual amounts receivable	(130.8)	(183.4)	(536.1)	(175.1)	(189.1)
Total undiscounted financial liabilities	20,531.0	2,811.4	2,984.1	237.1	410.3

The figures in the table above do not agree directly to the carrying amounts in the consolidated statement of financial position as they incorporate all cash flows, on an undiscounted basis, related to both principal as well as those associated with future coupon and interest payments. Coupons and interest payments for periods for which the interest rate has not yet been determined have been calculated based on the relevant forward rates of interest prevailing at the balance sheet date.

A maturity analysis of derivative and foreign exchange instruments based on notional amounts is set out in note 33.3.

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32. Interest rate risk

The repricing profile of assets and liabilities categories and equity were as follows:-

	Within 3 months	Months 4 to 6	Months 7 to 12	Over 1 year	Non-interest bearing items	Total
	US$ millions	US$ millions	US$ millions	US$ millions	US$ millions	US$ millions
At 31st December 2020						
Cash and other liquid assets	6,561.1	-	-	-	10.8	6,571.9
Securities purchased under agreements to resell	740.0	430.0	-	-	-	1,170.0
Placements	4,713.9	911.3	328.2	-	-	5,953.4
Trading securities	-	-	-	-	107.0	107.0
Investment securities						
- Fixed rate	40.0	-	37.4	683.5	-	760.9
- Floating rate	3,416.2	155.9	-	-	-	3,572.1
- Equities	-	-	-	-	153.8	153.8
Loans and advances	8,848.4	1,548.5	36.6	-	-	10,433.5
Other assets	-	-	-	-	827.5	827.5
Total assets	**24,319.6**	**3,045.7**	**402.2**	**683.5**	**1,099.1**	**29,550.1**
Deposits	18,900.3	1,229.7	79.4	77.1	-	20,286.5
Securities sold under agreements to repurchase	175.2	-	-	-	-	175.2
Other liabilities	-	-	-	-	1,151.0	1,151.0
Term financing	4,924.9	-	-	-	-	4,924.9
Equity	-	-	-	-	3,012.5	3,012.5
Total liabilities & equity	**24,000.4**	**1,229.7**	**79.4**	**77.1**	**4,163.5**	**29,550.1**
Interest rate sensitivity gap	**319.2**	**1,816.0**	**322.8**	**606.4**	**(3,064.4)**	**-**
Cumulative interest rate sensitivity gap	**319.2**	**2,135.2**	**2,458.0**	**3,064.4**	**-**	**-**
At 31st December 2019						
Cumulative interest rate sensitivity gap	798.5	1,804.9	2,340.8	3,033.4	-	-

The repricing profile is based on the remaining period to the next interest repricing date. Derivative financial instruments that have been used for asset and liability management purposes to hedge exposure to interest rate risk are incorporated in the repricing profiles of the related hedged assets and liabilities. The stage 1 and stage 2 investment security and loan provisions are classified in non-interest bearing items.

The substantial majority of assets and liabilities reprice within one year. Accordingly, there is limited exposure to interest rate risk. The principal interest rate risk beyond one year, as set out in the asset and liability repricing profile, represents the investment of the Group's net free capital in fixed rate government securities. At 31st December 2020, the modified duration of these fixed rate securities was 3.77. Modified duration represents the approximate percentage change in the portfolio value resulting from a 100 basis point change in yield. More precisely in dollar terms, the price value of a basis point of the fixed rate securities was US$266,000.

Based on the repricing profile at 31st December 2020, and assuming that the financial assets and liabilities were to remain until maturity or settlement with no action taken by the Group to alter the interest rate risk exposure, an immediate and sustained one per cent increase in interest rates across all maturities would result in an increase in net income before tax for the following year by approximately US$31.9 million and an increase in the Group's equity by US$19.1 million. The impact on the Group's equity represents the cumulative effect of the increase in interest rates over the entire duration of the mismatches in the repricing profile of the interest rate sensitive financial assets and liabilities.

The Value-at-Risk by risk class for the Group's trading positions is set out in note 29. The market risk relating to derivative and foreign exchange instruments classified as FVTPL is set out in note 33.

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33. Derivatives and foreign exchange instruments

The Group utilises derivative and foreign exchange instruments to meet the needs of its customers, to generate trading revenues and as part of its asset and liability management (ALM) activity to hedge its own exposure to market risk. Derivative instruments are contracts whose value is derived from one or more financial instruments or indices. They include futures, forwards, swaps and options in the interest rate, foreign exchange, equity, credit and commodity markets. Derivatives and foreign exchange are subject to the same types of credit and market risk as other financial instruments. The Group has appropriate and comprehensive Board-approved policies and procedures for the control of exposure to both market and credit risk from its derivative and foreign exchange activities.

In the case of derivative transactions, the notional principal typically does not change hands. It is simply a quantity which is used to calculate payments. While notional principal is a volume measure used in the derivative and foreign exchange markets, it is neither a measure of market nor credit risk. The Group's measure of credit exposure is the cost of replacing contracts at current market rates should the counterparty default prior to the settlement date. Credit risk amounts represent the gross unrealised gains on non-margined transactions before taking account of any collateral held or any master netting agreements in place.

The Group participates in both exchange traded and over-the-counter (OTC) derivative markets. Exchange traded instruments are executed through a recognised exchange as standardised contracts and primarily comprise futures and options. OTC contracts are executed between two counterparties who negotiate specific agreement terms, including the underlying instrument, notional amount, maturity and, where appropriate, exercise price. In general, the terms and conditions of these transactions are tailored to the requirements of the Group's customers although conform to normal market practice. Industry standard documentation is used, most commonly in the form of a master agreement. The existence of a master netting agreement is intended to provide protection to the Group in the event of a counterparty default.

The Group's principal foreign exchange transactions are forward foreign exchange contracts, currency swaps and currency options. Forward foreign exchange contracts are agreements to buy or sell a specified quantity of foreign exchange on a specific future date at an agreed rate. A currency swap involves the exchange, or notional exchange, of equivalent amounts of two currencies and a commitment to exchange interest periodically until the principal amounts are re-exchanged on a specified future date. Currency options provide the buyer with the right, but not the obligation, either to purchase or sell a fixed amount of a currency at a specified exchange rate on or before a specified future date. As compensation for assuming the option risk, the option seller (or writer) receives a premium at the start of the option period.

The Group's principal interest rate-related derivative transactions are interest rate swaps, forward rate agreements, futures and options. An interest rate swap is an agreement between two parties to exchange fixed rate and floating rate interest by means of periodic payments based upon a notional principal amount and the interest rates defined in the contract. Certain agreements combine interest rate and foreign currency swap transactions, which may or may not include the exchange of principal amounts. In a forward rate agreement, two parties agree a future settlement of the difference between an agreed rate and a future interest rate, applied to a notional principal amount for an agreed period. The settlement, which generally occurs at the start of the contract period, is the discounted present value of the payment that would otherwise be made at the end of that period. An interest rate future is an exchange traded contract for the delivery of a standardised amount of a fixed income security or time deposit at a future specified date. Interest rate options, including caps, floors and collars, provide the buyer with the right, but not the obligation, either to purchase or sell an interest rate financial instrument at a specified price or rate on or before a specified future date.

The Group's principal equity-related derivative transactions are equity and stock index options. An equity option provides the buyer with the right, but not the obligation, either to purchase or sell a specified stock or index at a specified price or level on or before a specified future date.

The Group buys and sells credit protection through credit default swaps. Credit default swaps provide protection against the decline in value of a referenced asset as a result of credit events such as default or bankruptcy. It is similar in structure to an option whereby the purchaser pays a premium to the seller of the credit default swap in return for payment related to the deterioration in value of the referenced asset. Credit default swaps purchased and sold by the Group are classified as derivative financial instruments.

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33. Derivatives and foreign exchange instruments (continued)

33.1 Product analysis

The table below summarises the aggregate notional and credit risk amounts of foreign exchange, interest rate and commodity contracts.

	Trading	Hedging	Notional amounts total	Credit risk amounts
	US$ millions	US$ millions	US$ millions	US$ millions
At 31st December 2020				
Foreign exchange contracts:-				
Unmatured spot, forward and futures contracts	4,200.0	-	4,200.0	44.3
Options purchased	25.8	-	25.8	-
Options written	25.8	-	25.8	-
	4,251.6	-	4,251.6	44.3
Interest rate contracts:-				
Interest rate swaps	7,344.2	11,466.9	18,811.1	308.6
Cross currency swaps	81.1	-	81.1	9.6
Futures	-	27.4	27.4	-
Options, caps and floors purchased	2,148.7	-	2,148.7	288.9
Options, caps and floors written	2,148.7	-	2,148.7	-
	11,722.7	11,494.3	23,217.0	607.1
Equity and commodity contracts:-				
Options and swaps purchased	200.8	-	200.8	10.8
Options and swaps written	200.8	-	200.8	-
	401.6	-	401.6	10.8
	16,375.9	11,494.3	27,870.2	662.2
At 31st December 2019	18,443.9	13,495.0	31,938.9	561.3

There is no credit risk in respect of options written as they represent obligations of the Group.

At 31st December 2020, the Value-at-Risk of the foreign exchange, interest rate and equity and commodity trading contracts analysed in the table above was US$0.3 million, US$0.1 million and US$0.1 million respectively (2019: US$0.3 million, nil and nil respectively). Value-at-Risk is a measure of market risk exposure and represents an estimate, with a 99 per cent level of confidence, of the potential loss that might arise if the positions were to be held unchanged for ten consecutive business days. The estimate is based on a twelve month historical observation period of unweighted data from the DataMetrics data set.

33.2 Counterparty analysis

	Financial sector	Corporates	31.12.20 Total	31.12.19 Total
	US$ millions	US$ millions	US$ millions	US$ millions
OECD countries	276.1	24.3	300.4	294.6
GCC countries	86.4	274.2	360.6	266.6
Other countries	1.2	-	1.2	0.1
	363.7	298.5	662.2	561.3

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33. Derivatives and foreign exchange instruments (continued)

33.3 Maturity analysis

	Year 1	Years 2 & 3	Years 4 & 5	Over 5 years	Total
	US$ millions	US$ millions	US$ millions	US$ millions	US$ millions
At 31st December 2020					
Foreign exchange contracts	**4,251.6**	**-**	**-**	**-**	**4,251.6**
Interest rate contracts	**7,811.4**	**4,496.3**	**1,646.1**	**9,263.2**	**23,217.0**
Equity and commodity contracts	**23.5**	**134.8**	**243.3**	**-**	**401.6**
	12,086.5	**4,631.1**	**1,889.4**	**9,263.2**	**27,870.2**
At 31st December 2019	16,865.9	2,942.7	4,765.1	7,365.2	31,938.9

The Group's derivative and foreign exchange activities are predominantly short-term in nature. Transactions with maturities over one year principally represent either fully offset trading transactions or transactions that are designated, and qualify, as fair value or cash flow hedges.

33.4 Fair value analysis

	31.12.20 Positive fair value	31.12.20 Negative fair value	31.12.19 Positive fair value	31.12.19 Negative fair value
	US$ millions	US$ millions	US$ millions	US$ millions
Derivatives classified as FVTPL:-				
Foreign exchange contracts	**0.9**	**(1.1)**	0.7	(0.7)
Interest rate contracts	**388.9**	**(376.4)**	227.3	(216.7)
Equity and commodity contracts	**19.3**	**(18.6)**	3.5	(3.3)
	409.1	**(396.1)**	231.5	(220.7)
Derivatives held as fair value hedges:-				
Interest rate contracts	**-**	**(240.8)**	-	(69.4)
Amount included in other assets / (other liabilities)	**409.1**	**(636.9)**	231.5	(290.1)

The movement in the fair value of derivatives held as fair value hedges, from a negative fair value of US$69.4 million at 31st December 2019 to a negative fair value of US$240.8 million at 31st December 2020, was principally due to a decrease in market benchmark interest rates.

33.5 Significant net open positions

There were no significant derivative trading or foreign currency net open positions at either 31st December 2020 or at 31st December 2019.

33.6 Hedge accounting

The Group offers fixed rate liability and asset products to clients in the normal course of business. The interest rate received or paid is fixed for the term of the transaction, exposing the Group to interest rate risk during the life of the transaction.

In order to mitigate this interest rate market risk exposure, the Group uses interest rate swaps in one-to-one, one-to-many and many-to-many relationships. The derivative products effectively tie a floating interest rate to the fixed rate client transaction. The hedging item is executed at the same time that the client-related transaction, the hedged item, is booked.

Generally, the hedging item executed exactly matches the critical terms of the hedged item, that being the nominal value, currency, trade date and maturity date and hence the hedge ratio is expected to remain close to 100 per cent. The hedging relationship is generally highly effective because the critical terms of the instruments match at inception and will remain effective throughout the contractual term of the derivative until maturity. The critical terms are reviewed every reporting date to ensure that the match persists.

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33. Derivatives and foreign exchange instruments (continued)

33.6 Hedge accounting (continued)

The Group's derivative instruments are also subject to credit risk. Credit risk can arise on both the hedging instrument and the hedged item in the form of counterparty credit risk or the Group's own credit risk. The Group mitigates its credit exposure through the use of master netting arrangements and collateral arrangements as set out in note 29.1 and credit risk is therefore, unlikely to dominate the change in fair value of such hedging instruments.

The hedging relationship is tested at each reporting date by comparing the fair value of the hedging instrument with that of the hedged instrument. If, as a result of the testing, there is a deviation to the hedge ratio then ineffectiveness is recognised in the consolidated statement of income. The hedging relationship is subsequently either rebalanced or discontinued in accordance with the Group's Board-approved policies and procedures.

The hedging instruments comprise hedges of fixed rate asset and fixed rate liability products with the following maturity profile: -

	Year 1	Years 2 and 3	Years 4 and 5	Over 5 years	Total
	US$ millions	US$ millions	US$ millions	US$ millions	US$ millions
Notional amounts					
At 31st December 2020					
Fixed rate asset products	**2,036.1**	**677.1**	**603.6**	**2,225.6**	**5,542.4**
Fixed rate liability products	**4,841.8**	**1,070.1**	**40.0**	**-**	**5,951.9**
At 31st December 2019					
Fixed rate asset products	3,473.1	822.2	736.8	2,100.5	7,132.6
Fixed rate liability products	4,861.8	1,500.6	-	-	6,362.4

Gains and losses recognised in the consolidated statement of income relating to fair value hedging relationships were as follows:-

	2020	2019
	US$ millions	US$ millions
Net gains on derivatives fair value hedging instruments	**156.8**	137.2
Net losses on hedged items attributable to the hedged risk	**(156.8)**	(137.2)

The notional amount, fair values, and changes in fair values of hedging instruments for the year ended 31st December 2020 used as the basis for recognising hedge ineffectiveness were as follows:-

	Notional amount	Fair value	Changes in fair value
	US$ millions	US$ millions	US$ millions
At 31st December 2020			
Financial assets			
Interest rate contracts	**4,382.8**	**31.4**	**17.9**
Financial liabilities			
Interest rate contracts	**7,111.5**	**(252.1)**	**(174.7)**
	11,494.3	**(220.7)**	**(156.8)**
At 31st December 2019			
Financial assets			
Interest rate contracts	5,513.4	14.7	(65.7)
Financial liabilities			
Interest rate contracts	7,981.6	(77.4)	(71.5)
	13,495.0	(62.7)	(137.2)

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33. Derivatives and foreign exchange instruments (continued)

33.6 Hedge accounting (continued)

The carrying amount, accumulative changes in fair values, and changes in fair values of hedged instruments for the years ended 31st December 2020 and 31st December 2019 used as the basis for recognising hedge ineffectiveness were as follows:-

	Notional amount	Fair value	Changes in fair value
	US$ millions	US$ millions	US$ millions
At 31st December 2020			
Financial assets			
Placements and securities purchased under agreement to resell	**2,258.0**	**3.7**	**137.2**
Loans and advances	**369.6**	**11.1**	**9.4**
Investment securities	**2,914.9**	**237.0**	**167.7**
	5,542.5	**251.8**	**314.3**
Financial liabilities			
Deposits and securities sold under agreement to repurchase	**4,295.6**	**(0.3)**	**(126.7)**
Senior term financing	**1,656.2**	**(30.8)**	**(30.8)**
	5,951.8	**(31.1)**	**(157.5)**
	11,494.3	**220.7**	**156.8**
At 31st December 2019			
Financial assets			
Placements and securities purchased under agreement to resell	3,846.5	1.3	1.8
Loans and advances	433.3	1.7	12.0
Investment securities	2,733.6	69.3	134.9
	7,013.4	72.3	148.7
Financial liabilities			
Deposits and securities sold under agreement to repurchase	4,556.0	(0.9)	(0.6)
Senior term financing	1,705.6	(8.6)	(10.8)
Cash flow hedges	220.0	(0.1)	(0.1)
	6,481.6	(9.6)	(11.5)
	13,495.0	62.7	137.2

There were no ineffective portions of derivative fair value or cash flow hedging transactions recognised in the consolidated statement of income in either the years ended 31st December 2020 or 31st December 2019.

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34. Credit-related financial instruments

Credit-related financial instruments include commitments to extend credit, standby letters of credit and guarantees which are designed to meet the financing requirements of customers. The credit risk on these transactions is generally less than the contractual amount. The notional principal amounts of outstanding credit-related contingent items and the risk-weighted exposures calculated in accordance with the CBB's Basel 3 guidelines were as follows:-

	Notional principal amount	31.12.20 Risk-weighted exposure	Notional principal amount	31.12.19 Risk-weighted exposure
	US$ millions	US$ millions	US$ millions	US$ millions
Direct credit substitutes	**609.5**	**596.8**	406.1	393.0
Transaction-related contingent items	**2,263.2**	**869.8**	2,233.8	843.6
Short-term self-liquidating trade-related contingent items	**538.4**	**104.4**	583.4	101.8
Commitments, including undrawn loan commitments and underwriting commitments under note issuance and revolving facilities	**1,757.3**	**763.9**	1,658.1	644.5
	5,168.4	**2,334.9**	4,881.4	1,982.9

Commitments may be drawn down on demand.

Direct credit substitutes at 31st December 2020 included financial guarantees amounting to US$286.6 million (2019: US$287.4 million). Financial guarantees may be called on demand. Provisions in relation to credit-related financial instruments at 31st December 2020 amounted to US$ 56.2 million (2019: US$53.1 million).

The notional principal amounts reported above are stated gross before applying credit risk mitigants, such as cash collateral, guarantees and counter-indemnities. At 31st December 2020, the Group held cash collateral, guarantees, counter-indemnities or other high quality collateral in relation to credit-related contingent items amounting to US$378.2 million (2019: US$362.3 million).

35. Contingent liabilities

The Bank and its subsidiaries are engaged in litigation in various jurisdictions. The litigation involves claims by and against Group companies which have arisen in the ordinary course of business. The directors of the Bank, after reviewing the claims pending against Group companies and based on the advice of relevant professional legal advisors, are satisfied that the outcome of these claims will not have a material adverse effect on the financial position of the Group.

36. Capital adequacy

The Group adopted the Basel 3 capital adequacy framework with effect from 1st January 2015. The CBB's Basel 3 guidelines became effective on 1st January 2015 as the common framework for the implementation of the Basel Committee on Banking Supervision's (Basel Committee) Basel 3 capital adequacy framework for banks incorporated in the Kingdom of Bahrain. The Group complied with all externally imposed capital requirements for the years ended 31st December 2020 and 31st December 2019.

	31.12.20	31.12.19
	US$ millions	US$ millions
Regulatory capital base		
Tier 1 capital:		
Total equity	**3,012.5**	3,296.3
Tier 1 adjustments - ineligible Tier 1 capital relating to non-controlling interest	**(520.6)**	(602.3)
Tier 1 other adjustments	**39.4**	-
Tier 1 capital	**2,531.3**	2,694.0
Tier 2 capital:		
Stage 1 and stage 2 provisions	**110.4**	135.6
Tier 2 capital	**110.4**	135.6
Total regulatory capital base	**2,641.7**	2,829.6

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36. Capital adequacy (continued)

Risk-weighted exposure	Notional principal amount 31.12.20 US$ millions	Risk-weighted exposure 31.12.20 US$ millions	Notional principal amount 31.12.19 US$ millions	Risk-weighted exposure 31.12.19 US$ millions
Credit risk				
Balance sheet items:				
Cash and other liquid assets	**6,571.9**	**226.2**	8,085.1	177.3
Securities purchased under agreements to resell	**1,170.0**	**8.2**	1,410.0	3.2
Placements	**5,953.4**	**1,149.4**	6,171.4	1,127.6
Investment securities	**4,486.8**	**709.1**	3,828.4	785.1
Loans and advances	**10,433.5**	**8,782.2**	9,876.1	9,131.4
Other assets, excluding derivative-related items	**418.4**	**506.7**	497.0	456.4
		11,381.8		11,681.0
Off-balance sheet items:				
Credit-related contingent items	**5,168.4**	**2,334.9**	4,881.4	1,982.9
Foreign exchange-related items	**4,251.6**	**16.6**	7,332.3	24.0
Interest rate-related items	**23,217.0**	**592.0**	24,439.0	554.2
Equity and commodity contracts	**401.6**	**6.1**	167.6	6.6
Repo counterparty risk	**-**	**40.8**	-	41.1
		2,990.4		2,608.8
Credit risk-weighted exposure		**14,372.1**		14,289.8
Market risk				
General market risk		**211.3**		243.3
Specific market risk		**80.7**		74.6
Market risk-weighted exposure		**292.0**		317.9
Operational risk				
Operational risk-weighted exposure		**729.6**		766.0
Total risk-weighted exposure		**15,393.7**		15,373.7
Tier 1 risk asset ratio		**16.4%**		17.5%
Total risk asset ratio		**17.2%**		18.4%

For regulatory Basel 3 purposes, the Group has adopted the standardised approach for credit risk as mandated by CBB for all locally incorporated banks. For market risk, the Group uses the internal models approach. GIB applies the standardised approach for determining the capital requirement for operational risk.

In accordance with the capital adequacy guidelines of the CBB, revaluation gains and losses arising on the remeasurement to fair value of derivative cash flow hedging transactions are excluded from tier 1 capital, while unrealised gains and losses arising on the remeasurement to fair value of equity investment securities classified as fair value through other comprehensive income (FVTOCI) are included in tier 1 capital.

The Group calculates the regulatory capital requirement for general market risk using a Value-at-Risk model. The use of the internal model approach for the calculation of the capital requirement for general market risk has been approved by the Bank's regulator, the CBB. The multiplication factor to be applied to the Value-at-Risk calculated by the internal model has been set at 3.0 (2019: 3.0) by the CBB, representing the regulatory minimum. The CBB market risk framework includes metrics such as a 'stressed VaR' measure in the calculation of the regulatory capital requirement.

Value-at-Risk is calculated based on a 99 per cent confidence level, a ten-day holding period and a twelve-month historical observation period of unweighted data from the DataMetrics regulatory data set. Correlations across broad risk categories are excluded. Prescribed additions in respect of specific risk are made to the general market risk. The resultant measure of market risk is multiplied by 12.5, the reciprocal of the 8 per cent international minimum capital ratio, to give market risk-weighted exposure on a basis consistent with credit risk-weighted exposure.

The regulatory capital requirement for operational risk is calculated by the Group in accordance with the standardised approach. The regulatory capital requirement is calculated based on a range of beta coefficients, ranging from 12 to 18 per cent, applied to the average gross income for the preceding three financial years for each of eight predefined business lines.

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37. Fiduciary activities

The Group conducts investment management and other fiduciary activities on behalf of clients. Assets held in trust or in a fiduciary capacity are not assets of the Group and accordingly have not been included in the consolidated financial statements. The aggregate amount of the funds concerned at 31st December 2020 was US$13,824.1 million (2019: US$12,383.6 million).

The Group acts as fund manager to a number of investment funds. In its capacity as fund manager, the Group is entitled to performance and management fees. The Group maintains an investment in the funds.

The maximum exposure to loss is equal to the carrying amount of the investment in the funds, which at 31st December 2020 amounted to US$82.9 million (2019: US$126.3 million).

38. Related party transactions

The Group is owned by the six Gulf Cooperative Council (GCC) governments, with the Public Investment Fund holding a majority (97.2 per cent) controlling stake. The Public Investment Fund is an investment body of the Kingdom of Saudi Arabia. At 31st December 2020, the Group reported deposits and their related interest expense of US$1,864.3 million and US$10.8 million respectively (2019: US$1,850.7 million and US$15.4 million respectively).

The Group transacts with various entities controlled, jointly controlled or significantly influenced by the six GCC governments. These transactions are conducted in the ordinary course of the Group's business on terms comparable to those with other entities that are not government-related.

The Group's other related party transactions are limited to the compensation of its directors and executive officers.

The compensation of key management personnel was as follows:-

	2020	2019
	US$ millions	US$ millions
Short-term employee benefits	**14.6**	15.1
Post-employment benefits	**0.4**	0.5
	15.0	15.6

Key management personnel comprise the Group Chief Executive Officer and other executive officers of the Group.

Post-employment benefits principally comprise compensation paid to personnel on retirement or resignation from the services of the Group.

39. Fair value of financial instruments

The Group's financial instruments are accounted for under the historical cost method with the exception of trading securities, equity investment securities and derivative financial instruments, which are accounted for at fair value. The fair value represents 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. Differences therefore can arise between book values under the historical cost method and fair value estimates. Underlying the definition of fair value is the presumption that the Group is a going concern without any intention or requirement to curtail materially the scale of its operation or to undertake a transaction on adverse terms. Generally accepted methods of determining fair value include reference to quoted prices (level 1 measurement) or to the pricing prevailing for similar financial instruments (level 2 measurement) and the use of unobservable inputs in estimation techniques such as discounted cash flow analysis (level 3 measurement).

The valuation methodologies applied are outlined below.

39.1 Trading securities

The fair values of trading securities are based on quoted prices (level 1) or valuation techniques (level 2 or 3).

39.2 Investment securities

The fair values of equity investment securities are based on quoted prices (level 1) or valuation techniques (level 2 or 3). The fair values of debt investment securities are based on quoted market prices (level 1) and approximate the carrying values.

39.3 Loans and advances

The fair values (level 2) of loans on a floating interest rate basis are principally estimated at book value. The fair values (level 3) of impaired loans are estimated at the recoverable amount, measured as the present value of expected future cash flows discounted based on the Group's weighted average discount rate. The fair values of fixed rate loans are estimated on a discounted cash flow basis utilising discount rates equal to prevailing market rates of interest in the respective currencies for loans of similar residual maturity and credit quality. The fair values (level 2) approximate the carrying values.

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For the year ended 31st December 2020

39. Fair value of financial instruments (continued)

39.4 Term financing

The fair value of term financing is based on observable market data, including quoted market prices for debt instruments issued by similarly rated financial institutions and with similar maturities, or estimated on a discounted cash flow basis utilising currently prevailing spreads for borrowings with similar maturities. The fair values (level 2) of senior term financing at 31st December 2020 approximate the carrying values.

39.5 Other on-balance sheet items

The fair values of foreign exchange and derivative financial instruments are based on market prices, discounted cash flow techniques or option pricing models as appropriate. The fair values of all other on-balance sheet assets and liabilities approximate their respective book values due to their short-term nature.

39.6 Credit-related contingent items

There was no material fair value excess or shortfall in respect of credit-related off-balance sheet financial instruments, which include commitments to extend credit, standby letters of credit and guarantees, as the related future income streams reflected contractual fees and commissions actually charged at the balance sheet date for agreements of similar credit standing and maturity. Impairment provisions made in respect of individual transactions where a potential for loss has been identified are included in provisions for the impairment of loans and advances.

39.7 Valuation basis

The valuation basis for financial assets and financial liabilities carried at fair value was as follows:-

	Quoted prices (level 1)	Valuation based on observable market data (level 2)	Other valuation techniques (level 3)
	US$ millions	US$ millions	US$ millions
At 31st December 2020			
Financial assets:			
Trading securities	**106.9**	**0.1**	-
Investment securities - equities	**130.4**	-	**23.4**
Derivative financial instruments	-	**409.1**	-
Financial liabilities:			
Derivative financial instruments	-	**636.9**	-
At 31st December 2019			
Financial assets:			
Trading securities	130.7	0.3	11.2
Investment securities - equities	111.2	-	35.5
Derivative financial instruments	-	231.5	-
Financial liabilities:			
Derivative financial instruments	-	290.1	-

Quoted prices include prices obtained from lead managers, brokers and dealers. Investment securities valued based on other valuation techniques comprise private equity investments that have been valued based on price / earnings and price / book ratios for similar entities, discounted cash flow techniques or other valuation methodologies.

During the year ended 31st December 2020, the value of investment securities whose measurement was determined by other valuation techniques (level 3 measurement) decreased by US$ 12.1 million (2019: decrease of US$3.0 million). The decrease principally comprised changes in assigned valuations and transfers out of level 3 to level 1.

During the year ended 31st December 2020, there have been transfers out of the level 3 to level 1 measurement in trading securities and investments securities total amounting US$ 34.6 million (2019: nil). No transfers between level 1 and level 2 measurement classifications were made during the years ended 31st December 2020 and 31st December 2019.

Sensitivity of the movement in the fair value of financial instruments in the level 3 category is assessed as not significant to other comprehensive income or total equity.

Notes to the Consolidated Financial Statements

For the year ended 31st December 2020

40. Earnings per share

Basic earnings per share are calculated by dividing the net income attributable to the shareholders by the weighted average number of shares in issue during the year.

	2020	2019
Net (loss) / income (US$ millions)	(308.0)	63.0
Weighted average number of shares in issue (millions)	2,500	2,500
Basic earnings per share (US$)	(0.12)	0.03

The diluted earnings per share is equivalent to the basic earnings per share set out above.

41. Principal subsidiaries

The principal subsidiary companies were as follows:-

	Principal activities	Country of incorporation	Ownership interest 31.12.20	Ownership interest 31.12.19
Gulf International Bank - Saudi Arabia C.J.S.C.	Wholesale commercial and retail banking	Saudi Arabia	**50%**	50%
GIB Capital C.J.S.C.	Asset management and investment banking	Saudi Arabia	**100%**	100%
Gulf International Bank (UK) Limited	Asset management and treasury	United Kingdom	**100%**	100%
GIB Markets Limited	Treasury-related	Cayman Islands	**100%**	100%

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42. Non-controlling interest

A new non-controlling interest in the Group arose during the nine months ended 31st December 2019. The non-controlling interest arose on the purchase by the Bank's majority shareholder, the Public Investment Fund, of 50 per cent of the shares issued on the incorporation of Gulf International Bank – Saudi Arabia on 3rd April 2019, a new subsidiary of the Bank.

The activities of the Bank in the Kingdom of Saudi Arabia were previously conducted through a foreign branch of the Bank. On 3rd April 2019, the foreign branch was converted to a Saudi closed joint stock company, Gulf International Bank – Saudi Arabia. Upon the incorporation of the Saudi closed joint stock company, the net assets of the foreign branch were converted to Gulf International Bank – Saudi Arabia. Gulf International Bank - Saudi Arabia was incorporated with an issued and fully paid share capital of SAR 7.5 billion that was equally subscribed by the Bank, and the Bank's majority shareholder, the Public Investment Fund (PIF). PIF's investment in the share capital of Gulf International Bank – Saudi Arabia is designated as a non-controlling interest in the Group.

The summarised financial information of the subsidiary is provided below. The information is based on amounts before inter-company eliminations.

Summarised statement of financial position	**31.12.20**	31.12.19
	US$ millions	US$ millions
Total assets	**8,763.8**	8,162.3
Total liabilities	**6,882.3**	6,161.6
Total equity	**1,881.5**	2,000.7
Equity attributable to non-controlling interest	**940.7**	1,000.4

	Period ended 31.12.20	**Period ended** 31.12.19
	US$ millions	US$ millions
Total income	**167.3**	131.5
Total operating expenses	**(140.5)**	(101.4)
Provision charge	**(140.4)**	(27.6)
Zakat charge	**(3.1)**	(0.5)
Net (loss) / income	**(116.7)**	2.0
Net (loss) / income attributable to non-controlling interest	**(58.4)**	1.0
Total comprehensive income	**(119.4)**	2.0
Total comprehensive income attributable to non-controlling interest	**(59.7)**	1.0

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For the year ended 31st December 2020

43. Average consolidated statement of financial position

The average consolidated statement of financial position was as follows:-

	31.12.20	31.12.19
	US$ millions	US$ millions
ASSETS		
Cash and other liquid assets	7,100.2	6,869.2
Securities purchased under agreements to resell	1,357.9	1,492.0
Placements	6,563.5	6,444.9
Trading securities	129.7	177.2
Investment securities	4,172.7	3,852.2
Loans and advances	9,781.6	9,670.7
Other assets	890.3	729.9
Total assets	**29,995.9**	29,236.1
LIABILITIES		
Deposits from banks	874.2	1,315.8
Deposits from customers	19,964.0	20,386.5
Securities sold under agreements to repurchase	440.2	423.9
Other liabilities	1,152.0	730.6
Senior term financing	4,383.3	3,356.2
Total liabilities	**26,813.7**	26,213.0
Total equity	**3,182.2**	3,023.1
Total liabilities & equity	**29,995.9**	29,236.1

44. Shariah-compliant assets and liabilities

The Islamic banking activities of the group are conducted in accordance with Islamic Shariah principles, as approved by the Shariah Supervisory Board. The financial statements extracts relating to these activities are prepared in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), IFRS and Central Bank of Bahrain regulations, as applicable. The principal accounting policies are set out below:"

Investments - Sukuk (Debt-type instruments at amortised cost)

Debt-type instruments which are managed on a contractual yield basis and are not held for trading and has not been designated at fair value through statement of income are classified as debt-type instruments at amortised cost. Such investments are carried at amortised cost, less provision for impairment in value. Amortised cost is calculated by taking into account any premium or discount on acquisition. Any gain or loss on such investment is recognised in the consolidated statement of income, when the investment is de-recognised or impaired.

Wakala

An agreement whereby one party 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.

Commodity Murabaha

These are sales transaction agreements for commodities stated net of deferred profits and provision for impairment. The Group considers the promise made in the murabaha to the purchase order as obligatory.

Notes to the Consolidated Financial Statements

For the year ended 31st December 2020

44. Shariah-compliant assets and liabilities (continued)

Revenue is recognised on the above Islamic products as follows:

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.

Income from investments is recognised when earned.

The Shariah-compliant assets and liabilities included in the consolidated statement of financial position were as follows:-

	31.12.20	31.12.19
	US$ millions	US$ millions
ASSETS		
Placements	80.0	199.9
Investment securities	1,236.6	1,194.6
Loans and advances	4,546.4	4,444.9
LIABILITIES		
Deposits from banks and customers	3,165.5	4,431.3
Senior term financing	1,072.9	977.2

The Group reviews its Shariah-compliant assets and liabilities gap on a monthly basis and ensures at all times that there are sufficient Shariah-compliant assets that cover Shariah-compliant liabilities. The Group does not commingle funds relating to Islamic financial services with funds relating to conventional financial services.

Total provisions at 31st December 2020 of US$135.8 million (2019: US$ 166.9 million) included US$ 5.4 million of provisions for stage 1 (2019: US$13.3 million), US$17.0 million of provisions for stage 2 (2019: US$21.2 million) and total specific provisions of US$103.4 million against past due loans (2019: US$132.4 million).

Income from financing activities	31.12.20	31.12.19
Net income from Islamic financing	58.7	44.4
Fee & Commission income	3.6	15.5
Other income	0.2	0.2

SUPPLEMENTARY DISCLOSURES TO THE CONSOLIDATED FINANCIAL INFORMATION

The Coronavirus (COVID-19) outbreak was declared a pandemic in early March by the World Health Organization (WHO) and has evolved globally. This has resulted in uncertainties and global economic slowdown. This disruption has negatively impacted capital markets, restricted credit markets and increased liquidity concerns. Various measures have been taken by authorities to contain the spread of COVID-19 including internal quarantine measures to restrict travel. The pandemic and the related measures had some impact on the Group. The Group has activated its business continuity plan, including enabling 75% of its workforce to work from home using the Group's agile technology infrastructure. The Group's operations has not witnessed any business interruption throughout the pandemic. The Group has also revised its risk management practices to contain the potential business disruption on its operations and financial performance.

The regulators where GIB Group operates, including the Central Bank of Bahrain (CBB), Saudi Central Bank (SAMA) and the Central Bank of UAE (CBUAE), have announced various measures to combat the effects of COVID-19 to ease liquidity conditions and stimulate the economy.

Loans and advances

The Group has implemented various loan modification programs and other forms of support to its customers, including offering loan payment deferrals. As at 31st December 2020, 67 deferrals have been enrolled by the Group for deferral of payments over periods ranging from 3-12 months. Aggregate of instalment amounts being deferred is US$ 580.0 million, which amounts to around 3.8% of the gross exposure. More information on the accounting for loan modifications is available in Note 2.3 – Novel Coronavirus (Covid-19).

Notes to the Consolidated Financial Statements

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SUPPLEMENTARY DISCLOSURES TO THE CONSOLIDATED FINANCIAL INFORMATION *(continued)*

Investment securities

The Group maintains a US$4,486.5.8 million portfolio of investment securities, of which 96.6% are held at amortised cost. Since the beginning of the year the fair value of the investment securities portfolio and associated interest rate hedging derivatives was reduced by US$ 14.5 million, driven by the widening of credit spreads triggered by the COVID-19 pandemic. The majority (92.1%) of the debt securities portfolio are investment grade and above, with 84.3% rated A- or higher. There has been no defaults within the portfolio in the past 6 months and all repayments have been received on schedule.

Liquidity and capital adequacy

The Group has elevated its long-term liquidity levels to pre-empt potential liquidity stress events that could occur as a result of the COVID-19. During the year, the Group also increased its senior term financing by US$1,422.5 million to US$ 4,924.9 million. As at 31st December 2020, cash and liquid assets and placements comprised 42.4% of total assets. The Group's LCR and NSFR ratios were 155.2% and 156.0% respectively compared to the set minimum ratio of 100% as stipulated by the CBB for both, which was revised down to 80% until 31st December 2020.

The Group continues to meet the regulatory requirement of CAR, LCR and NSFR.

The Group's total capital adequacy has dropped to 17.2% (31st December 2019:18.4%) due to specific provisions booked during the period. The Group maintains a healthy capital adequacy compared to the set minimum ratio of 12.5% as stipulated by the CBB.

Performance

The Group's financial performance has been impacted by the global COVID-19 pandemic. Year-on-year decreases were recorded in net interest income (2020: $232.8 million, 2019: $280.4 million) representing a decrease of 17.0% in net interest income. This decrease may be attributable to the global and local interest rate cuts. The Group has also further augmented its provisions by booking US$ 340.5 million during the year compared to US$ 32.6 million in the prior year.

The Group has incurred additional an US$ 2.1 million of exceptional expenses in support of its operation during the COVID-19 pandemic.

Other comprehensive income was also impacted by the revaluation of the Group's investments portfolio at lower fair market values.

A summary of the financial impact of the regulatory measures at the Group is as follows:

	Net impact on the Group's consolidated income statement	Net impact on the Group's consolidated financial position	Net impact on the Group's consolidated owners' equity
	US$ millions	*US$ millions*	*US$ millions*
Modification loss at GIB KSA	(7.0)	(7.0)	-
Government grants at GIB KSA	7.0	7.0	-
ECL attributable to COVID-19	(43.6)	(43.6)	-
	(43.6)	(43.6)	-

The above supplementary information is provided to comply with the CBB circular number OG/259/2020 (Reporting of Financial Impact of COVID-19), dated 14th July 2020. This information should not be considered as an indication of the annual financial performance or relied upon for any other purposes. Given the uncertainty of the COVID-19 as highlighted at the beginning of this supplementary disclosure, the above impact reflects the current situation. Change in circumstances will render the above information being out-of-date.

This information does not represent a full comprehensive assessment of COVID-19 impact on the Group and has not been subject to a formal review by the external auditors.

Risk Management and Capital Adequacy Report

31st December 2020

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Risk Management and Capital Adequacy Report

31st December 2020

Executive summary

The Central Bank of Bahrain (CBB) Basel 3 guidelines prescribe the capital adequacy framework for banks incorporated in the Kingdom of Bahrain. GIB adopted Basel 3 from 1st January 2015 as required by the CBB.

This Risk Management and Capital Adequacy report encompasses the Pillar 3 disclosure requirements prescribed by the CBB based on the Basel Committee's Pillar 3 guidelines. The report contains a description of GIB's risk management and capital adequacy policies and practices, including detailed information on the capital adequacy process.

For regulatory purposes, GIB has adopted the standardised approach for credit risk. GIB uses the internal models approach for market risk and the standardised approach for determining the capital requirement for operational risk.

The disclosed tier 1 and total capital adequacy ratios comply with the minimum capital requirements under the CBB's Basel 3 framework.

GIB's total risk-weighted assets at 31st December 2020 amounted to US$15,393.7 million. Credit risk accounted for 93.4 per cent, market risk 1.9 per cent and operational risk 4.7 per cent of the total risk-weighted assets. Tier 1 and total regulatory capital were US$2,531.3 million and US$2,641.7 million respectively.

At 31st December 2020, GIB's tier 1 and total capital adequacy ratios were 16.4 per cent and 17.2 per cent respectively. GIB aims to maintain a tier 1 capital adequacy ratio above 11.0 per cent and a total capital adequacy ratio in excess of 15.0 per cent.

GIB views the Pillar 3 disclosures as an important contribution to increased risk transparency within the banking industry, and particularly important during market conditions characterised by high uncertainty. In this regard, GIB has provided more disclosure in this report than is required in accordance with the CBB's Pillar 3 guidelines in order to provide the level of transparency that is believed to be appropriate and relevant to the Group's various stakeholders and market participants.

All figures presented in this report are as at 31st December 2020 unless otherwise stated.

Abdulaziz A. Al-Helaissi
Group Chief Executive Officer

Marwan Fouad Abiad
Group Chief Financial Officer

Abdullah bin Hasan Alabdulgader
Chairman of the Board

Risk Management and Capital Adequacy Report

31st December 2020

1. The Basel 3 framework

The CBB's Basel 3 framework is based on three pillars, consistent with the Basel 3 framework developed by the Basel Committee, as follows:-

- Pillar 1: the calculation of the risk-weighted assets (RWAs) and capital requirement.
- Pillar 2: the supervisory review process, including the Internal Capital Adequacy Assessment Process (ICAAP).
- Pillar 3: the disclosure of risk management and capital adequacy information.

1.1 Pillar 1

Pillar 1 prescribes the basis for the calculation of the regulatory capital adequacy ratio. Pillar 1 sets out the definition and calculations of the RWAs, and the derivation of the regulatory capital base. The capital adequacy ratio is calculated by dividing the regulatory capital base by the total RWAs.

With the introduction of Pillar 2, the CBB will implement a minimum ratio threshold to be determined for each institution individually, as described in more detail in the Pillar 2 section of this report. As at 31st December 2020, and pending finalisation of the CBB's Pillar 2 guidelines, all banks incorporated in Bahrain are required to maintain a minimum capital adequacy ratio of 12.5 per cent and a tier 1 ratio of 10.5 per cent.

In the event that the capital adequacy ratio falls below 12.5 per cent, additional prudential reporting requirements apply and a formal action plan setting out the measures to be taken to restore the ratio above the target level is to be formulated and submitted to the CBB.

The table below summarises the approaches available for calculating RWAs for each risk type in accordance with the CBB's Basel 3 capital adequacy framework:-

Approaches for determining regulatory capital requirements		
Credit risk	**Market risk**	**Operational risk**
Standardised approach	Standardised approach	Basic indicator approach
	Internal models approach	Standardised approach

The approach applied by GIB for each risk type is as follows:-

a) Credit risk

For regulatory reporting purposes, GIB applies the standardised approach for credit risk.

The RWAs are determined by multiplying the credit exposure by a risk weight factor dependent on the type of counterparty and the counterparty's external rating, where available.

b) Market risk

For the regulatory market risk capital requirement, GIB applies the internal models approach based on a Value-at-Risk (VaR) model. The use of the internal models approach for the calculation of regulatory market risk capital has been approved by the CBB.

c) Operational risk

Under the CBB's Basel 3 capital adequacy framework, all banks incorporated in Bahrain are required to apply the basic indicator approach for operational risk unless approval is granted by the CBB to use the standardised approach. The CBB's Basel 3 guidelines do not permit the use of the advanced measurement approach (AMA) for operational risk. The standardised approach for the calculation of regulatory operational risk capital has been approved by the CBB.

Under the standardised approach, the regulatory capital requirement is calculated based on a range of beta coefficients, ranging from 12 to 18 per cent, applied to the average gross income for the preceding three financial years for each of eight predefined business lines.

Risk Management and Capital Adequacy Report
31st December 2020

1. The Basel 3 framework (continued)

1.2 Pillar 2

Pillar 2 defines the process of supervisory review of an institution's risk management framework and, ultimately, its capital adequacy.

Under the CBB's Pillar 2 guidelines, each bank is to be individually assessed by the CBB and an individual minimum capital adequacy ratio is to be determined for each bank. The CBB is yet to undertake the assessment exercises, which will allow their setting of higher minimum capital ratios based on the CBB's assessment of the financial strength and risk management practices of the institution. Currently, pending finalisation of the assessment process, all banks incorporated in Bahrain are required to maintain a 12.5 per cent minimum capital adequacy ratio and a tier 1 ratio of 10.5 per cent.

Pillar 2 comprises two processes:-

- an Internal Capital Adequacy Assessment Process (ICAAP), and
- a supervisory review and evaluation process.

The ICAAP incorporates a review and evaluation of risk management and capital relative to the risks to which the bank is exposed. GIB's capital assessment has been developed around its economic capital framework which is designed to ensure that the Group has sufficient capital resources available to meet regulatory and internal capital requirements, even during periods of economic or financial stress. The capital assessment addresses all components of GIB's risk management, from the daily management of more material risks to the strategic capital management of the Group.

The supervisory review and evaluation process represents the CBB's review of the Group's capital management and an assessment of internal controls and corporate governance. The supervisory review and evaluation process is designed to ensure that institutions identify their material risks and allocate adequate capital, and employ sufficient management processes to support such risks.

The supervisory review and evaluation process also encourages institutions to develop and apply enhanced risk management techniques for the measurement and monitoring of risks in addition to the credit, market and operational risks addressed in the core Pillar 1 framework. Other risk types which are not covered by the minimum capital requirements in Pillar 1 include:-

- liquidity risk
- concentration risk
- interest rate risk in the banking book (IRRBB)
- pension obligation risk
- reputational risk
- information technology risk
- macroeconomic risk
- legal risk
- strategic risk

These are covered either by capital, or risk management and mitigation processes under Pillar 2.

1.3 Pillar 3

In the CBB's Basel 3 framework, the third pillar prescribes how, when, and at what level information should be disclosed about an institution's risk management and capital adequacy practices.

The disclosures comprise detailed qualitative and quantitative information. The purpose of the Pillar 3 disclosure requirements is to complement the first two pillars and the associated supervisory review process. The disclosures are designed to enable stakeholders and market participants to assess an institution's risk appetite and risk exposures and to encourage all banks, via market pressures, to move toward more advanced forms of risk management.

Under the current regulations, partial disclosure consisting mainly of quantitative analysis is required during half year reporting, whereas full disclosure is required to coincide with the financial year end reporting.

In this report, GIB's disclosures are beyond the minimum regulatory requirements and provide disclosure of the risks to which it is exposed, both on- and off-balance sheet. The disclosures in this report are in addition to the disclosures set out in the consolidated financial statements presented in accordance with International Financial Reporting Standards (IFRS).

Risk Management and Capital Adequacy Report
31st December 2020

2. Group structure, overall risk and capital management

This section sets out the consolidation principles and the capital base of GIB as calculated in accordance with the Pillar 1 guidelines, and describes the principles and policies applied in the management and control of risk and capital.

2.1 Group structure

The Group's financial statements are prepared and published on a full consolidation basis, with all subsidiaries being consolidated in accordance with IFRS. For capital adequacy purposes, all subsidiaries are included within the Gulf International Bank B.S.C. Group structure. However, the CBB's capital adequacy methodology accommodates both normal and aggregation forms of consolidation.

Under the CBB capital adequacy framework, subsidiaries reporting under a Basel 3 framework in other regulatory jurisdictions may, at the bank's discretion, be consolidated based on that jurisdiction's Basel 3 framework, rather than based on the CBB's guidelines. Under this aggregation consolidation methodology, the risk-weighted assets of subsidiaries are consolidated with those of the rest of the Group based on the guidelines of their respective regulator to determine the Group's total risk-weighted assets.

GIB's subsidiary, Gulf International Bank – Saudi Arabia, is regulated by the Saudi Central Bank (SAMA), and has calculated its risk-weighted assets in accordance with SAMA's guidelines.

GIB's subsidiary, Gulf International Bank (UK) Limited (GIBUK), is regulated by the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA) of the United Kingdom, and has calculated its risk-weighted assets in accordance with the PRA's guidelines.

The principal subsidiaries and basis of consolidation for capital adequacy purposes are as follows:-

Subsidiary	Domicile	Ownership	Consolidation basis
Gulf International Bank – Saudi Arabia	Saudi Arabia	50%	Aggregation
Gulf International Bank (UK) Limited	United Kingdom	100%	Aggregation
GIB Capital C.J.S.C.	Saudi Arabia	100%	Full Consolidation
GIB Markets Limited	Cayman Islands	100%	Full Consolidation

No investments in subsidiaries are treated as a deduction from the Group's regulatory capital.

2.2 Risk and capital management

GIB maintains a prudent and disciplined approach to risk taking by upholding a comprehensive set of risk management policies, processes and limits, employing professionally qualified people with the appropriate skills, investing in technology and training, and actively promoting a culture of sound risk management at all levels. A key tenet of this culture is the clear segregation of duties and reporting lines between personnel transacting business and personnel processing that business. The Group's risk management is underpinned by its ability to identify, measure, aggregate and manage the different types of risk it faces.

The Board of Directors has created from among its members a Board Risk Policy Committee to review the Group's risk taking activities and report to the Board in this regard. The Board has the ultimate responsibility for setting the overall risk parameters and tolerances within which the Group conducts its activities, including responsibility for setting the capital ratio targets. The Board reviews the Group's overall risk profile and significant risk exposures as well as the Group's major risk policies, processes and controls.

The Management Committee, chaired by the Chief Executive Officer (CEO), has the primary responsibility for sanctioning risk taking policies and activities within the tolerances defined by the Board. The Group Risk Committee assists the Management Committee in performing its risk related functions.

The Group Risk Committee, under the chairmanship of the Chief Risk Officer (CRO) and comprising the Group's most senior risk professionals, provides a forum for the review and approval of new products, risk measurement methodologies and risk control processes. The Group Risk Committee also reviews all risk policies and limits that require approval by the Management Committee. The Assets and Liabilities Committee (ALCO), chaired by the Chief Financial Officer (CFO), provides a forum for the review of asset and liability activities within GIB. It coordinates the asset and liability functions and serves as a link between the funding sources and usage in the different business areas.

Risk Management and Capital Adequacy Report

31st December 2020

2. Group structure, overall risk and capital management (continued)

2.2 Risk and capital management (continued)

From a control perspective, the process of risk management is facilitated through a set of independent functions, which report directly to senior management. These functions include Credit Risk, Market Risk, Operational Risk, Financial Control and Internal Audit. This multi-faceted approach aids the effective management of risk by identifying, measuring and monitoring risks from a variety of perspectives.

Internal Audit is responsible for carrying out a risk-based programme of work designed to provide assurance that assets are being safeguarded. This involves ensuring that controls are in place and working effectively in accordance with Group policies and procedures as well as with laws and regulations. The work carried out by Internal Audit includes providing assurance on the effectiveness of the risk management functions, as well as that of controls operated by the business units. The Board Audit Committee approves the annual audit plan and also receives regular reports of the results of audit work.

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future business development. The Group manages its capital structure and makes adjustments to the structure taking account of changes in economic conditions and strategic business plans. The capital structure may be adjusted through the dividend payout or the issue of new shares.

The CFO is responsible for the capital planning process. Capital planning includes capital adequacy reporting and the Internal Capital Adequacy Assessment Process (ICAAP). The CFO is also responsible for the balance sheet management framework.

The governance structure for risk and capital management is set out in the table below:-

Board of Directors		
Board Audit Committee	**Board Risk Policy Committee**	
Chief Executive Officer		
Management Committee **(Chairman: CEO)**	**Group Risk Committee** **(Chairman: CRO)**	**Assets and Liabilities Committee** **(Chairman: CFO)**

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

Chief Executive Officer	
Chief Financial Officer **(CFO)**	**Chief Risk Officer** **(CRO)**
Balance sheet management framework Capital management framework	Risk management framework and policies Group credit control Credit risk Market risk Operational risk Liquidity risk

2.3 Risk types

The major risks associated with the Group's business activities are credit, market, operational and liquidity risk. These risks together with a commentary on the way in which the risks are managed and controlled are set out in the following sections, based on the Basel 3 pillar in which the risks are addressed.

2.4 Risk in Pillar 1

Pillar 1, which forms the basis for the calculation of the regulatory capital requirement, addresses three specific risk types: credit, market and operational risk.

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2. Group structure, overall risk and capital management (continued)

2.4 Risk in Pillar 1 (continued)

a) Credit risk

Credit risk is the risk that a customer, counterparty or an issuer of securities or other financial instruments fails to perform under its contractual payment obligations thus causing the Group to suffer a loss in terms of cash flow or market value. Credit risk is the predominant risk type faced by the Group in its banking, investment and treasury activities, both on- and off-balance sheet. Where appropriate, the Group seeks to minimise its credit exposure using a variety of techniques including, but not limited to, the following:-

- entering netting agreements with counterparties that permit the offsetting of receivables and payables
- obtaining collateral
- seeking third party guarantees of the counterparty's obligations
- imposing restrictions and covenants on borrowers

Credit risk is actively managed and rigorously monitored in accordance with well-defined credit policies and procedures. Prior to the approval of a credit proposal, a detailed credit risk assessment is undertaken which includes an analysis of the obligor's financial condition, market position, business environment and quality of management. The risk assessment generates an internal credit risk rating for each counterparty, which affects the credit approval decision and the terms and conditions of the transaction. For cross-border transactions, an analysis of country risk is also conducted. The credit decision for an individual counterparty is based on the aggregate Group exposure to that counterparty and all its related entities. Group-wide credit limit setting and approval authorisation requirements are conducted within Board approved guidelines, and the measurement, monitoring and control of credit exposures are done on a Group-wide basis in a consistent manner. Overall exposures are evaluated to ensure broad diversification of credit risk. Potential concentration risks by product, industry, single obligor, credit risk rating and geography are regularly assessed with a view to improving overall portfolio diversification. Established limits and actual levels of exposure are regularly reviewed by the Chief Risk Officer (CRO), Chief Credit Officer (CCO) and other members of senior management. All credit exposures are reviewed at least once a year. Credit policies and procedures are designed to identify, at an early stage, exposures which require more detailed monitoring and review. The credit risk associated with foreign exchange and derivative instruments is assessed in a manner similar to that associated with on-balance sheet activities. The Group principally utilises derivative transactions to facilitate customer transactions and for the management of interest and foreign exchange risks associated with the Group's longer-term lending, borrowing and investment activities. Unlike on-balance sheet products, where the principal amount and interest generally represent the maximum credit exposure, the notional amount relating to a foreign exchange or derivative transaction typically exceeds the credit exposure by a substantial margin. The measure of credit exposure for foreign exchange and derivative instruments is therefore more appropriately considered to be the replacement cost at current market rates plus an add-on amount commensurate with the position's size, volatility and remaining life. Derivative contracts may also carry legal risk; the Group seeks to minimise these risks by the use of standard contract agreements.

b) Market risk

Market risk is the risk of loss of value of a financial instrument or a portfolio of financial instruments as a result of adverse changes in market prices and rates, and market conditions such as liquidity. Market risk arises from the Group's trading, asset and liability management, and investment activities.

The categories of market risk to which the Group is exposed are as follows:-

Interest rate risk results from exposure to changes in the level, slope, curvature and volatility of interest rates and credit spreads. The credit spread risk is the risk that the interest yield for a security will increase, with a reduction in the security price, relative to benchmark yields as a result of the general market movements for that rating and class of security. Interest rate risk is the principal market risk faced by the Group and arises from the Group's investment activities in debt securities, asset and liability management, and the trading of debt and off-balance sheet derivative instruments.

Foreign exchange risk results from exposure to changes in the price and volatility of currency spot and forward rates. The principal foreign exchange risk arises from the Group's foreign exchange forward and derivative trading activities.

Equity risk arises from exposures to changes in the price and volatility of individual equities or equity indices.

The Group seeks to manage exposure to market risk through the diversification of exposures across dissimilar markets and the establishment of hedges in related securities or off-balance sheet derivative instruments. To manage the Group's exposures, in addition to the exercise of business judgement and management experience, the Group utilises limit structures including those relating to positions, portfolios, maturities and maximum allowable losses.

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2. Group structure, overall risk and capital management (continued)

2.4 Risk in Pillar 1 (continued)

b) Market risk (continued)

A key element in the Group's market risk management framework is the estimation of potential future losses that may arise from adverse market movements. The Group utilises Value-at-Risk (VaR) to estimate such losses. The VaR is derived from quantitative models that use statistical and simulation methods that take account of all market rates and prices that may cause a change in a position's value. These include interest rates, foreign exchange rates and equity prices, their respective volatilities and the correlations between these variables. Effective September 2018, the Group's VaR is calculated using a historical based simulation. Previously, the Group's VaR was calculated on a Monte Carlo simulation basis using historical volatilities and correlations to generate a profit and loss distribution from several thousand scenarios.

The VaR takes account of potential diversification benefits of different positions both within and across different portfolios. Consistent with general market practice, VaR is computed for all financial instruments for which there are readily available daily prices or suitable proxies. VaR is viewed as an effective risk management tool and a valuable addition to the non-statistically based limit structure. It permits a consistent and uniform measurement of market risk across all applicable products and activities. Exposures are monitored against a range of limits both by risk category and portfolio and are regularly reported to and reviewed by senior management and the Board of Directors.

An inherent limitation of VaR is that past market movements may not provide an accurate prediction of future market losses. Historic analyses of market movements have shown that extreme market movements (i.e. beyond the 99 per cent confidence level) occur more frequently than VaR models predict. Stress tests are regularly conducted to estimate the potential economic losses in such abnormal markets. Stress testing combined with VaR provides a more comprehensive picture of market risk. The Group regularly performs stress tests that are constructed around changes in market rates and prices resulting from predefined market stress scenarios, including both historical and hypothetical market events. Historical scenarios include the 1998 Russian crisis, the events of 9/11 and the 2008 credit crisis. In addition, the Group performs stress testing based on internally developed hypothetical market stress scenarios. Stress testing is performed for all material market risk portfolios.

c) 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. It is an inherent risk faced by all businesses and covers a large number of potential 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.

Operational risk is a distinct risk category which the Group manages within acceptable levels through sound operational risk management practices that are part of the day-to-day responsibilities of management at all levels. Whilst operational risk cannot be eliminated in its entirety, the Group endeavours to minimise it by ensuring that a strong control infrastructure is in place throughout the organisation.

The objective in managing operational risk is to ensure control of the Group's resources by protecting the assets of the Group and minimising the potential for financial loss. The Group's risk management approach involves identifying, assessing, managing, mitigating, monitoring and measuring the risks associated with all areas of the Group. Control assessments are performed on all services of the Group with the participation of representatives from the relevant businesses, internal audit, legal and the risk and finance departments. Various policies, procedures and processes are used to manage operational risk and include effective staff training, appropriate controls to safeguard assets and records, regular reconciliation of accounts and transactions, appropriate budgeting, target setting and performance review, compliance to regulations, close monitoring of risk limits, segregation of duties, and financial management and reporting. In addition, policies have been put in place to manage other control mitigation strategies for business continuity planning, insurance and legal risk (which includes regular reporting to management on legal matters).

Qualitative and quantitative methodologies and tools are used to identify and assess operational risk and to provide management with information for determining appropriate mitigating factors. These tools include a database of operational risk events categorised according to business lines and operational risk event types; a record of key risk indicators, which can provide an early warning of possible risk; and a risk and control assessment process to analyse business activities and identify operational risks related to those activities. The management of operational risk has a key objective of minimising the impact of losses suffered in the normal course of business (expected losses) and to avoid or reduce the likelihood of suffering a large extreme (unexpected) loss. There is a dedicated Operational Risk function for the Group which reports into the Operational Risk Management Committee and Group Risk Committee. The Board meets on a quarterly basis and is updated on all relevant aspects of the business including operational risk management matters. High impact risks and issues of critical importance are reported to the Board.

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2. Group structure, overall risk and capital management (continued)

2.5 Risk in Pillar 2

Other risk types are measured and assessed in Pillar 2. GIB measures and manages these risk types although they are not included in the calculation of the regulatory capital adequacy ratio. Most of the Pillar 2 risks are included in GIB's calculation of internal economic capital. Pillar 2 risk types include liquidity risk, interest rate risk in the banking book, concentration risk, pension obligation risk, and reputational risk.

a) Liquidity risk

Liquidity risk is the risk that sufficient funds are not available to meet the Group's financial obligations on a punctual basis as they fall due. The risk arises from the timing differences between the maturity profiles of the Group's assets and liabilities. It includes the risk of losses arising from the following:-

- forced sale of assets at below normal market prices
- raising of deposits or borrowing funds at excessive rates
- the investment of surplus funds at below market rates

Liquidity management policies are designed to ensure that funds are available at all times to meet the funding requirements of the Group, even in adverse conditions. In normal conditions, the objective is to ensure that there are sufficient funds available not only to meet current financial commitments but also to facilitate business expansion. These objectives are met through the application of prudent liquidity controls. These controls provide access to funds without undue exposure to increased costs from the liquidation of assets or the aggressive bidding for deposits.

The Group's liquidity controls ensure that, over the short-term, the future profile of cash flows from maturing assets is adequately matched to the maturity of liabilities. Liquidity controls also provide for the maintenance of a stock of liquid and readily realisable assets and a diversified deposit base in terms of both maturities and range of depositors.

The management of liquidity and funding is primarily conducted in the Group's individual geographic entities within approved limits. The limits ensure that contractual net cash flows occurring over the following 30 day period do not exceed the eligible stock of available liquid resources.

It is the Group's general policy that each geographic entity should be self-sufficient in relation to funding its own operations.

The Group's liquidity management policies include the following:-

- the monitoring of (i) future contractual cash flows against approved limits, and (ii) the level of liquid resources available in a stress event
- the monitoring of balance sheet liquidity ratios
- the monitoring of the sources of funding in order to ensure that funding is derived from a diversified range of sources
- the monitoring of depositor concentrations in order to avoid undue reliance on individual depositors
- the maintenance of a satisfactory level of term financing; and
- the maintenance of liquidity and funding contingency plans. These plans identify early indicators of stress conditions and prescribe the actions to be taken in the event of a systemic or other crisis, while minimising adverse long-term implications for the Group's business activities.

b) Interest rate risk in the banking book

Structural interest rate risk arises in the Group's core balance sheet as a result of mismatches in the repricing of interest rate sensitive financial assets and liabilities. The associated interest rate risk is managed within VaR limits and through the use of models to evaluate the sensitivity of earnings to movements in interest rates. Interest rate risk in the banking book is captured in GIB's Pillar 2 capital framework by gauging the impact of stress tests on the Group's interest rate exposure in the banking book.

c) Concentration risk

Concentration risk is the risk related to the degree of diversification in the credit portfolio, i.e. the risk inherent in doing business with large customers or not being equally exposed across industries and regions.

Concentration risk is captured in GIB's Pillar 2 capital framework which considers single-name concentrations and sector concentrations in the credit portfolio.

Potential concentration risks by product, single obligor, and geography are regularly assessed with a view to improving overall portfolio diversification. Established limits and actual levels of exposure are regularly reviewed by senior management and the Board of Directors.

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2. Group structure, overall risk and capital management (continued)

2.5 Risk in Pillar 2 (continued)

d) Pension obligation risk

Pension obligation risk is the risk that there may be a shortfall with respect to pension benefits due to employees/former employees within the funded defined benefit scheme of the Group's wholly owned subsidiary.

As part of GIB's ICAAP framework, an adverse scenario is applied to the scheme's assets and liabilities on a level of severity expected no more than once in every 200 years, i.e. a 99.5 per cent one year confidence level.

e) Reputational risk

Reputational risk is the risk of losses resulting from adverse perceptions about the Group, its brand and franchise by its various stakeholders that is caused by a variety of internal and external factors. Preventive measures, including controls and processes have been deployed to manage reputational risk. These include a robust and comprehensive governance structure, which is based on set of well-defined policies and procedures.

f) Information Technology (IT) risk

Technology continues to play a critical role in the Bank's operations and in the fulfilment of its strategic objectives. The Group has in place a sound IT and Information Security governance framework that aligns its IT strategy and Information & Cyber Security Strategy with its overall business objectives.

g) Macroeconomic risk

Macroeconomic risk relates to the risk of increasing stress levels in the principal economies in which the Group operates. These risks can be triggered by political uncertainties, social unrests, high/low commodity prices, excessive leverage in the financial system or an uncompetitive business environment. Due to the systemic nature of these macroeconomic triggers there will be an adverse impact on the Group's profitability and capital positions and the extent of loss would depend on the severity of the stress event.

Macroeconomic risk is captured in GIB's ICAAP framework through the use of stressed macroeconomic forecast to gauge the impact of potential losses that the Group could incur.

h) Legal risk

In the ordinary course of its business, as a participant in the financial services industry, the Group may pursue litigation claims against third parties and may also have litigation claims and/or regulatory proceedings filed against it. The Bank has an in-house legal department comprising of qualified legal professionals. The department has put in place adequate policies and procedures and uses assistance of professional legal firms on need basis, to ensure effective and efficient management of legal risk.

i) Strategic risk

Strategic risk refers to the risk to earnings and profitability arising from strategic decisions, changes in business conditions, and improper implementation of decisions. Strategic risk is captured in GIB's ICAAP framework based on the assessment of the potential from strategic initiatives of the Group not materialising or being delayed.

2.6 Monitoring and reporting

The monitoring and reporting to risk is conducted on a daily basis for market and liquidity risk, and on a monthly or quarterly basis for credit and operational risk.

Risk reporting is regularly made to senior management and the Board of Directors. The Board of Directors receives internal risk reports covering market, credit, operational and liquidity risks.

Capital management, including regulatory and internal economic capital ratios, is reported to senior management and the Board of Directors on a monthly basis.

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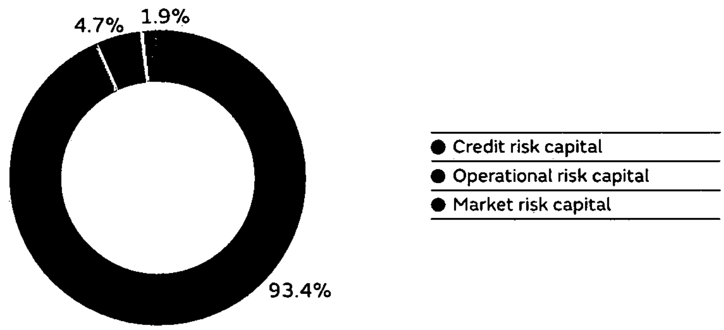
3. Regulatory capital requirements and the capital base

This section describes the Group's regulatory capital requirements and capital base.

The composition of the total regulatory capital requirement was as follows:-



3.1 Capital requirements for credit risk

For regulatory reporting purposes, GIB calculates the capital requirements for credit risk based on the standardised approach. Under the standardised approach, on- and off-balance sheet credit exposures are assigned to exposure categories based on the type of counterparty or underlying exposure. The exposure categories are referred to in the CBB's Basel 3 capital adequacy framework as standard portfolios. The primary standard portfolios are claims on sovereigns, claims on banks and claims on corporates. Following the assignment of exposures to the relevant standard portfolios, the RWAs are derived based on prescribed risk-weightings. Under the standardised approach, the risk-weightings are provided by the CBB and are determined based on the counterparty's external credit rating. The external credit ratings are derived from eligible external rating agencies approved by the CBB. GIB uses ratings assigned by Standard & Poor's, Moody's and Fitch.

An overview of the exposures, RWAs and capital requirements for credit risk analysed by standard portfolio is presented in the table below:

	Rated exposure	Unrated exposure	Total exposure	Average risk weight	RWA	Capital requirement
	US$ millions	US$ millions	US$ millions	%	US$ millions	US$ millions
Sovereigns	11,725.2	-	11,725.2	2%	223.0	27.9
PSEs	163.6	-	163.6	0%	0.1	-
Banks	6,833.5	4.3	6,837.8	26%	1,772.9	221.6
Corporates	3,399.1	10,293.7	13,692.8	81%	11,039.4	1,379.9
Equities	13.3	203.3	216.6	124%	269.1	33.6
Past due loans	-	181.3	181.3	115%	209.4	26.2
Other assets	14.6	847.3	861.9	100%	858.2	107.3
	22,149.3	**11,529.9**	**33,679.2**	**43%**	**14,372.1**	**1,796.5**

Exposures are stated after taking account of credit risk mitigants where applicable. The treatment of credit risk mitigation is explained in more detail in section 4.4(g) of this report.

The definitions of each standard portfolio and the related RWA requirements are set out in section 4 of this report.

3.2 Capital requirements for market risk

GIB uses a Value-at-Risk (VaR) model to calculate the regulatory capital requirements relating to general market risk.

The VaR calculated by the internal model is subject to a multiplication factor determined by the CBB. GIB's multiplication factor has been set at the regulatory minimum of 3.0 by the CBB.

Prescribed additions in respect of specific risk are made to general market risk. The resultant measure of market risk is multiplied by 12.5, to give market risk-weighted exposure on a basis consistent with credit risk-weighted exposure.

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3. Regulatory capital requirements and the capital base (continued)

3.2 Capital requirements for market risk (continued)

The RWAs and capital requirements for market risk are presented in the table below:-

	RWA	Capital requirement
	US$ millions	US$ millions
Interest rate risk	143.8	18.0
Equities	59.8	7.5
Foreign exchange risk	7.7	1.0
Total general market risk	211.3	26.5
Total specific market risk	80.7	10.1
	292.0	**36.6**

The general market risk calculation includes the addition of stressed VaR in accordance with CBB guidelines.

3.3 Capital requirements for operational risk

For regulatory reporting purposes, the capital requirement for operational risk is calculated in accordance with the standardised approach. Under this approach, the Group's average gross income over the preceding three financial years is multiplied by a range of beta coefficients. The beta coefficients are determined based on the business line generating the gross income and are prescribed in the CBB's Basel 3 capital adequacy framework and range from 12 to 18 per cent.

The capital requirement for operational risk at 31st December 2020 amounted to US$91.2 million.

3.4 Capital base

The regulatory capital base is set out in the table below:-

	CET 1 & Tier 1	Tier 2	Total
	US$ millions	US$ millions	US$ millions
Share capital	2,500.0	-	2,500.0
Share premium	7.6	-	7.6
Compulsory reserve	230.6	-	230.6
Voluntary reserve	168.1	-	168.1
Retained earnings	(799.5)	-	(799.5)
Unrealised losses from fair valuing equity investments	(33.8)	-	(33.8)
Deferred tax and other reserve	(1.2)	-	(1.2)
Non-controlling interest	940.7	-	940.7
Collective impairment provisions	-	110.4	110.4
CBB regulatory concessionary measures	53.6	-	53.6
Defined benefit pension fund asset	(14.2)	-	(14.2)
Non-controlling interest deduction from the regulatory capital	(520.6)	-	(520.6)
Tier 1 and tier 2 capital base	**2,531.3**	**110.4**	**2,641.7**

Common equity tier 1 (CET 1) and tier 1 capital is defined as capital of the same or close to the character of paid up capital and comprises share capital, share premium, retained earnings and eligible reserves. Eligible reserves exclude revaluation gains and losses arising on the remeasurement to fair value of derivative cash flow hedging transactions, although include unrealised gains and losses arising on the remeasurement to fair value of equity investment securities classified as fair value through other comprehensive income (FVTOCI). Regulatory capital deductions are applied to tier 1 and tier 2 capital with respect to investment exposures for entities where the Group does not own more than 10 per cent of the issued share capital of the entity, and to tier 1 capital to exclude any outstanding cash flow hedge reserves.

Tier 2 capital comprises collective impairment provisions.

The CBB applies various limits to elements of the regulatory capital base. The amount of innovative tier 1 securities cannot exceed 15 per cent of total tier 1 capital; qualifying tier 2 capital cannot exceed tier 1 capital; and qualifying subordinated term finance cannot exceed 50 per cent of tier 1 capital. There are also restrictions on the amount of collective impairment provisions that may be included as part of tier 2 capital.

There are no impediments on the transfer of funds or regulatory capital within the Group other than restrictions over transfers of statutory deposits with central banks and safeguards to ensure minimum regulatory capital requirements are met for subsidiary companies.

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4. Credit risk – Pillar 3 disclosures

This section describes the Group's exposure to credit risk and provides detailed disclosures on credit risk in accordance with the CBB's Basel 3 framework in relation to Pillar 3 disclosure requirements.

4.1 Definition of exposure classes

GIB has a diversified on- and off-balance sheet credit portfolio, the exposures of which are divided into the counterparty exposure classes defined by the CBB's Basel 3 capital adequacy framework for the standardised approach for credit risk. A high-level description of the counterparty exposure classes, referred to as standard portfolios in the CBB's Basel 3 capital adequacy framework, and the generic treatments, i.e. the risk weights to be used to derive the RWAs, are as follows:-

Sovereigns portfolio

The sovereigns portfolio comprises exposures to governments and their respective central banks. The risk weights are 0 per cent for exposures in the relevant domestic currency, or in any currency for exposures to GCC governments. Foreign currency claims on other sovereigns are risk-weighted based on their external credit ratings.

Certain multilateral development banks as determined by the CBB may be included in the sovereigns portfolio and treated as exposures with a 0 per cent risk-weighting.

PSE portfolio

Public sector entities (PSEs) are risk-weighted according to their external ratings with the exception of Bahrain PSEs, and domestic currency claims on other PSEs which are assigned a 0 per cent risk weight by their respective country regulator.

Banks portfolio

Claims on banks are risk-weighted based on their external credit ratings. A preferential risk weight treatment is available for qualifying short-term exposures. Short-term exposures are defined as exposures with an original tenor of three months or less.

The Banks portfolio also includes claims on investment firms, which are risk-weighted based on their external credit ratings although without any option for preferential treatment for short-term exposures. A regulatory deduction is applied to investment exposures for entities where the Group does not own more than 10 per cent of the issued share capital of the bank.

Corporates portfolio

Claims on corporates are risk-weighted based on their external credit ratings. A 100 per cent risk weight is assigned to unrated corporate exposures. A preferential risk weight treatment is available for certain corporates owned by the Government of Bahrain, as determined by the CBB, which are assigned a 0 per cent risk weight.

Equities portfolio

The equities portfolio comprises equity investments in the banking book, i.e. in the investment securities portfolio and non-qualifying equities and funds in the trading portfolio. The credit (specific) risk for qualifying equities in the trading book is included in market risk RWAs for regulatory capital adequacy calculation purposes. A regulatory deduction is applied to investment exposures for entities where the Group does not own more than 10 per cent of the issued share capital of the entity.

A 100 per cent risk weight is assigned to listed equities and funds. Unlisted equities and funds are risk-weighted at 150 per cent. Investments in rated funds are risk-weighted according to their external credit rating.

In addition to the standard portfolios, other exposures are assigned to the following exposure classes:-

Past due exposures

All past due loan exposures, irrespective of the categorisation of the exposure if it were performing, are classified separately under the past due exposures asset class. A risk-weighting of either 100 per cent or 150 per cent is applied depending on the level of provision maintained against the loan.

Other assets and holdings of securitisation tranches

Cash balances are risk-weighted at 0 per cent, other assets are risk-weighted at 100 per cent. A credit valuation adjustment (CVA) is applied to applicable derivative exposures.

Securitisation tranches are risk-weighted based on their external credit ratings and tenor. Risk-weightings range from 20 per cent to 1250 per cent.

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4. Credit risk – Pillar 3 disclosures (continued)

4.2 External rating agencies

GIB uses ratings issued by Standard & Poor's, Moody's and Fitch to derive the risk-weightings under the CBB's Basel 3 capital adequacy framework. Where ratings vary between rating agencies, the highest rating from the lowest two ratings is used to derive the risk-weightings for regulatory capital adequacy purposes.

4.3 Credit risk presentation under Basel 3

The credit risk exposures presented in this report may differ from the credit risk exposures reported in the consolidated financial statements. Differences arise due to the application of different methodologies, as illustrated below:-

- Under the CBB's Basel 3 framework, off-balance sheet exposures are converted into credit exposure equivalents by applying a credit conversion factor (CCF). The off-balance sheet exposure is multiplied by the relevant CCF applicable to the off-balance sheet exposure category. Subsequently, the exposure is treated in accordance with the standard portfolios referred to in section 4.1 of this report in the same manner as on-balance sheet exposures.
- Credit risk exposure reporting under Pillar 3 is frequently reported by standard portfolios based on the type of counterparty. The financial statement presentation is based on asset class rather than the relevant counterparty. For example, a loan to a bank would be classified in the Banks standard portfolio under the capital adequacy framework although is classified in loans and advances in the consolidated financial statements.
- Certain eligible collateral is applied to reduce exposure under the Basel 3 capital adequacy framework, whereas no such collateral netting is applicable in the consolidated financial statements.
- Based on the CBB's Basel 3 guidelines, certain exposures are either included in, or deducted from, regulatory capital rather than treated as an asset as in the consolidated financial statements.
- Under the CBB's Basel 3 capital adequacy framework, external rating agency ratings are based on the highest rating from the lowest two ratings, while for internal credit risk management purposes the Group uses the lowest rating.

4.4 Credit exposure

a) Gross credit exposure

The gross and average gross exposure to credit risk before applying collateral, guarantees, and other credit enhancements was as follows:-

	Gross credit exposure	Average gross credit exposure
	US$ millions	US$ millions
Balance sheet items:		
Cash and other liquid assets (including cash balances)	6,571.9	7,100.2
Securities purchased under agreements to resell	1,170.0	1,357.9
Placements	5,953.4	6,563.5
Trading securities	107.0	129.7
Investment securities	4,486.8	4,172.7
Loans and advances	10,433.5	9,781.6
Accrued interest and fees receivable	113.1	160.3
Total on-balance sheet credit exposure	**28,835.7**	**29,265.9**
Off-balance sheet items:		
Credit-related contingent items	5,168.4	4,961.7
Derivative and foreign exchange instruments	662.2	542.5
Total off-balance sheet credit exposure	**5,830.6**	**5,504.2**
Total gross credit exposure	**34,666.3**	**34,770.1**

The average gross credit exposure is based on monthly averages during the year ended 31st December 2020.

The gross credit exposure for derivative and foreign exchange instruments is the replacement cost (current exposure) representing the cost of replacing the contracts at current market rates should the counterparty default prior to the settlement date. The gross credit exposure reported in the table above does not include potential future exposure. Further details on the counterparty credit risk relating to off-balance sheet exposures are set out in section 7.3(a) of this report.

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4. Credit risk – Pillar 3 disclosures (continued)

4.4 **Credit exposure** (continued)

b) Credit exposure by geography

The classification of credit exposure by geography, based on the location of the counterparty, was as follows:-

	Placements, reverse repos & other liquid assets	Securities	Loans and advances	Accrued interest-fees receivable	Off-balance sheet items	Total
	US$ millions	US$ millions	US$ millions	US$ millions	US$ millions	US$ millions
GCC	3,983.3	3,618.4	10,160.4	78.8	4,997.0	22,837.9
Europe	8,014.3	281.0	-	28.3	379.9	8,703.5
North America	1,285.4	439.5	153.7	2.8	356.4	2,237.8
Asia	412.2	254.9	14.0	2.9	71.7	755.7
MENA (excluding GCC)	0.1	-	105.4	0.3	25.6	131.4
	13,695.3	**4,593.8**	**10,433.5**	**113.1**	**5,830.6**	**34,666.3**

The MENA region comprises the Middle East and North Africa.

c) Credit exposure by industrial sector

The classification of credit exposure by industrial sector was as follows:-

	Placements, reverse repos & other liquid assets	Securities	Loans and advances	Accrued interest-fees receivable	Off-balance sheet items	Total
	US$ millions	US$ millions	US$ millions	US$ millions	US$ millions	US$ millions
Government	8,082.9	3,256.6	487.8	31.6	120.1	11,979.0
Financial services	5,612.4	283.1	1,599.0	45.5	1,132.5	8,672.5
Energy, oil and petrochemical	-	368.3	1,847.5	7.9	895.6	3,119.3
Trading and services	-	-	1,694.3	8.8	849.4	2,552.5
Transportation	-	101.8	1,556.7	4.4	321.1	1,984.0
Construction	-	-	382.3	3.0	1,489.2	1,874.5
Manufacturing	-	278.3	1,048.3	5.5	415.0	1,747.1
Real estate	-	31.6	613.5	2.8	17.7	665.6
Agriculture and mining	-	-	277.1	0.7	219.8	497.6
Equity investments	-	260.8	-	0.4	-	261.2
Communication	-	-	228.8	0.8	13.9	243.5
Retail banking	-	-	183.0	0.1	-	183.1
Other	-	13.3	515.2	1.6	356.3	886.4
	13,695.3	**4,593.8**	**10,433.5**	**113.1**	**5,830.6**	**34,666.3**

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4. Credit risk – Pillar 3 disclosures (continued)

4.4 Credit exposure (continued)

d) Credit exposure by internal rating

The credit risk profile based on internal credit ratings and presented based on the International Financial Reporting Standards (IFRS) 9 – Financial Instruments classification was as follows:-

	Placements, reverse repos & other liquid assets	Securities	Loans and advances	Accrued interest-fees receivable	Off-balance sheet items	Total
	US$ millions	US$ millions	US$ millions	US$ millions	US$ millions	US$ millions
Stage 1						
Rating grades 1 to 4-	13,514.2	3,991.5	5,906.5	86.8	3,568.6	27,067.6
Rating grades 5+ to 5-	178.1	341.5	3,110.0	20.2	642.1	4,291.9
Rating grades 6+ to 6-	3.0	-	166.5	0.2	114.0	283.7
Carrying amount (net)	13,695.3	4,333.0	9,183.0	107.2	4,324.7	31,643.2
Stage 2						
Rating grades 1 to 4-	-	-	248.7	0.4	42.4	291.5
Rating grades 5+ to 5-	-	-	525.2	3.6	197.7	726.5
Rating grades 6+ to 6-	-	-	316.0	1.4	88.9	406.3
Rating grade 7	-	-	27.2	0.1	5.4	32.7
Carrying amount (net)	-	-	1,117.1	5.5	334.4	1,457.0
Stage 3						
Rating grade 8	-	-	133.4	-	19.9	153.3
Rating grade 9	-	-	-	-	20.8	20.8
Rating grade 10	-	-	-	-	27.6	27.6
Carrying amount (net)	-	-	133.4	-	68.3	201.7
Other credit risk exposures						
Equity investments	-	260.8	-	0.4	-	261.2
Performance bonds	-	-	-	-	1,103.2	1,103.2
Carrying amount	-	260.8	-	0.4	1,103.2	1,364.4
	13,695.3	**4,593.8**	**10,433.5**	**113.1**	**5,830.6**	**34,666.3**

The above analysis is reported net of the following provisions for impairment:-

Stage 1	-	(2.4)	(64.8)	-	-	(67.2)
Stage 2	-	-	(42.9)	-	-	(42.9)
Stage 3	-	-	(230.1)	-	-	(230.1)
	-	**(2.4)**	**(337.8)**	-	-	**(340.2)**

Following the adoption of IFRS 9 – Financial Instruments, the Group has classified credit exposures in the following prescribed stages:-

- Stage 1: for financial instruments where there has not been a significant increase in credit risk since initial recognition and that are not credit-impaired on origination, the Group recognises an allowance based on 12-month expected credit losses.
- Stage 2: for financial instruments where there has been a significant increase in credit risk since initial recognition but they are not credit-impaired, the Group recognises an allowance for the lifetime expected credit losses.
- Stage 3: for credit-impaired financial instruments, the Group recognises the lifetime expected credit losses.

The analysis is presented prior to the application of credit risk mitigation techniques.

The Group's internal credit rating system is commented on in more detail in section 4.7 of this report.

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4. Credit risk – Pillar 3 disclosures (continued)

4.4 Credit exposure (continued)

e) Credit exposure by maturity

The maturity profile of funded credit exposures based on contractual maturity dates was as follows:-

	Placements, reverse repos & other liquid assets	Securities	Loans and advances	Accrued interest-fees receivable	Total
	US$ millions	US$ millions	US$ millions	US$ millions	US$ millions
Within 3 months	11,656.2	125.0	4,529.1	92.0	16,402.3
4 months to 1 year	1,669.5	67.6	1,720.2	21.1	3,478.4
Years 2 to 5	369.6	1,506.1	3,341.4	-	5,217.1
Years 6 to 10	-	2,581.6	691.9	-	3,273.5
Years 11 to 20	-	55.1	33.6	-	88.7
Over 20 years and other	-	258.4	117.3	-	375.7
	13,695.3	**4,593.8**	**10,433.5**	**113.1**	**28,835.7**

An analysis of off-balance sheet exposure is set out in section 7 of this report.

Securities exposure over 20 years comprises equity investments and the securities non-specific provision.

f) Equities held in the banking book

Equity investments included in investment securities in the consolidated balance sheet are included in the equities standard portfolio in the Pillar 1 credit risk capital adequacy framework. Such equity investment securities principally comprise listed equities received in settlement of a past due loan, investments of a private equity nature, and investments in funds managed by specialist managers.

At 31st December 2020, equity investment securities held in the banking book amounted to US$153.9 million, of which US$27.0 million comprised listed equities received in settlement of a secured past due loan and US$8.0 million comprised managed funds.

During the year ended 31st December 2020, US$17.7 million of losses were realised on equity investments. At 31st December 2020, net unrealised losses on equity investment securities amounted to US$33.8 million and are included as a deduction from tier 1 capital.

g) Credit risk mitigation

The credit exposure information presented in section 4 of this report represents gross exposures prior to the application of any credit risk mitigants. Collateral items and guarantees which can be used for credit risk mitigation under the capital adequacy framework are referred to as eligible collateral. Only certain types of collateral and some issuers of guarantees are eligible for preferential risk weights for regulatory capital adequacy purposes. Furthermore, the collateral management process and the terms in the collateral agreements have to fulfil the CBB's prescribed minimum requirements (such as procedures for the monitoring of market values, insurance and legal certainty) set out in their capital adequacy regulations.

The reduction of the capital requirement attributable to credit risk mitigation is calculated in different ways, depending on the type of credit risk mitigation, as follows:-

- Adjusted exposure amount: GIB uses the comprehensive method for financial collateral such as cash, bonds and shares. The exposure amount is adjusted with regard to the financial collateral. The size of the adjustment depends on the volatility of the collateral and the exposure. GIB uses volatility adjustments specified by the CBB, known as supervisory haircuts, to reduce the benefit of collateral and to increase the magnitude of the exposure.
- Substitution of counterparty: The substitution method is used for guarantees, whereby the rating of the counterparty is substituted with the rating of the guarantor. This means that the credit risk in respect of the counterparty is substituted by the credit risk of the guarantor and the capital requirement is thereby reduced. Hence, a fully guaranteed exposure will be assigned the same capital treatment as if the exposure was to the guarantor rather than to the counterparty.

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4. Credit risk – Pillar 3 disclosures (continued)

4.4 Credit exposure (continued)

g) Credit risk mitigation (continued)

Description of the main types of credit risk mitigation

GIB uses a variety of credit risk mitigation techniques in several different markets which contribute to risk diversification and credit protection. The different credit risk mitigation techniques such as collateral, guarantees, credit derivatives, netting agreements and covenants are used to reduce credit risk. All credit risk mitigation activities are not necessarily recognised for capital adequacy purposes as they are not defined as eligible under the CBB's Basel 3 capital adequacy framework, e.g. covenants and non-eligible tangible collateral such as unquoted equities. The recognised credit risk mitigation activities are undertaken with various counterparties to ensure no additional credit or market risk concentrations occur.

Exposures secured by eligible financial collateral, guarantees and credit derivatives, presented by standard portfolio were as follows:-

	Exposure before credit risk mitigation	Eligible collateral	Of which secured by: Eligible guarantees or credit derivatives
	US$ millions	US$ millions	US$ millions
Sovereigns	63.8	-	63.8
Banks	2,160.0	1,651.8	362.2
Corporates	382.7	232.6	-

Guarantees and credit derivatives

Only eligible providers of guarantees and credit derivatives may be recognised in the standardised approach for credit risk. Guarantees issued by corporate entities may only be taken into account if their rating corresponds to A- or higher. The guaranteed exposures receive the risk weight of the guarantor.

GIB uses credit derivatives as credit risk protection only to a limited extent as the credit portfolio is considered to be well diversified.

Collateral and valuation principles

The amount and type of collateral is dependent upon the assessment of the credit risk of the counterparty. The market / fair value of the collateral is actively monitored on a regular basis and requests are made for additional collateral in accordance with the terms of the facility agreements. In general, lending is based on the customer's repayment capacity rather than the collateral value. However, collateral is considered the secondary alternative if the repayment capacity proves inadequate. Collateral is not usually held against securities or placements.

Types of eligible collateral commonly accepted

The Group holds collateral against loans and advances in the form of physical assets, cash deposits, securities and guarantees.

4.5 Impaired credit facilities and provisions for impairment

Individually impaired financial assets represent assets for which there is objective evidence that the Group will not collect all amounts due, including both principal and interest, in accordance with the contractual terms of the obligation. Objective evidence that a financial asset is impaired may include: a breach of contract, such as default or delinquency in interest or principal payments, the granting of a concession that, for economic or legal reasons relating to the borrower's financial difficulties, would not otherwise be considered, indications that it is probable that the borrower will enter bankruptcy or other 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.

Provisions for impairment are determined based on the difference between the net carrying amount and the recoverable amount of a financial asset. The recoverable amount is measured as the present value of expected future cash flows, including amounts recoverable from guarantees and collateral.

Provisions for impairment are also measured and recognised on a collective basis in respect of expected credit losses and are classified as either stage 1 or stage 2, in accordance with IFRS 9.

The stage 1 and stage 2 provisions reflect the probability-weighted estimate of expected credit losses. The provisions comprise both quantitative and qualitative information and analysis, based on the Group's historical experience and taking into consideration both internal and external indicators and includes forward-looking information.

Provisions for impairment are recognised in the consolidated statement of income and are reflected in an allowance account against loans and advances, investment securities and placements.

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4. Credit risk – Pillar 3 disclosures (continued)

4.5 Impaired credit facilities and provisions for impairment (continued)

a) Impaired loan facilities and related provisions for impairment

Impaired loan facilities and the related provisions for impairment were as follows:-

	Gross exposure	Impairment provisions	Net exposure
	US$ millions	US$ millions	US$ millions
Corporates	362.6	229.4	133.2
Retail banking	0.9	0.7	0.2
	363.5	**230.1**	**133.4**

The impaired loan facilities were principally to counterparties in the GCC.

b) Provisions for impairment – loans and advances

The movements in the provisions for the impairment of loans and advances were as follows:-

	Collective provisions		Specific provisions	
	Stage 1	Stage 2	Stage 3	Total
	US$ millions	US$ millions	US$ millions	US$ millions
At 1st January 2020	34.2	97.1	288.3	**419.6**
Transfer to stage 1	1.2	(1.2)	-	-
Transfer to stage 2	(2.9)	2.9	-	-
Transfer to stage 3	(0.4)	(78.7)	79.1	-
Exchange rate movements	-	-	0.4	**0.4**
Net remeasurement of loss allowance	32.7	22.8	283.8	**339.3**
Amounts utilised	-	-	(421.5)	**(421.5)**
At 31st December 2020	**64.8**	**42.9**	**230.1**	**337.8**

c) Impaired investment securities and related provisions for impairment

There were no impaired debt investment securities at 31st December 2020.

d) Provisions for impairment – investment securities

The movements in the provisions for the impairment of investment securities were as follows:-

	Collective provisions		Specific provisions	
	Stage 1	Stage 2	Stage 3	Total
	US$ millions	US$ millions	US$ millions	US$ millions
At 1st January 2020	3.6	0.7	-	4.3
Net remeasurement of loss allowance	(1.2)	(0.7)	-	(1.9)
At 31st December 2020	**2.4**	**-**	**-**	**2.4**

At 31st December 2020, the provisions for the impairment of investment securities entirely comprised non-specific provisions for debt investment securities determined on a collective basis.

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4. Credit risk – Pillar 3 disclosures (continued)

4.6 Past due facilities

In accordance with guidelines issued by the CBB, credit facilities are placed on non-accrual status and interest income suspended when either principal or interest is overdue by 90 days whereupon unpaid and accrued interest is reversed from income. Interest on non-accrual facilities is included in income only when received. Credit facilities classified as past due are assessed for impairment in accordance with the IFRS guidelines as set out in section 4.5 of this report. A specific provision is established only where there is objective evidence that a credit facility is impaired.

a) Loans

The gross and carrying amount of loans for which either principal or interest was over 90 days past due were as follows:-

	Gross	Carrying amount
	US$ millions	US$ millions
Corporates	362.6	133.2
Retail banking	0.9	0.2
	363.5	**133.4**

The past due loan facilities were principally to counterparties in the GCC.

The overdue status of gross past due loans based on original contractual maturities were as follows:-

	Less than 1 year	Years 2 and 3	Over 3 years	Total
	US$ millions	US$ millions	US$ millions	US$ millions
Corporates	82.4	158.9	121.3	362.6
Retail banking	0.9	-	-	0.9
	83.3	**158.9**	**121.3**	**363.5**

b) Investment securities

There were no debt investment securities for which either principal or interest was over 90 days past due.

4.7 Internal ratings

The Group monitors, manages and controls credit risk exposures based on an internal credit rating system that rates individual obligors based on a rating scale from 1 to 10, subject to positive (+) and negative (-) modifiers for rating grades 2 to 6. The internal credit rating is a measure of the credit-worthiness of a single obligor, based on an assessment of the credit risk relating to senior unsecured, medium-term, foreign currency credit exposure. The primary objectives of the internal credit rating system are the maintenance of a single uniform standard for credit quality measurement, and to serve as the primary basis for Board-approved risk parameters and delegated credit authority limits.

The internal credit rating system is used throughout the organisation and is inherent in all business decisions relating to the extension of credit. A rating is an estimate that exclusively reflects the quantification of the repayment capacity of the customer, i.e. the risk of customer default. The internal credit rating system also serves as a key input into the Group's Risk-Adjusted Return on Capital (RAROC) performance measurement system. Ratings reflect a medium-term time horizon, thereby rating through an economic cycle.

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4. Credit risk – Pillar 3 disclosures (continued)

4.7 Internal ratings (continued)

The internal ratings map directly to the rating grades used by the international credit rating agencies as illustrated below:-

Internal rating grade	Internal classification	Fitch and Standard & Poor's	Moody's
Investment grade			
Rating grade 1	Standard	AAA	Aaa
Rating grade 2	Standard	AA	Aa
Rating grade 3	Standard	A	A
Rating grade 4	Standard	BBB	Baa
Sub-investment grade			
Rating grade 5	Standard	BB	Ba
Rating grade 6	Standard	B	B
Rating grade 7	Standard	CCC	Caa
Classified			
Rating grade 8	Substandard	CC	Ca
Rating grade 9	Doubtful	C	C
Rating grade 10	Loss	D	-

The rating mapping does not intend to reflect that there is a fixed relationship between GIB's internal rating grades and those of the external agencies as the rating approaches differ.

5. Market risk – Pillar 3 disclosures

5.1 Market risk

Market risk is the risk of loss due to adverse changes in interest rates, foreign exchange rates, commodity prices, equity prices and market conditions, such as liquidity. The principal market risks to which the Group is exposed are interest rate risk and foreign exchange risk associated with its trading, investment and asset and liability management activities. The portfolio effects of holding a diversified range of instruments across a variety of businesses and geographic areas contribute to a reduction in the potential negative impact on earnings from market risk factors.

The Group's trading and foreign exchange activities principally comprise trading in debt securities, foreign exchange and derivative financial instruments. Derivative financial instruments include futures, forwards, swaps and options in the interest rate and foreign exchange markets. The Group manages and controls the market risk within its trading portfolios through limit structures of both a VaR and non-VaR nature. Non-VaR based constraints relate, inter alia, to positions, volumes, concentrations, allowable losses and maturities.

5.2 VaR model

A key element in the Group's market risk management framework is the estimation of potential future losses that may arise from adverse market movements. Exposure to general market risk is calculated utilising a VaR model. The use of the internal model approach for the calculation of the capital requirement for general market risk has been approved by the CBB. The multiplication factor to be applied to the VaR calculated by the internal model has been set at the regulatory minimum of 3.0 by the CBB.

From April 2012, the CBB has required that the VaR used for regulatory capital adequacy purposes incorporate a stressed VaR measure. This measure is intended to replicate the VaR for the Group's market risk exposures during periods of stress. The stressed VaR is increased by the multiplication factor and then added to the actual VaR to determine the regulatory capital requirement for market risk.

A key objective of asset and liability management is the maximisation of net interest income through the proactive management of the asset and liability repricing profile based on anticipated movements in interest rates. VaR-based limits are utilised to manage the risk associated with fluctuations in interest earnings resulting from changes in interest rates. The asset and liability repricing profile of the various asset and liability categories is set out in section 8.1(c) of this report.

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5. Market risk – Pillar 3 disclosure (continued)

5.2 VaR model (continued)

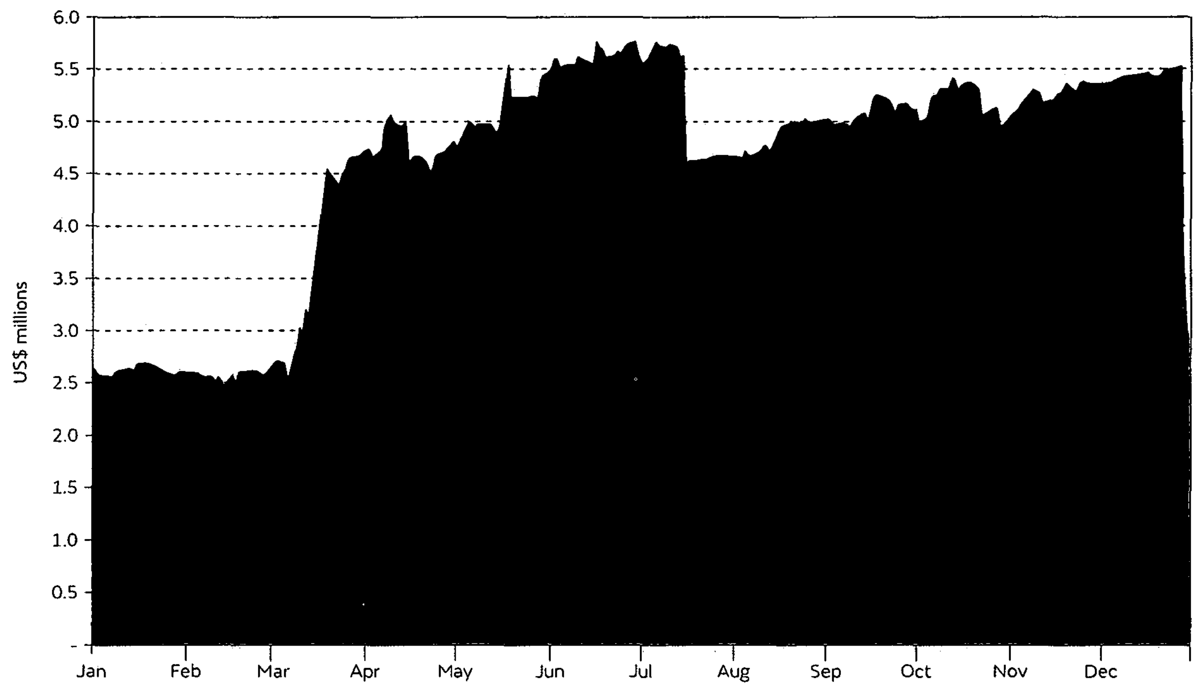
For internal risk management purposes, the Group measures losses that are anticipated to occur within a 95 per cent confidence level. Internally, the Group measures VaR utilising a one-month assumed holding period for both trading and banking book positions. For regulatory capital adequacy purposes, the figures are calculated using the regulatory VaR basis at a 99 per cent confidence level (2.33 standard deviations) and a 10-day holding period using 1-year unweighted historical daily movements in market rates and prices. Correlations across broad risk categories are excluded for regulatory capital adequacy purposes.

The VaR for the Group›s trading positions as calculated in accordance with the regulatory parameters set out above, was as follows:-

	31.12.20 US$ millions	Average US$ millions	High US$ millions	Low US$ millions
Total VaR	2.9	4.6	5.8	2.5
Total undiversified stressed VaR	4.3	7.2	8.2	4.3

The graph below sets out the total VaR for all the Group's trading activities at the close of each business day throughout the year ended 31st December 2020:-

Trading Value-at-Risk daily development 2020



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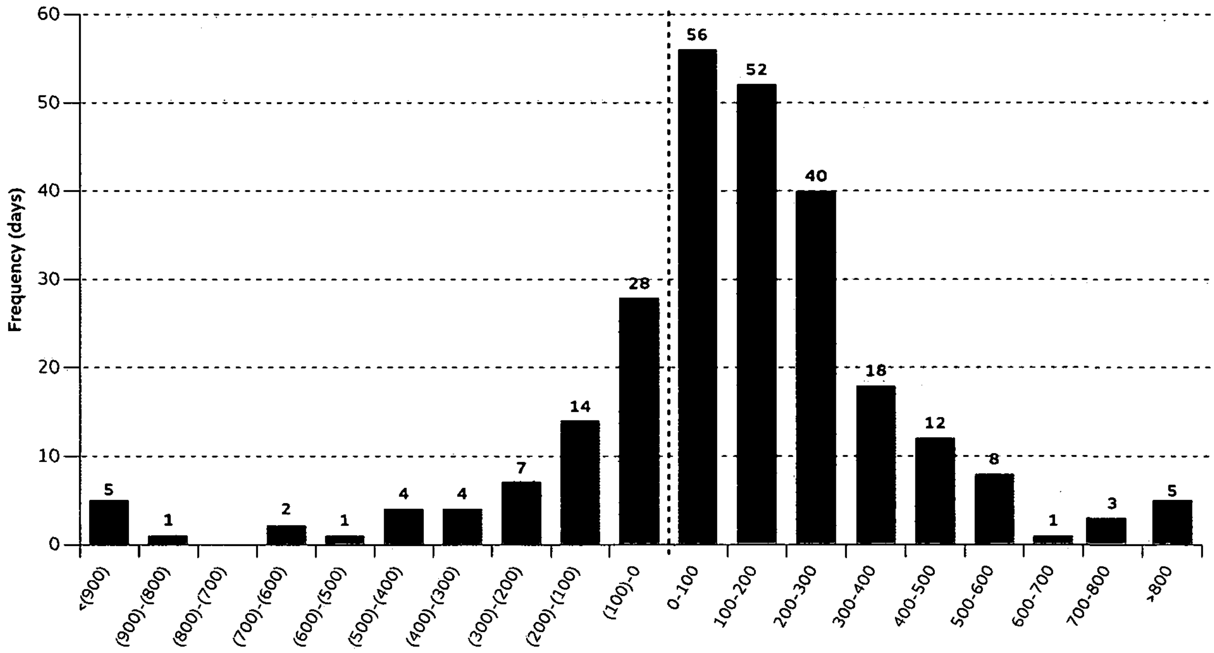
5. Market risk – Pillar 3 disclosure (continued)

5.2 VaR model (continued)

The daily trading profits and losses during the year ended 31st December 2020 are summarised as follows:-

Histogram of daily trading profits & losses 2020



Daily profits / (losses)
US$ 000's

The Group conducts daily VaR back testing both for regulatory compliance purposes and for the internal evaluation of VaR against actual trading profits and losses. During the year ended 31st December 2020, there were three instances of a daily trading loss exceeding the trading VaR at the close of business on the previous business day.

The five largest daily trading losses during the year ended 31st December 2020 compared to the 1-day VaR at the close of business on the previous business day were as follows:-

	Daily trading losses	1-day VaR
	US$ thousands	US$ thousands
6th Mar	1,940	849
9th Mar	1,659	786
1st May	1,554	1,518
23rd Oct	1,284	1,667
16th Mar	911	991

5.3 Sensitivity analysis

The sensitivity of the interest rate risk in the banking book to changes in interest rates is set out in section 8.1(c) of this report.

The Group's investment debt securities are measured at amortised cost. However, the Group nevertheless monitors the impact of changes in credit spreads on the fair value of the debt securities.

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6. Operational risk – Pillar 3 disclosures

6.1 Operational risk

Whilst operational risk cannot be eliminated in its entirety, the Group endeavours to minimise it by ensuring that a strong control infrastructure is in place throughout the organisation. The various procedures and processes used to manage operational risk include effective staff training, appropriate controls to safeguard assets and records, regular reconciliation of accounts and transactions, close monitoring of risk limits, segregation of duties, and financial management and reporting. In addition, other control strategies, including business continuity planning and insurance, are in place to complement the procedures, as applicable.

As part of the Group's Operational Risk Management Framework (ORMF), comprehensive risk self-assessments are conducted, which identify the operational risks inherent in the Group's activities, processes and systems. The controls in place to mitigate these risks are also reviewed, and enhanced as necessary. A database of measurable operational risk events is maintained, together with a record of key risk indicators, which can provide an early warning of possible operational risk.

The Group has an independent operational risk function. As part of the Group's Operational Risk Management Framework (ORMF), comprehensive risk assessments are conducted, which identify operational risks inherent in the Group's activities, processes and systems. The controls in place to mitigate these risks are also reviewed, and enhanced if necessary.

The capital requirement for operational risk is calculated for regulatory purposes according to the standardised approach, in which the regulatory capital requirement is calculated based on a range of beta coefficients, ranging from 12 to 18 per cent, applied to the average gross income for the preceding three financial years for each of eight predefined business lines. Consequently, the operational risk capital requirement is updated only on an annual basis.

7. Off-balance sheet exposure and securitisations

Off-balance sheet exposures are divided into two exposure types in accordance with the calculation of credit risk RWAs in the CBB's Basel 3 capital adequacy framework:-

- Credit-related contingent items: Credit-related contingent items comprise guarantees, credit commitments and unutilised approved credit facilities
- Derivative and foreign exchange instruments: Derivative and foreign exchange instruments are contracts, the value of which is derived from one or more underlying financial instruments or indices, and include futures, forwards, swaps and options in the interest rate, foreign exchange, equity and credit markets

In addition to counterparty credit risk measured within the Basel 3 credit risk framework, derivatives also incorporate exposure to market risk and carry a potential market risk capital requirement, as commented on in more detail in section 5 of this report. A credit valuation adjustment (CVA) is applied to the relevant derivative exposure RWA's.

For the two off-balance exposure types, there are different possible values for the calculation base of the regulatory capital requirement, as commented on below:-

7.1 Credit-related contingent items

For credit-related contingent items, the notional principal amount is converted to an exposure at default (EAD) through the application of a credit conversion factor (CCF). The CCF factors range from 20 per cent to 100 per cent depending on the type of contingent item, and is intended to convert off-balance sheet notional amounts into equivalent on-balance sheet exposures.

Credit commitments and unutilised approved credit facilities represent commitments that have not been drawndown or utilised. The notional amount provides the calculation base to which a CCF is applied for calculating the EAD. The CCF ranges between 0 per cent and 100 per cent depending on the approach, product type and whether the unutilised amounts are unconditionally cancellable or irrevocable.

The table below summarises the notional principal amounts, RWAs and capital requirements for each credit-related contingent category:-

	Notional principal amount	RWA	Capital requirement
	US$ millions	*US$ millions*	*US$ millions*
Direct credit substitutes	609.5	596.8	74.6
Transaction-related contingent items	2,263.2	869.8	108.7
Short-term self-liquidating trade-related contingent items	538.4	104.4	13.1
Commitments	1,757.3	763.9	95.5
	5,168.4	**2,334.9**	**291.9**

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7. Off-balance sheet exposure and securitisations (continued)

7.1 Credit-related contingent items (continued)

Commitments include undrawn loan commitments and underwriting commitments under note issuance and revolving facilities, and may be drawndown on demand.

The notional principal amounts reported above are stated gross before applying credit risk mitigants, such as cash collateral, guarantees and counter-indemnities. At 31st December 2020, the Group held cash collateral, guarantees, counter-indemnities or other high quality collateral in relation to credit-related contingent items amounting to US$378.2 million.

7.2 Derivative and foreign exchange instruments

The Group utilises derivative and foreign exchange instruments to meet the needs of its customers, to generate trading revenues and as part of its asset and liability management activity to hedge its own exposure to market risk. Derivative and foreign exchange instruments are subject to the same types of credit and market risk as other financial instruments. The Group has appropriate and comprehensive Board-approved policies and procedures for the control of exposure to both credit and market risk from its derivative and foreign exchange activities.

In the case of derivative transactions, the notional principal typically does not change hands. It is simply a quantity which is used to calculate payments. While notional principal is a volume measure used in the derivative and foreign exchange markets, it is neither a measure of market nor credit risk. The Group's measure of credit exposure is the cost of replacing contracts at current market rates should the counterparty default prior to the settlement date. Credit risk amounts represent the gross unrealised gains on non-margined transactions before taking account of any collateral held or any master netting agreements in place.

The Group participates in both exchange traded and over-the-counter (OTC) derivative markets. Exchange traded instruments are executed through a recognised exchange as standardised contracts and primarily comprise futures and options. OTC contracts are executed between two counterparties who negotiate specific agreement terms, including the underlying instrument, notional amount, maturity and, where appropriate, exercise price. In general, the terms and conditions of these transactions are tailored to the requirements of the Group's customers although conform to normal market practice. Industry standard documentation is used, most commonly in the form of a master agreement. The existence of a master netting agreement is intended to provide protection to the Group in the event of a counterparty default.

The Group's derivative and foreign exchange activities are predominantly short-term in nature. Transactions with maturities over one year principally represent either fully offset trading transactions or transactions that are designated, and qualify, as fair value or cash flow hedges.

The aggregate notional amounts for derivative and foreign exchange instruments at 31st December 2020 were as follows:-

	Trading	Hedging	Total
	US$ millions	**US$ millions**	**US$ millions**
Foreign exchange contracts:-			
Unmatured spot, forward and futures contracts	4,200.0	-	4,200.0
Options purchased	25.8	-	25.8
Options written	25.8	-	25.8
	4,251.6	-	4,251.6
Interest rate contracts:-			
Interest rate swaps	7,344.2	11,466.9	18,811.1
Cross currency swaps	81.1	-	81.1
Futures	-	27.4	27.4
Options, caps and floors purchased	2,148.7	-	2,148.7
Options, caps and floors written	2,148.7	-	2,148.7
	11,722.7	11,494.3	23,217.0
Equity and commodity contracts:-			
Options and swaps purchased	200.8	-	200.8
Options and swaps written	200.8	-	200.8
	401.6	-	401.6
	16,375.9	**11,494.3**	**27,870.2**

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7. Off-balance sheet exposure and securitisations (continued)

7.3 Counterparty credit risk

Counterparty credit risk is the risk that a counterparty to a contract in the interest rate, foreign exchange, commodity, equity or credit markets defaults prior to the maturity of the contract. The counterparty credit risk for derivative and foreign exchange instruments is subject to credit limits on the same basis as other credit exposures. Counterparty credit risk arises in both the trading book and the banking book.

a) Counterparty credit risk calculation

For regulatory capital adequacy purposes, GIB uses the current exposure method to calculate the exposure for counterparty credit risk for derivative and foreign exchange instruments in accordance with the credit risk framework in the CBB's Basel 3 capital adequacy framework. A capital charge to cover the risk of market-to-market losses on expected counterparty risk (CVA) is applied to over-the-counter derivatives. Credit exposure comprises the sum of current exposure (replacement cost), and potential future exposure. The potential future exposure is an estimate, which reflects possible changes in the market value of the individual contract during the remaining life of the contract, and is measured as the notional principal amount multiplied by an add-on. The add-on depends on the risk categorisation and maturity of the contract and the contract's remaining life. Netting of potential future exposures on contracts within the same legally enforceable netting agreement is done as a function of the gross potential future exposure.

The EAD, CVA, RWAs and capital requirements for the counterparty credit risk of derivative and foreign exchange instruments analysed by standard portfolio, is presented in the table below:-

	Exposure at Default (EAD)					
	Current exposure US$ millions	Future exposure US$ millions	Total exposure US$ millions	CVA US$ millions	RWA US$ millions	Capital requirement US$ millions
Banks	360.1	108.2	468.3	97.2	140.2	29.7
Corporates	294.3	102.7	397.0	67.1	308.4	46.9
Governments	7.7	3.0	10.7	0.9	0.8	0.2
	662.1	**213.9**	**876.0**	**165.2**	**449.4**	**76.8**

b) Mitigation of counterparty credit risk exposure

Risk mitigation techniques are widely used to reduce exposure to single counterparties. The most common risk mitigation technique for derivative and foreign exchange-related exposure is the use of master netting agreements, which allow the Group to net positive and negative replacement values of contracts under the agreement in the event of default of the counterparty.

The reduction of counterparty credit risk exposure for derivative and foreign exchange instruments through the use of risk mitigation techniques is demonstrated as follows:-

	Current exposure	Effect of netting agreements	Netted current exposure
	US$ millions	US$ millions	US$ millions
Counterparty credit risk exposure	662.2	(331.7)	281.1

7.4 Securitisations

Securitisations are defined as structures where the cash flow from an underlying pool of exposures is used to secure at least two different stratified risk positions or tranches reflecting different degrees of credit risk. Payments to the investors depend upon the performance of the underlying exposures, as opposed to being derived from an obligation of the entity originating those exposures.

At 31st December 2020, the Group had no exposure to securitisation tranches.

The Group provides collateral management services to three collateralised debt obligations (CDOs) issued between 2002 and 2006. The CDOs are intended to extract relative value from a wide range of asset classes across a broad spectrum of credit ratings. The underlying collateral of the CDOs includes leveraged loans, residential and commercial real estate, consumer finance, lending to small and medium sized enterprises, and other receivables. Each CDO holds below 20 individual investments.

At 31st December 2020, the underlying investments in the CDOs for which the Group acted as collateral manager amounted to US$0.1 billion. At 31st December 2020, GIB did not hold any exposure to CDOs managed by the Group.

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8. Pillar 2 risks

GIB manages and measures other risk types that are not included under Pillar 1 in the CBB's Basel 3 framework through Internal Capital Adequacy Assessment Process (ICAAP). For this purpose, the Group has adopted a "Pillar 1 plus" approach. Pillar 1 capital calculations (for credit, market and operational risk) constitute the minimum capital required by the Group's home regulator, the Central Bank of Bahrain (CBB). In addition to the capital assessment for Pillar 1 risks, the Pillar 2 capital assessment considers risks that are not covered adequately under Pillar 1 risks to ensure sufficient capital coverage for all the underlying risks of the Group's business. This includes an analysis of the Group's liquidity risk, concentration risk, interest rate risk in the banking book (IRRBB), pension obligation risk, reputation risk, information technology risk and macroeconomic risk.

This section describes GIB's Pillar 2 risks that are not addressed in Pillar 1 of the CBB's Basel 3 framework.

8.1 Other risk types

a) Liquidity risk

The Group has established approved limits which restrict the volume of liabilities maturing in the short-term. An independent risk management function monitors the future cash flow maturity profile against approved limits on a daily basis. The cash flows are monitored against limits applying to both daily and cumulative cash flows occurring over a 30 day period. The liquidity limits ensure that the net cash outflows over a 30 day period do not exceed the eligible stock of available liquid resources. The cash flow analysis is also monitored on a weekly basis by the Assets and Liabilities Committee (ALCO).

Customer deposits form a significant part of the Group's funding. The Group places considerable importance on maintaining the stability of both its customer and interbank deposits. The stability of deposits depends on maintaining confidence in the Group's financial strength and financial transparency.

The funding base is enhanced through term financing, amounting to US$4,924.9 million at 31st December 2020. Access to available but uncommitted short-term funding from the Group's established GCC and international relationships provides additional comfort. In addition to the stable funding base, the Group maintains a stock of liquid and marketable securities that can be readily sold or repoed.

At 31st December 2020, 68.9 per cent of total assets were contracted to mature within one year. With regard to deposits, retention records demonstrate that there is considerable divergence between their contractual and effective maturities.

US$12,673.3 million or 62.5 per cent of the Group's deposits at 31st December 2020 were from GCC countries. Historical experience has shown that GIB's deposits from counterparties in the GCC region are more stable than deposits derived from the international interbank market. At 31st December 2020, placements and other liquid assets with counterparties in non-GCC countries were greater than the deposits received, demonstrating that the Group is a net lender of funds in the international interbank market.

b) Concentration risk

Concentration risk is the credit risk stemming from not having a well diversified credit portfolio, i.e. the risk inherent in doing business with large customers or being overexposed in particular industries or geographic regions. Concentration risk is captured in GIB's Pillar 2 capital framework through the use of a credit risk portfolio model which considers single-name concentrations and sector concentrations in the credit portfolio.

Under the CBB's single obligor regulations, banks incorporated in Bahrain are required to obtain the CBB's approval for any planned exposure to a single counterparty, or group of connected counterparties, exceeding 15 per cent of the regulatory capital base. At 31st December 2020, the following single obligor exposures exceeded 15 per cent of the Group's regulatory capital base (i.e. exceeded US$390.3 million).

	On-balance sheet exposure	Off-balance sheet exposure	Total exposure
	US$ millions	US$ millions	US$ millions
Counterparty A	209.0	344.0	553.0
Counterparty B	327.0	203.0	530.0
Counterparty C	276.0	38.0	314.0

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8. Internal capital including other risk types (continued)

8.1 Other risk types (continued)

c) Interest rate risk in the banking book

Structural interest rate risk arises in the Group's core balance sheet as a result of mismatches in the repricing of interest rate sensitive financial assets and liabilities. The associated interest rate risk is managed within VaR limits and through the use of models to evaluate the sensitivity of earnings to movements in interest rates.

The repricing profile of the Group's assets and liabilities, including the trading book, are set out in the table below:-

	Within 3 months	Months 4 to 6	Months 7 to 12	Over 1 year	Non-interest bearing	Total
	US$ millions	US$ millions	US$ millions	US$ millions	US$ millions	US$ millions
Cash and other liquid assets	6,561.1	-	-	-	10.8	6,571.9
Securities purchased under agreements to resell	740.0	430.0	-	-	-	1,170.0
Placements	4,713.9	911.3	328.2	-	-	5,953.4
Trading securities	-	-	-	-	107.0	107.0
Investment securities:						
- Fixed rate	40.0	-	37.4	683.5	-	760.9
- Floating rate	3,416.2	155.9	-	-	-	3,572.1
- Equities	-	-	-	-	153.8	153.8
Loans and advances	8,848.4	1,548.5	36.6	-	-	10,433.5
Other assets	-	-	-	-	827.5	827.5
Total assets	**24,319.6**	**3,045.7**	**402.2**	**683.5**	**1,099.1**	**29,550.1**
Deposits	18,900.3	1,229.7	79.4	77.1	-	20,286.5
Securities sold under agreements to repurchase	175.2	-	-	-	-	175.2
Other liabilities	-	-	-	-	1,151.0	1,151.0
Term financing	4,924.9	-	-	-	-	4,924.9
Equity	-	-	-	-	3,012.5	3,012.5
Total liabilities & equity	**24,000.4**	**1,229.7**	**79.4**	**77.1**	**4,163.5**	**29,550.1**
Interest rate sensitivity gap	**319.2**	**1,816.0**	**322.8**	**606.4**	**(3,064.4)**	**-**
Cumulative interest rate sensitivity gap	**319.2**	**2,135.2**	**2,458.0**	**3,064.4**	**-**	**-**

The repricing profile is based on the remaining period to the next interest repricing date. Derivative financial instruments that have been used for asset and liability management purposes to hedge exposure to interest rate risk are incorporated in the repricing profiles of the related hedged assets and liabilities. The non-specific investment security and loan provisions are classified in non-interest bearing items.

The substantial majority of assets and liabilities reprice within one year.

Interest rate asset exposure beyond one year amounted to US$683.5 million or 2.3 per cent of total assets. This exposure principally represented the investment of the net free capital funds in fixed rate government securities. At 31st December 2020, the modified duration of these fixed rate government securities was 3.77. Modified duration represents the approximate percentage change in the portfolio value resulting from a 100 basis point change in yield. More precisely in dollar terms, the price value of a basis point of the fixed rate securities was US$266,000.

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8. Internal capital including other risk types (continued)

8.1 Other risk types (continued)

c) Interest rate risk in the banking book (continued)

Based on the repricing profile at 31st December 2020, and assuming that the financial assets and liabilities were to remain until maturity or settlement with no action taken by the Group to alter the interest rate risk exposure, an immediate and sustained one per cent (100 basis points) increase in interest rates across all maturities would result in an increase in net income before tax for the following year and the Group's equity of approximately US$31.9 million and US$19.1 million respectively. The impact on the Group's equity represents the cumulative effect of the increase in interest rates over the entire duration of the mismatches in the repricing profile of the interest rate sensitive financial assets and liabilities.

d) Pension obligation risk

Pension obligation risk is the risk that there may be a shortfall with respect to pension benefits due to employees/former employees within the defined benefit schemes of the Group's subsidiaries, GIBUK, GIB KSA and GIB Capital. The scheme was closed to new members during 2002. As a result the Group is exposed to the risk that it will need to make further unexpected future contributions to the scheme. The risk can arise from a number of factors including:

- Increased life expectancy increasing the value of future liabilities;
- Falling interest rates increasing the value of the future liabilities;
- Falling equity prices reducing the value of scheme assets;
- Increased salaries for staff still in employment.

As part of GIB's ICAAP framework, an adverse scenario is applied to the scheme's assets and liabilities on a level of severity expected no more than once in every 200 years, i.e. a 99.5 per cent one year confidence level.

e) Reputational risk

Reputational risk is the risk of losses resulting from adverse perceptions about the Group, its brand and franchise by its various stakeholders that is caused by a variety of internal and external factors. Preventive measures, including controls and processes have been deployed to manage reputational risk. These include a robust and comprehensive governance structure, which is based on set of well-defined policies and procedures.

The Group has established a reputational risk reporting framework, providing relevant stakeholders with periodic overview on key reputational risks, loss event incidents, status of key risk indicators, and required management action. Training sessions on reputational risks are organised for employees to create awareness among them on reputational risk, encourage them to identify and understand emerging internal and external reputational risks, and guide them on the process to take action in order manage or mitigate their impact.

The Group's operating model has been designed to cater transparency and appropriate disclosures. The Corporate Communications function of the Group has the responsibility to ensure effective communications internally with the employees and externally with the media, shareholders, customers and authorities. It is charged with the responsibility of enhancing the image and reputation of the GIB brand through the various activities such as advertising, public relations, sponsorships, and donations.

f) Information Technology (IT) risk

Technology continues to play a critical role in the Bank's operations and in the fulfilment of its strategic objectives. The Group has in place a sound IT and Information Security governance framework that aligns its IT strategy and Information & Cyber Security Strategy with its overall business objectives.

The Group has an IT Audit team with the mandate to examine and evaluate the Group's IT infrastructure, policies and procedures and compliance to those policies. The audits determine whether IT controls protect corporate assets, ensure data integrity and are aligned with the overall business objectives. This culminates in an audit plan which is reviewed and approved by the Board Audit committee. Based on the audit findings, exception reports and recommendations are prepared and sent to the relevant unit for prompt response and/or implementation. Follow up meetings are also made to ensure that issues identified are properly resolved and the recommendations made are being implemented.

In addition, the Group has newly created two teams, Information Security Governance and Information Security Compliance, who have the mandate to perform detailed Information & Cyber Security Risk Assessments and Information Security Compliance reviews.

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8. Internal capital including other risk types (continued)

8.1 Other risk types (continued)

g) Macroeconomic risk

Macroeconomic risk relates to the risk of increasing stress levels in the principal economies in which the Group operates. These risks can be triggered by political uncertainties, social unrests, high/low commodity prices, excessive leverage in the financial system or an uncompetitive business environment. Due to the systemic nature of these macroeconomic triggers there will be an adverse impact on the Group's profitability and capital positions and the extent of loss would depend on the severity of the stress event.

Macroeconomic risk is captured in GIB's ICAAP framework through the use of stressed macroeconomic forecast to gauge the impact of potential losses that the Group could incur.

h) Legal risk

In the ordinary course of its business, as a participant in the financial services industry, the Group may pursue litigation claims against third parties and may also have litigation claims and/or regulatory proceedings filed against it. The Bank has an in-house legal department comprising of qualified legal professionals. The department has put in place adequate policies and procedures and uses assistance of professional legal firms on need basis, to ensure effective and efficient management of legal risk.

i) Strategic risk

Strategic risk refers to the risk to earnings and profitability arising from strategic decisions, changes in the business conditions and improper implementation of decisions. Thus, a strategic risk arises due to adopting wrong strategies and choices that can cause loss to the Group in the form of a reduction in shareholder value and loss of earnings.

Strategic risk is identified, managed, mitigated and monitored jointly by the business (as the 1st line of defence) and the Economics & Strategy Management Unit. The Economics & Strategy Management Unit is responsible for the monitoring and reporting of the Group's strategic initiatives and provides the Management Committee, Board Risk Policy Committee (BRPC), and the Board of Directors a regular update on all the Group's strategic initiatives, including the strategic risks facing the Group. The Management Committee, the BRPC, and the Board review the strategic risks of the Group and ensure that adequate mitigating strategies are in place for the Group's strategic initiatives to be successfully implemented.

9. Capital adequacy ratios and other issues

9.1 Capital adequacy ratios

The Group's policy is to maintain a strong capital base so as to preserve investor, creditor and market confidence and to sustain the future development of the business. The impact of the level of capital on shareholders' return is also recognised as well as the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position. The Group manages its capital structure and makes adjustments to the structure taking account of changes in economic conditions and strategic business plans. The capital structure may be adjusted through the dividend payout or the issue of new shares.

The capital adequacy ratios of GIB's subsidiaries, GIB KSA and GIB UK, and the Group were as follows:-

	GIB KSA	**GIB UK**	**Group**
Total RWAs (US$ millions)	7,291.0	1,454.2	15,393.7
Capital base (US$ millions)	1,930.6	372.5	2,641.7
Tier 1 capital (US$ millions)	1,881.4	372.5	2,531.3
Tier 1 ratio (per cent)	**25.8**	**25.6**	**16.4**
Total ratio (per cent)	**26.5**	**25.6**	**17.2**

GIB aims to maintain a minimum tier 1 ratio in excess of 11.0 per cent and a total capital adequacy ratio in excess of 15.0 per cent.

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9. Capital adequacy ratios and other issues (continued)

9.1 Capital adequacy ratios (continued)

Strategies and methods for maintaining a strong capital adequacy ratio

GIB prepares multi-year strategic projections on a rolling annual basis which include an evaluation of short-term capital requirements and a forecast of longer-term capital resources.

The evaluation of the strategic planning projections have historically given rise to capital injections. The capital planning process triggered the raising of additional tier 2 capital through a US$400 million subordinated debt issue in 2005 to enhance the total regulatory capital adequacy ratio, and a US$500 million capital increase in March 2007 to provide additional tier 1 capital to support planned medium-term asset growth. A further US$1.0 billion capital increase took place in December 2007 to enhance capital resources and compensate for the impact of likely provisions relating to exposures impacted by the global credit crisis.

9.2 Leverage ratio

The leverage ratio serves as a supplementary measure to the risk-based capital requirements. The leverage ratio is computed on a consolidated basis and Bahraini conventional bank licensees must meet a 3.0 per cent leverage ratio minimum requirement at all times.

Leverage Ratio components	
Tier 1 capital (US$ millions)	2,531.3
Total Exposure (US$ millions)	33,172.0
Leverage ratio (per cent)	**7.6**

9.3 ICAAP considerations

Pillar 2 in the Basel 3 framework covers two main processes: the ICAAP and the supervisory review and evaluation process. The ICAAP involves an evaluation of the identification, measurement, management and control of material risks in order to assess the adequacy of internal capital resources and to determine an internal capital requirement reflecting the risk appetite of the institution. The purpose of the supervisory review and evaluation process is to ensure that institutions have adequate capital to support the risks to which they are exposed and to encourage institutions to develop and apply enhanced risk management techniques in the monitoring and measurement of risk.

GIB's regulatory capital base exceeded the CBB's minimum requirement of 12.5 per cent throughout the year ended 31st December 2020. Based on the results of capital adequacy stress testing and capital forecasting, GIB considers that the buffers held for regulatory capital adequacy purposes are sufficient and that GIB's internal minimum capital targets of 11.0 per cent for tier 1 capital and 15.0 per cent for total capital are adequate given its current risk profile and capital position. The Group's regulatory capital adequacy ratios set out in section 9.1 of this report significantly exceeded the minimum capital targets and are high by international comparison.

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10. Glossary of abbreviations

ALCO	Assets and Liabilities Committee
AMA	Advanced Measurement Approach
Basel Committee	Basel Committee for Banking Supervision
CBB	Central Bank of Bahrain
CCF	Credit Conversion Factor
CDO	Collateralised Debt Obligation
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CCO	Chief Credit Officer
CRO	Chief Risk Officer
CVA	Credit Valuation Adjustment
EAD	Exposure at Default
FCA	Financial Conduct Authority (of the United Kingdom)
FVTOCI	Fair Value through Other Comprehensive Income
GCC	Gulf Cooperation Council
GIB	Gulf International Bank B.S.C.
GIB UK	Gulf International Bank (UK) Limited
Group	Gulf International Bank B.S.C. and subsidiaries
ICAAP	Internal Capital Adequacy Assessment Process
IFRS	International Financial Reporting Standards
IRRBB	Interest Rate Risk in the Banking Book
LGD	Loss Given Default
MENA	Middle East and North Africa
ORMF	Operational Risk Management Framework
OTC	Over-The-Counter
PD	Probability of Default
PRA	Prudential Regulation Authority (of the United Kingdom)
PSE	Public Sector Entity
RAROC	Risk-adjusted Return on Capital
RWA	Risk-weighted Assets
VaR	Value-at-Risk

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