



Annual report 2019





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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 offers a diverse range of financial products and services and bespoke banking solutions to a wide customer base in the GCC, Europe and North America. This includes corporate banking, the world's first Shariah compliant digital retail banking service, meem, as well as investment banking spanning asset management, bond and sukuk issuance, financial restructuring, private placements, private sale, IPOs, underwriting equity and debt, and mergers and acquisitions.

GIB's services are delivered across the GCC and international markets through its subsidiaries: GIB Saudi Arabia, GIB Capital and GIB (UK) Ltd. Additionally, the Bank has branches in the UAE and USA.

GIB Saudi Arabia is the first foreign domiciled bank to establish a local commercial bank in the Kingdom. It is headquartered in Eastern Province and operates branches in Riyadh, Jeddah and Dhahran, while the Bank's investment banking activities are delivered by GIB Capital, based in Riyadh.

GIB (UK) Ltd is a London and New York based international asset management subsidiary.

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 Hassan 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



Financial Highlights

	2019	2018	2017	2016	2015
Earnings (US\$ millions)					
Net income after tax	63.0	(227.0)	70.0	37.3	90.4
Net interest income	280.4	273.7	253.1	190.0	188.2
Fee and commission income	64.7	61.2	72.6	66.2	70.2
Operating expenses	285.9	265.4	240.0	219.0	192.1
Financial position (US\$ millions)					
Total assets	30,241.7	27,546.1	25,471.3	22,905.8	24,192.4
Loans	9,876.1	9,817.8	10,043.1	9,745.1	9,161.4
Investment securities	3,828.4	3,897.2	3,993.8	4,066.4	3,884.5
Senior term financing	3,502.4	3,338.0	3,263.6	2,761.6	2,420.0
Equity	3,296.3	2,196.2	2,410.9	2,357.4	2,431.0
Ratios (per cent)					
Profitability					
Return on average equity	2.8	(9.9)	2.9	1.6	3.8
Return on average assets	0.2	(0.9)	0.3	0.2	0.4
Capital					
Risk asset ratio					
- Total	18.4	14.5	15.6	16.8	17.8
- Tier 1	17.5	13.6	14.7	15.7	16.8
Equity as % of total assets	10.9	8.0	9.5	10.3	10.0
Asset quality					
Securities as % of total assets	13.1	14.8	16.4	18.2	16.4
Loans as % of total assets	32.7	35.6	39.4	42.5	37.9
Liquidity					
Liquid assets ratio	64.9	61.6	58.3	55.0	60.0
Deposits to loans cover (times) ¹	2.6	2.4	2.1	1.9	2.1

¹ Deposits include senior term financing

CREDIT RATINGS

	Fitch	Moody's Ratings	Capital Intelligence
Long-term Deposit Rating	BBB+	Baa1	A+
Long-term Senior Unsecured Debt Rating	BBB+	Baa1	-
Short-term Deposit Rating	F2	P-2	A1
Outlook	Stable	Stable	Stable

Chairman's statement



GIB continued to maintain a strong balance sheet in 2019. Consolidated total assets at the end of the year stood at US\$27.5 billion, an increase of 8 per cent from US\$25.5 billion at the end of 2018.”



Dr. Abdullah bin Hassan Alabdulgader
Chairman of the Board

On behalf of the Board of Directors, I am delighted to present the annual report and financial statements of Gulf International Bank (GIB) for the fiscal year ended 31st December 2019. GIB has successfully steered through 2019 despite challenging market conditions and created a solid base for future growth. Whilst there have been several compelling landmarks, one of the most significant was the conversion of our operations in the Kingdom of Saudi Arabia into a locally incorporated bank as part of our strategic journey. GIB Saudi Arabia is the first foreign domiciled bank to establish a local commercial bank in the Kingdom.

A Challenging Year

We have remained steadfast to accomplish and succeed despite the global economic environment mired in uncertainty during most of 2019. Our region was also impacted as oil price volatility increased in response to the trade war and geopolitical tensions. Additionally, these adverse conditions affected the non-oil segments and weighed on prospects for investment into the GCC.

Despite these headwinds, the broad trend of reform and liberalisation continued apace in the GCC region: easing of residency regulations; inclusion of domestic stock markets into global equity indexes; increased inward investments; growing access to capital markets; expansion of the digital and fintech ecosystems; and most notably, the successful launch of the Saudi Aramco initial public offering (IPO) are a few examples.

Indeed, towards the end of last year, signs of stabilisation had emerged and raised hopes of a recovery in 2020. The optimism was further buoyed by monetary policy easing and an improvement in trade relations between the United States and China. However, the momentum has not been sustainable. While it is too early to assess the impact of the coronavirus outbreak on global growth, we are closely monitoring the potential risks to our region.

Our Financial Performance

Despite the challenging economic conditions, and the rising costs of doing business associated with improving governance and responding to regulatory changes, GIB continues to grow. I am pleased to report gross income of US\$384.7 million compared with US\$398.5 million last year. The prior year gross income included an exceptional recovery related to a previously written-off loan. Gross income reflected year-on-year increases in both net interest income to US\$280.4 million from US\$273.7 million in 2018, and fee and commission income from US\$61.2 million to US\$64.7 million. The increase in net interest income was achieved despite the unfavourable declining interest rate environment witnessed during 2019. A 79 per cent increase in trading income to US\$17.0 million reflected strong gains made by investments in funds managed by GIB Capital and GIB UK.

Our performance reflects the successful strategic diversification of our services and product offerings. Indeed, the strength of earnings has resulted from

improved performances across the Group. GIB Capital doubled its investment banking income from corporate advisory services and GCC asset management activities. Investments in managed funds delivered heightened earnings, while global transaction banking and the retail banking divisions further added to the underlying positive momentum in income.

Total operating expenses in 2019 at US\$285.9 million were 8 per cent up on the prior year level reflecting the continued investment in systems and process efficiencies. Operating expenses included an exceptional charge arising on an adjustment to the carrying value of certain information technology-related fixed assets. Excluding this exceptional charge, which will result in a lower depreciation expense in future years, total operating expenses were at the same level as in the prior year.

Provisions showed a return to a more normalised, moderate level with a provision charge for loans and advances of US\$30.3 million for the year, a direct result of our conservative approach to risk management.

Net income after provisions and tax of US\$63.0 million compares with a net loss of US\$227.0 million recorded in the previous year that resulted from an exceptional loan provision charge.

The strength of our balance sheet continues to reinforce our foundation for future growth, with consolidated total assets growing by 10 per cent to US\$30.2 billion at the end of the year from US\$27.5 billion at the end of 2018. The asset profile reflects a high level of liquidity with cash and other liquid assets, and short-term placements totalling US\$15.7 billion, representing 52 per cent of total assets. Importantly, GIB remains a net lender to the interbank market. Loans and advances remained steady at US\$9.8 billion at the 2019 year end.

Enhanced Funding Position

Our funding profile continues to strengthen, with growing access to stable and less costly funding through meem digital banking, and the global transaction banking business. Customer deposits increased 16 per cent to US\$21.2 billion, constituting 96 per cent of total deposits, and exceeding loans and advances by more than 2 times. At the end of 2019, the Group's Net Stable Funding Ratio (NSFR) stood at a particularly high 163 per cent compared to the Central Bank of Bahrain's mandated regulatory minimum of 100 per cent. This strong ratio reflected the high level of stable funding maintained by each entity within the GIB Group. Stable funding was enhanced by senior term finance of US\$3.5 billion at the 2019 year end.

Confirmation of External Ratings

I am pleased to report that the international rating agencies continued their endorsement of confidence in GIB's financial strength through 2019. Fitch Ratings affirmed the Bank's long-term issuer default rating (IDR) at 'BBB+', with a Stable outlook. Moody's Investors Service also affirmed GIB's long-term deposit rating at

Chairman's statement (continued)

'Baa1' while upgrading the outlook from Negative to Stable. The upgrade in the outlook reflected Moody's expectation of the Bank's future stable funding profile. The continued assurance from the international rating agencies is an acknowledgement of their view of GIB's strong shareholder structure, adequate capitalisation and competent management, as well as sound asset quality and strong levels of liquidity.

Expanding Footprint

The culmination of years of meticulous planning was rewarded in 2019 with the creation of GIB Saudi Arabia. With the natural geographical and historical linkages between Bahrain and Saudi Arabia, our presence as a local institution in the Kingdom is an important milestone. This is an integral part of our strategy to expand our products and services as a leading digital bank and enhance our performance and profitability.

I am also delighted to report that our presence in Saudi Arabia has been further reinforced with the successful establishment of our new Operations Centre in Al Khobar, the first locally incorporated bank to be headquartered in the Eastern Province. This was achieved by the seamless transition of the Group's operational activities to the new Al Khobar hub.

Meanwhile, the broader expansion of our geographic footprint continues, with strengthened teams in both Abu Dhabi and Dubai, as well as in London and New York. In Wholesale Banking, I note with pleasure the growing successes achieved by our global transactional banking team, and the increased activity in project finance mandates. In the capital markets, GIB Capital has been prominent in mergers and acquisitions' transactions across the region, as well as large syndicated and funding arranger roles.

Innovation and Sustainability

As the finance world continues to evolve at an unprecedented pace, we have recognised the critical importance of efficient application of digital technologies and customer experience as key elements of success in our industry. GIB is embracing innovation in all aspects, with technology adoption as a focal point of our business. The Board-level Innovation Committee continues to guide and encourage cutting edge, digital first and customer centric opportunities that create discerning value propositions in the products and services we offer.

GIB's foray into the innovation and digital space also underpins a greater ambition to make a positive impact in all that we do. Our commitment to the principles of economic, social and environmental sustainability among the communities we serve continues to grow, led by the vision of the GIB Asset Management team to scale capital in support of sustainable development. This is further reflected in the highly competent management teams and people we have assembled across the Group. Our ethos of continuing to attract the best possible talent and offering all of our staff the opportunity to excel in their careers, is paying dividends. We will continue to add to our human capital as we grow.

Adherence to best practice in corporate governance is also absolute. Our risk management framework is structured to comply with the latest regulatory requirements. Equally important is the need to maintain constant vigilance amidst the current economic ecosystem and to ensure prudence in managing customer lending relationships. We have strengthened the supervision of our credit portfolio and introduced early warning indicators of possible stresses in the portfolio.

As we move forward, we are keen to integrate sustainability as a common thread that binds GIB across its geographies, with the goal to transform the way we work in order to remain relevant to all our stakeholders.

Strategic Direction

Recently, we refreshed the strategy for the GIB Group and created a new strategic roadmap for our newly-formed subsidiary, GIB Saudi Arabia. Moving forward, GIB's strategic direction and priorities will be reinforced by the fulfilment of our vision and mission statements. As the trusted partner recognised for innovation, regional expertise and international reach, we will continue to build on our capabilities to provide tailored solutions by leveraging our digital advantage and years of banking expertise. Today's world is all about creating agile solutions and smart products for clients, and that is where we aim to excel. At the same time, we are cognisant of the mark we leave. In this regard, GIB will increasingly integrate sustainable finance into its business and continue to invest in and develop local talent.

Looking Ahead

At a time of elevated global risks that range from trade frictions, deglobalisation and monetary policy challenges, to the potential of the coronavirus having a longer-lasting impact, growth prospects for our region remain subject to uncertainty. Yet, we continue to remain cautiously optimistic. Economic diversification is at the forefront and the challenging environment has not deterred the GCC countries from further advancing deep structural reforms, most notably by Saudi Arabia under the Vision 2030 program. The groundwork is being continuously laid to enhance the economic and investments drivers for future growth. Saudi Arabia's 2020 G-20 presidency and the World Expo in Dubai further raise the profile of the region to showcase the opportunities that are emerging from the expanse of reform. Meanwhile, the extraordinary changes underway in the financial industry, catalysed by advancement of mobile technology and instant connectivity, are also opening new vistas of collaboration, opportunity, and growth.

The Bank's progressive strategic model and refreshed direction, with its focus on diversification of revenues, a cost-effective funding profile, service quality, operational efficiencies, and investment in people, provides me with assurance that GIB is poised for greater success. We are living in exceptional times surrounded by challenges in every aspect of our business. However, I have confidence that with our growing resilience, the Bank is well-positioned to continue advancing the business momentum and embrace new opportunities of growth.

Acknowledgement

On behalf of the Board of Directors, I express my deepest gratitude for the unstinting support and confidence of our shareholders, the continuing trust and loyalty of our clients and the encouragement of each and all of our business partners. The ongoing advice and guidance of our regulators and supervisory bodies and agencies in the various jurisdictions where GIB operates is greatly appreciated. Finally, I acknowledge the outstanding commitment, application and professionalism of our management and staff as we continue our transformational journey together.

Dr. Abdullah bin Hassan Alabdulgader
Chairman of the Board

Our Strategy

VISION

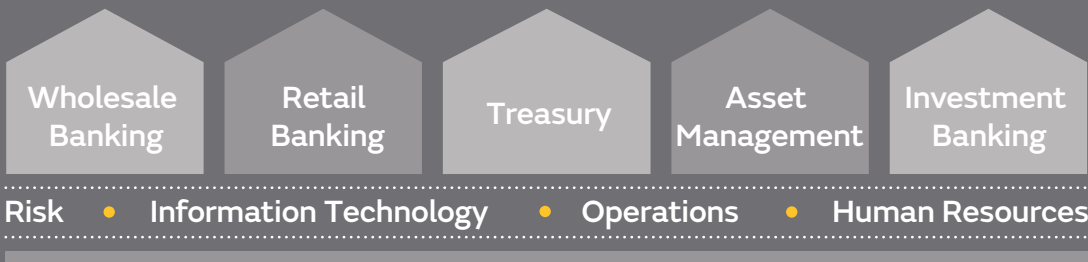
The trusted partner recognised for innovation, regional expertise and international reach.

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



STRATEGIC PRIORITIES



Management review



The conversion of our Saudi operations into a local subsidiary is an important milestone for GIB. Whilst Bahrain is our heritage and home, the evolution to a locally incorporated bank has served to broaden the Bank's base and strengthen its presence in our closest geographic neighbour."

Abdulaziz bin Abdulrahman Al-Helaissi
Group CEO & Board Member



Volatility and uncertainty dominated 2019. Global trade tensions, unsettled financial markets and the prolonged Brexit negotiations alongside regional geopolitical and economic concerns, created challenging business conditions and underscored the importance of resilience and discipline. I am pleased to report that despite all the uncertainty, GIB has begun to see the positive results of the Bank's transformation over the last few years.

The Board of Directors' strategic foresight has shown some excellent successes, including:

- The creation of our subsidiary, Gulf International Bank-Saudi Arabia in April 2019
- Consolidation of our operations in a new central hub in Al Khobar in the Eastern Province of Saudi Arabia
- The positive impact of our drive toward technological advancement through digital channels
- Growth of our institutional asset management business
- Significant focus on expanding our retail business, meem, in Saudi Arabia
- Further enhancement of our human capital

Indeed, the conversion of our Saudi operations into a local subsidiary is an important milestone for GIB. Whilst Bahrain is our heritage and home, the evolution to a locally incorporated bank has served to broaden the Bank's base and strengthen its presence in our closest geographic neighbour. It makes our footprint stronger and offers great potential for further growth, by enabling us to foster deeper relationships. This was demonstrated during the historic launch of the Saudi Aramco IPO, during which we were an official receiver of the IPO applications, channelling 4 per cent of all retail subscriptions totalling SAR 8.4 billion.

In pursuit of enhanced efficiencies across the Group's operational infrastructure, I am pleased that the new operations centre in Al Khobar has swiftly and seamlessly established its added value, with more than 500 employees serving the wider GIB Group from this purpose built base. GIB's one team approach has resulted in the stability of activities and controls, for example the development of the highly successful system management of the Aramco IPO. We also successfully undertook the first-ever full disaster recovery exercise held by a bank in Saudi Arabia.

GIB is embracing change as never seen before. Innovation and digital banking applications are the keys to the future of customer service, as well as maintaining state-of-the-art efficiencies. The new Board-level Innovations Committee is a strong indicator of the importance of technology and digitisation at every level for GIB as well as our growing partnerships with Fintech-related companies. We have upgraded our straight through processing leading to an enhancement of counterparty relationships. Internally, excellent linkage with IT, Risk, and Compliance affords transparency across the entire Bank.

In meem we are building on our digital pedigree, and GIB's fully digital retail service and product suite has gone from strength to strength. In one 3-month period in 2019 customers were offered four new different paying services. meem also introduced additional applications, including a simplified digital onboarding for customers. I am delighted that the continued expansion of GIB's retail services will be exclusively digital.



Management review (continued)

Wholesale Banking drives our Global Transaction Banking and Project Finance business, where we continue to expand, both in product diversity and geographic reach, and are poised for further growth in these areas. We have a well-founded reputation for using our digital advantage to create agile and smart products. Our Treasury business also continues apace in our equity, fixed income, and money market activities. GIB Capital became a member of Tadawul at the beginning of the year, launched its first MENA Equity Fund and acted as the Joint Lead Manager and Joint Bookrunner on the first ever USD denominated green corporate Sukuk globally. GIB geographical coverage expanded in Saudi, the GCC and MENA region.

I note with pleasure that GIB UK has become a strong voice in support of Environmental, Social, and Governance (ESG). This measurement of the sustainability and societal impact of an investment in a company or business is becoming increasingly important, and the London team has successfully refocused and re-aligned its business to launch intensive new initiatives in its core asset management and trade finance-related markets. GIB seeks to adhere to these ESG tenets, not only in its asset management activity, but also in offering broader financial facilities to its customers across the Group.

The depth and quality of our human capital remains an intrinsic and core element of GIB's strength. The acquisition, development and training of personnel at all levels, from my senior executive management to our new graduates, is an ongoing priority. GIB has pioneered the hiring of talent from outside of the traditional banking industry norms, allowing us to develop innovative solutions and adding greater ability to serve our customer segments. Gender equality and opportunity prevails within the Bank, and I am pleased that GIB now has four females among its most senior executives. With GCC nationals forming over 78 per cent of our employees and supported by a strong graduate programme we are dedicated in investing and developing local talent for the future. Our guiding philosophy is simply that we seek to hire top quality performers who want to grow their careers with us.

I am greatly encouraged by the tangible progress thus far in GIB's journey of transformation. I acknowledge the devoted and conscientious willingness of our supportive Board and our committed management and employees. With our endeavours to expand and diversify our reach, the consolidation of our existing valued customer and partner relationships, and the wholehearted embrace of cutting-edge banking applications, we will deliver ever stronger financial results and greater shareholder value. I look forward to further success for GIB in 2020 and beyond.

Abdulaziz bin Abdulrahman Al-Helaissi

Group CEO and
Board Member



Management review (continued)

STRATEGY REPORT

INCREASE & DIVERSIFY REVENUES

79%

Trading income increase in 2019

US\$30.2bn

Consolidated total assets growing by 10 per cent

US\$280.4mn

Net interest income increased in 2019

US\$64.7mn

Fee and commission income increased

- Net income after provisions and tax of US\$63.0 million compared with a net loss of US\$227.0 million in 2018.
- 79 per cent increase in trading income to US\$17.0 million reflected strong gains made by investments in funds managed by GIB Capital and GIB UK.
- GIB Capital's investment banking income from corporate advisory services doubled and revenues from GCC asset management activities increased substantially.
- Consolidated total assets grew by 10 per cent to US\$30.2 billion at the end of the year from US\$27.5 billion at the end of 2018.
- Net interest income increased to US\$280.4 million from US\$273.7 million in 2018. This year-on-year increase was achieved despite the unfavourable declining interest rate environment witnessed during 2019.
- Fee and commission income increased from US\$61.2 million to US\$64.7 million.

DELIVER AN EFFECTIVE FUNDING PROFILE

US\$21.2bn

Customer deposits grew by 16%

2 times

Customer deposits exceeded loans and advances

163%

Net Stable Funding Ratio (NSFR)

US\$3.5bn

Senior term finance

- Customer deposits increased 16 per cent to US\$21.2 billion, constituting 96 per cent of total deposits, and exceeding loans and advances by more than 2 times.
- At the end of 2019, the Group's Net Stable Funding Ratio (NSFR) stood at a particularly high 163 per cent compared to the Central Bank of Bahrain's mandated regulatory minimum of 100 per cent. This strong ratio reflected the high level of stable funding maintained by each entity within the GIB Group.
- Stable funding was enhanced by senior term finance of US\$3.5 billion at the 2019 year end.
- Retail deposits comprised 26 per cent of GIB Saudi Arabia's total deposits.

Management review (continued)

IMPROVE OPERATIONAL AND COST EFFICIENCIES

10%

Improvement in straight through processing

+6

Added 6 new retail payment mechanisms

1st

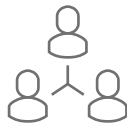
for Enterprise Cyber Security Risk



- The move to the Al Khobar operations centre has centralised over 500 of our employees in a single purpose-built building, leading to ever greater effectiveness and efficiency.
- Growth in Global Transaction Banking and the creation of infrastructure for a cash management platform.
- GIB was ranked number 1 by FICO in its Enterprise Cyber Security Risk for medium sized finance and banking organisations. This is a testimony to the Bank's commitment to improving our security posture. We were also ranked two notches above our peer average by Gartner for Security & Risk Management.
- Delivery of automated solutions to improve testing cycles across a number of digital applications.
- Enhancements and automation of payment operations, procedures and controls in the United Kingdom.
- Continue to modernise our retail architecture through the adoption of Open Banking standards.
- Introduced a fully configurable digital solution for operational risk management, streamlining the operational risk management process with electronic workflows and allowing for greater awareness and transparency on operational risk related data and reporting.
- Delivered multiple retail payment initiatives for meem customers - Apple Pay, Mada Pay, Mada Online, CCB contactless Mandate, Atheer, Card Merge.

BECOME AN EMPLOYER OF CHOICE

“A place where talented people thrive”



78%

GCC Nationals of total Group headcount



50%

female graduates

- Hired more than half of the Saudi graduates who had work experience in the Bank through our Tamheer programme. 70 per cent of these were female.
- Recruiting of non-traditional banking staff to diversify skill sets and give the Bank the ability to develop innovative digital solutions for customers.
- Successful GCC graduate programme with 50 per cent female population. In 2019, most of the graduates entered the Treasury and Investment Banking businesses.
- Created a Woman Empowerment Committee to put forward proposals to assist in the career advancement of female staff at all levels.
- The new training academy in the operations centre is circa 10 per cent of the working floorspace in the building and is dedicated to allowing employees to attend classroom training and external courses. For the 3rd year running, we have exceeded our target of an average of 5 days training per employee.
- Scholarship Programme with Prince Mohammed Bin Fahd University, empowering young GCC talent by providing them financial assistance to pursue their higher education.
- Partnership with the London Business School for leadership training. In 2019, three cohorts of our Future and Senior leaders, all 100 per cent GCC nationals, progressed through their respective programmes.
- GIB's total Group headcount at end of 2019 was 997, of which 78 per cent are GCC nationals and 26 per cent are women. Our employees come from 36 different nationalities.

Management review (continued)

ENHANCE SERVICE EXCELLENCE AND QUALITY

“We don’t sell products and services - we sell our customers time.”

Carried out the first successful full-scale disaster recovery exercise held by a bank in Saudi Arabia

GIB Capital became a member of Tadawul

Market leading Bank for Umrah payments

- GIB Capital became a member of the Saudi Stock Exchange (Tadawul) allowing it to provide clients with the opportunity to trade in the GCC’s largest stock market. It also provides financial advisory services covering equity placements (initial public offerings and private placements), mergers and acquisitions, privatisations, strategic debt advisory and asset management.
- GIB UK developed an approach for embedding ESG considerations into investment strategies in a systematic way, building a platform capability in responsible investment. As part of this our asset management business rebranded as GIB Asset Management centring on being ‘conscious of the mark we leave’.
- GIB carried out the first successful full-scale disaster recovery exercise held by a bank in Saudi Arabia.
- meem successfully launched its credit card services in Bahrain.
- GIB Capital launched the GIB Opportunistic MENA equity fund. The fund’s primary objective is to achieve medium/long term capital growth by investing in stocks listed on MENA Markets.
- The GIB Saudi Equity Fund, which is a conventional fund that invests in all listed shares in the Saudi market delivered a 18.34 per cent return in 2019.
- The GIB Opportunistic Saudi Equity Fund, which is a Shariah compliant fund that invests in all Shariah compliant shares in the Saudi market delivered a 17.47 per cent return in 2019.
- Implemented a US\$30 million e-supplier finance platform and onboarded 114 suppliers for Noon eCommerce. By using our digital advantage, all the major processing is fully digitised supporting the straight through processing of information. This best in class customer service enabled GIB to develop cash management propositions and cement its relationship as their key operating Bank.
- Successfully rolled out a digital Umrah payment system to completely automate 24/7 Umrah collections and payments for Sejel Technology Co. Ltd. GIB onboarded nearly 600 Umrah operators and 7,000+ external agents to support time sensitive Umrah collections and payments globally. GIB is now the key bank for Umrah payments with a market share of nearly 90 per cent.

DRIVING INNOVATION



- Opened another digital branch in Riyadh with state of the art facilities to engage customers in digital banking.
- Signed a strategic partnership agreement with KFUPM Business School to promote digital literacy, collaboration and innovation in Saudi Arabia.
- Signed an agreement to support MSMEs in Saudi Arabia with a leading GCC Fintech to provide financing solutions.
- Partnered with Fintech Saudi to host a forum on digital banking 4.0 to supporting the ongoing development of the Kingdom’s fast-growing fintech ecosystem.
- Continued to participate in the Bahrain FintechBay initiative on the Advisory Board and the Georgetown University programme.
- Introduced four new payment services for our customers in KSA including Apple Pay within three months.
- Continued to drive momentum across the Group with the support of GIB’s Board-level Innovation Committee and Executive-level Digital Steering Committee.
- Continued to enhance the local talent profile of the Digital and Innovation team, including the appointment of a Group Head of Innovation and Partnerships.

Management review (continued)

REGIONAL TRANSACTIONS

SAR 8.4 billion

The highlight of the year was undoubtedly the Saudi Aramco IPO. The GIB Group handled 4 per cent of the applications for the IPO amounting to SAR 8.4 billion.



WHOLESALE BANKING GROUP: CORPORATE BANKING



International Airfinance Corporation:

Mandated Lead Arranger, Sole Underwriter, Bookrunner, Financier, Hedge Counterparty, Investment Manager and Security Trustee for a 4 ½ year US\$ 311 million secured aircraft refinancing transaction for 5 Airbus A330 aircraft on long-term leases with a GCC sovereign airline.

Aluminium Bahrain B.S.C. (Alba):

Mandated Lead Arranger, Co-Underwriter, Bookrunner, Lender/Financier, Global Facility Agent, Conventional Facility Agent and Investment Agent for 8 year US\$ 1,500 million Conventional Credit and Ijara facility for refinancing of existing indebtedness.

The Bahrain Petroleum Company B.S.C (closed):

Mandated Lead Arranger, Lender/Financier, Commercial and Islamic Facility Agent for a 16.4 year US\$ 1,570 million senior secured facility to part-finance BAPCO's modernisation cum expansion programme.

The Oil and Gas Holding Company B.S.C (closed):

Mandated Lead Arranger, Underwriter, Financier, Hedge Counterparty, Facility Agent and Security Agent for a 5 year US\$ 1,400 million facility for general corporate purposes, including refinancing of existing indebtedness.

Shomoul Mall Commercial Company:

Mandated Lead Arranger and Financier for SAR 5,600 million Islamic facility to part finance cost of development of a super-regional mall in Riyadh.

WHOLESALE BANKING GROUP : GLOBAL TRANSACTION BANKING



Noon eCommerce, the fashion lifestyle brand, began using a supply chain finance facility of USD 30 million which allows their 114 suppliers to receive early payment and allows Noon extended credit terms. Due to automation the supplier onboarding was achieved within a few days. This has also led to opportunities for cash management products including payments market place, Point of Sale / Payment Gateway and liability products both in UAE and Saudi Arabia.

Aluminium Bahrain B.S.C. (Alba) Supplier Finance –

Successfully implemented SCF program for ALBA USD 100 million for financing payment to suppliers for a period of 180 days. This has been implemented on a straight through processing platform with no manual intervention from either client or GIB. An excellent example of operational efficiency plus allows potential cross sell of our cash management products.

Sejel Technology Co. Ltd - Umrah external ePayment system was implemented to digitise Umrah collections and payments for Sejel which resulted in over 3 million payments with over 10,500 virtual accounts. This infrastructure is powered by GTB's flagship product, eCollect. GIB's eCollect platform provides a comprehensive solution that enables Sejel to integrate through our API Banking. GIB is first bank to go live and able to onboard nearly 600 Umrah operators and 7000+ External agents in the eCollect System. Established and positioned GIB as a leading digital cash management bank in Saudi Arabia and beyond.

Management review (continued)

GIB CAPITAL

SAR 1.34 billion

for Dhahran Techno Valley Company to fund the business park complex

GIB Capital successfully raised SAR 1.34 billion structured Islamic financing for **Dhahran Techno Valley Company** to fund the business park complex. This is a state-of-the-art business park of mixed-use real estate with offices, retail outlets, residential assets and hospitality on a land located adjacent to KFUPM and near Saudi Aramco's Gate 1.

GIB Capital successfully priced a US\$ 2.0 billion Reg S/144a dual tranche bond and Sukuk issuance for the **Kingdom of Bahrain**. This marks a successful return to the Capital Markets for the Kingdom after their last issuance at the beginning of 2018 and is the 6th transaction where GIB Capital acted as Joint Bookrunner and Joint Lead Manager for the Kingdom of Bahrain.

US\$ 3.00 billion

Sukuk issuances for the Islamic Development Bank (IsDB)

GIB Capital acting as Joint Lead Manager and Joint Bookrunner, successfully priced a US\$1.5 billion Reg S Sukuk issuance for **Islamic Development Bank (IsDB)**. This transaction represented GIB Capital's 9th successive transaction for IsDB reinforcing our role as a key partner in their capital markets strategy.

GIB Capital successfully priced a US\$ 1.50 billion Reg S 5-year Sukuk issuance for the **Islamic Development Bank (IsDB)**. This represents the 10th successive transaction for IsDB by GIB Capital, demonstrating IsDB's confidence in GIB Capital's debt capital markets execution and distribution expertise.

GIB Capital acting as Joint Lead Manager and Joint Bookrunner, successfully priced a US\$ 600 million Reg S Sukuk issuance for **Majid Al Futtaim**. This transaction represents first ever USD denominated green corporate Sukuk globally.

AWARDS



2019 GLOBAL BANKING & FINANCE AWARDS

meem by GIB: Best Shariah Digital Bank, KSA

meem by GIB: Most Innovative Digital Banking initiative, Bahrain

GLOBAL FINANCE MAGAZINE AWARDS

meem by GIB: World's Best Islamic Digital Banks 2019 – Bahrain Country Winner

meem by GIB: World's Best Consumer Digital Banks Middle East 2019, Bahrain Country Winner for:

- Best Consumer Digital Bank
- Best in Mobile Banking
- Best Mobile Banking App
- Best in Social Media Marketing and Services
- Most Innovative

GIB Global Transaction Banking: World's Best Corporate/ Institutional Digital Bank Middle East 2019, Bahrain Country Winner for:

- Best Online Cash Management
- Best Opening Banking API

GLOBAL FINANCE WORLD'S BEST INVESTMENT BANKS

GIB Capital: Best M&A Bank in the Middle East,

GIB Capital: Best Investment Bank for New Financial Technology in the Middle East

GIB Capital: Best Investment Bank in Bahrain

GIB Capital: Best Investment Bank in Oman

EMEA FINANCE MIDDLE EAST BANKING AWARDS 2019


GIB: Best Local Investment Bank for Saudi Arabia and Bahrain

SAUDI TRADE FINANCE SUMMIT AWARDS

GIB: Best Supply Chain Finance Bank in KSA



Sustainability and corporate citizenship review



GIB created its WAGIB Sustainability and Corporate Social Responsibility Programme in 2015 to formalise what most people in the Bank had already recognised and embraced – that sustainable development and good corporate citizenship is an integral part of GIB’s DNA.

Our endeavours reflect the concerns and endeavours of our communities and in 2019 the environment and those less fortunate than ourselves featured prominently. We were pleased to start a 5 year programme of financial support led by Saudi Arabian Monetary Authority to establish the Autistic Center in Riyadh



واجب
WAGiB

Sustainability and corporate citizenship review (continued)

Examples of the activities that GIB and our employees have been involved with in 2019 include:

The region's future

- We were proud to congratulate all our graduates for completing their two year Jammaz Al-Suhaimi graduate programme. The programme helps to feed the GIB GCC talent pipeline by selecting talented university graduates and developing them for future professional roles and duties within the Bank. In support of the programme an open day was held in Al Khobar, attended by over a hundred GCC graduates, to help us select the 2020 cohort – continuing the pipeline of potential future executives for GIB.



Sustainability and corporate citizenship review (continued)



- GIB is deeply committed to supporting initiatives which bring to life the goals and objectives of Saudi Arabia's Vision 2030. These include the development of sporting, entertainment and tourism industries to create further growth and diversification.
- GIB was proud to be a partner of the inaugural Saudi International golf tournament, powered by SoftBank Investment Advisers. This was the first time the European Tour was held in the Kingdom.
- GIB also held the 4th GIB Golf Cup in Riyadh for over 100 professional and amateur players to provide another platform for Saudi players and the national team to showcase their talent and vast potential.
- GIB Saudi Arabia hosted 'Digital Banking 4.0 – the new frontier' event as part of Fintech Saudi's 2019 Tour at GIB's Operations Centre in Al Khobar in support of the ongoing development of the Kingdom's fast-growing fintech ecosystem. The event discussed the key changes in consumer expectations and demands and how leading organisations are responding.
- GIB is proud that two members of our Treasury team, Ahmed Alwabel and Khaled Alkooheji, were selected by the Bahrain Bourse to be mentors in the 2019-2020 TradeQuest Investment Competition.

Sustainability and corporate citizenship review (continued)



Environment and Community

- We are proud to partner and encourage our ambitious youth. Through meem, GIB sponsored Saudi adventurer, Saud Aleidi as he became the youngest Saudi to conquer Mount Everest, a remarkable achievement. We offer our congratulations to his tenacity and skill.
- As part of our internal leadership training, employees had to assemble children's bicycles. These were then donated to children's charities in Saudi Arabia and Bahrain including the Bahrain Down Syndrome Society.

Empowerment

- GIB UK hosted six young women as part of the 'She Can Be' campaign, this aims to overcome perceived barriers for women pursuing careers in the financial services industry, through empowerment and knowledge.
- Across the wider group, employees combined in several activities to celebrate International Day for Women, to acknowledge and honour their invaluable contributions to our organisation and communities.



Sustainability

- GIB UK's Katherine Garrett-Cox and Venetia Bell appeared as speakers at the Sustainable Business Leaders forum in Abu Dhabi. Katherine discussed the role of businesses in sustainable development, particularly highlighting the important role that the financial sector can play. Venetia elaborated on the role of the circular economy in supporting sustainable development, and the role of millennials in driving change.

- For the second year our Treasury team hosted a Ghagba in our headquarters for terminally or Seriously ill children from the Dreams Society and our Administrative Services arranged to distribute iftar food boxes for Bahraini motorists.



Sustainability and corporate citizenship review (continued)



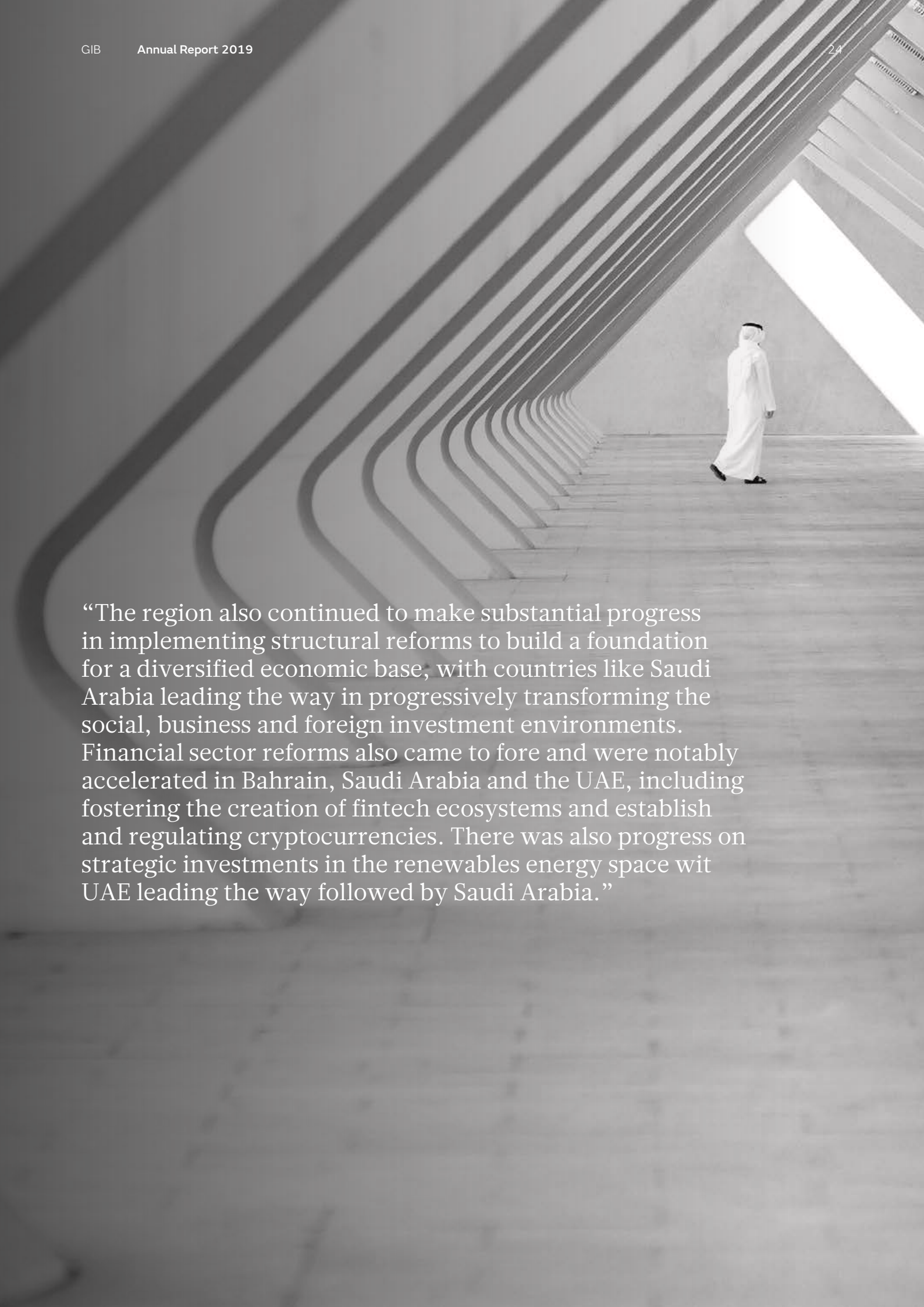
- HR, Corporate Communications and meem supported the phasing out the use of plastic bags in Bahrain by developing a GIB and meem 'bag for life'. The bags are made from natural and recycled material, a direct backing of such an important environmental cause. A great example of different parts of the Bank pulling together for the common cause.



- GIB New York was proud to be a registered participant in the 'Daylight Hour', committing to turn off the lights for an hour and use natural light on June 21st, the longest day in the northern hemisphere. The contribution of the aggregated registrants equated to offsetting greenhouse gas equivalents to 437,000 passenger vehicle miles.

- GIB supported the Bahraini authorities drive to raise environmental awareness in the Kingdom through the 'Earth is Our Home', this included a clean-up of Karbabad beach. The activity was a resounding success with nearly 100kg of rubbish collected by employees and volunteers.
- As part of the One Young World Initiative, GIB UK took part in its first volunteering day by visiting the Holland Park Ecology Centre to pot plants. The Centre was set up to help protect, preserve and enhance biodiversity-rich areas.
- meem also sponsored the Bahrain International Bowling Championship, one of the most prominent tournaments in the region.
- Saudi Market Day, a GIB joint event with Al Kifah Holding Co, supported Saudi SMEs and the Joud Charitable Society, which assists families with limited income, orphans, and people with special needs.
- Several of our UAE based employees participated in the Dubai Marathon raising funds for local charities. Their colleagues in GIB Dhahran participated in a blood drive campaign.





“The region also continued to make substantial progress in implementing structural reforms to build a foundation for a diversified economic base, with countries like Saudi Arabia leading the way in progressively transforming the social, business and foreign investment environments. Financial sector reforms also came to fore and were notably accelerated in Bahrain, Saudi Arabia and the UAE, including fostering the creation of fintech ecosystems and establish and regulating cryptocurrencies. There was also progress on strategic investments in the renewables energy space with UAE leading the way followed by Saudi Arabia.”



Economic review 2019

KEY TRENDS IN 2019

GLOBAL

Global growth recorded its weakest pace in a decade as a confluence of economic and geopolitical forces heightened uncertainty and exerted downward pressure during the year. Trade tensions and increased protectionism were the overarching factors that inhibited business and investment appetite, while conditions were further strained by China's policy shift towards deleveraging the economy to create a more sustainable base. For emerging market economies and other countries reliant on dollar financing, the strain was magnified as a result of tightening financial conditions brought about by the US Federal Reserve increasing the federal funds rate by 100 basis points (bp) during 2018 to a target range of 2.25%-2.50% and the strengthening of the US dollar.

Yet, 2019 was also the year of monetary policy reversals. The interest rates hikes of 2018 proved unsustainable amid the drag on investor and corporate confidence, and capital spending. Interest rates in the US were reduced thrice during the year to a target range of 1.50%-1.75% by October, in the face of slowing growth in the US and around the world. The European Central Bank also cut rates and resumed its quantitative easing programme, while similar actions were followed by other central banks around the world. These policies averted a deeper slowdown as lower interest rates created more supportive financial conditions and buoyed confidence and spending.

Towards the end of the year, signs of stabilisation emerged. Financial market sentiment was bolstered by central bank easing rate cuts, while news of improving trade relations between the US and China, and diminished fears of a hard Brexit supported global risk appetite. Global sentiment strengthened as stock markets advanced in optimism; sovereign bond yields strengthened; the US dollar and Japanese yen weakened; and the outlook for emerging markets improved amid accommodative financial conditions and a resumption in portfolio flows.

Energy markets remained volatile for most of 2019 as increased uncertainty for oil demand and rising oil stock levels weighed on oil prices until the third quarter of 2019. However, by the fourth quarter, oil prices were on a recovery trend sustained by an expected uptick in global trade, supported by the improving rhetoric on US-China trade relations, boosted oil demand growth forecasts, while agreement on the continued moderation in OPEC + production levels restrained growth on the supply side. In addition, oil prices were also supported by the downward trend in the pace of US oil output growth (despite sizable increases), in line with the decline in the number of active oil rigs as producers cut capital spending; and the rise in geopolitical tensions in the Middle East. The price for Brent crude oil closed the year at nearly US\$68, recovering from a low of US\$55 reached in August.

GCC Region

Economic conditions in the GCC region mirrored the global trends during 2019. Growth weakened across the six GCC economies of Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates (UAE) due to muted oil prices and excess oil supply. The GCC average real GDP growth is estimated to have dropped to 0.8% in 2019 from 1.8% the year before. While most of the Gulf countries retained strong external positions, the ongoing slowdown in China and US-China trade tensions hindered expansion in the regional oil and non-oil sectors. For the most part, volatility in oil prices eroded the fiscal strength of the GCC region, with the deterioration in government finances also impeding the implementation of new fiscal consolidation measures. In the face of these challenges, most of the Gulf countries remained buffeted by the vast sovereign wealth fund assets, estimated to total, close to the US\$2 – US\$2.5 trillion mark, while the implementation of the value-added tax (VAT) and excises also allowed for some diversification in the governments' oil dependent revenue base.

Economic review 2019 (continued)

Despite the challenging oil price environment, GCC fiscal expansion continued to focus on non-oil initiatives spending amid increased emphasis on expenditure efficiencies and improving the management of fiscal risks. Saudi Arabia, for example, budgeted a 13% increase in its fiscal expenditure for 2019 compared to year before. The region also continued to make substantial progress in implementing structural reforms to build a foundation for a diversified economic base, with countries like Saudi Arabia leading the way in progressively transforming the social, business and foreign investment environments. Financial sector reforms also came to fore and were notably accelerated in Bahrain, Saudi Arabia and the UAE, including fostering the creation of fintech ecosystems and establishing and regulating cryptocurrencies. There was also progress on strategic investments in the renewables energy space with UAE leading the way followed by Saudi Arabia.

While credit and monetary indicators such as the money supply, credit lending to various sectors, and inflation trends across the GCC remained largely mixed during the year, the onset of monetary easing by the US provided strong relief in the midst of volatile oil prices. The decline in interest rates also raised expectations of a pick-up in consumer spending and capital expenditure cycles across the region, albeit this was partly offset by resurgent geopolitical risks weighing on investor sentiment and raising risk perceptions.

In spite of all the uncertainty, the year ended on a positive note. The “phase 1” US-China trade deal raised optimism about global prospects in 2020 and supported the outlook for oil demand. More notable was the successful listing of the Saudi Aramco shares on the Saudi Stock Exchange (Tadawul), becoming the largest initial public offering (IPO) in history, raising US\$25.6 billion by selling 1.5% of the company.

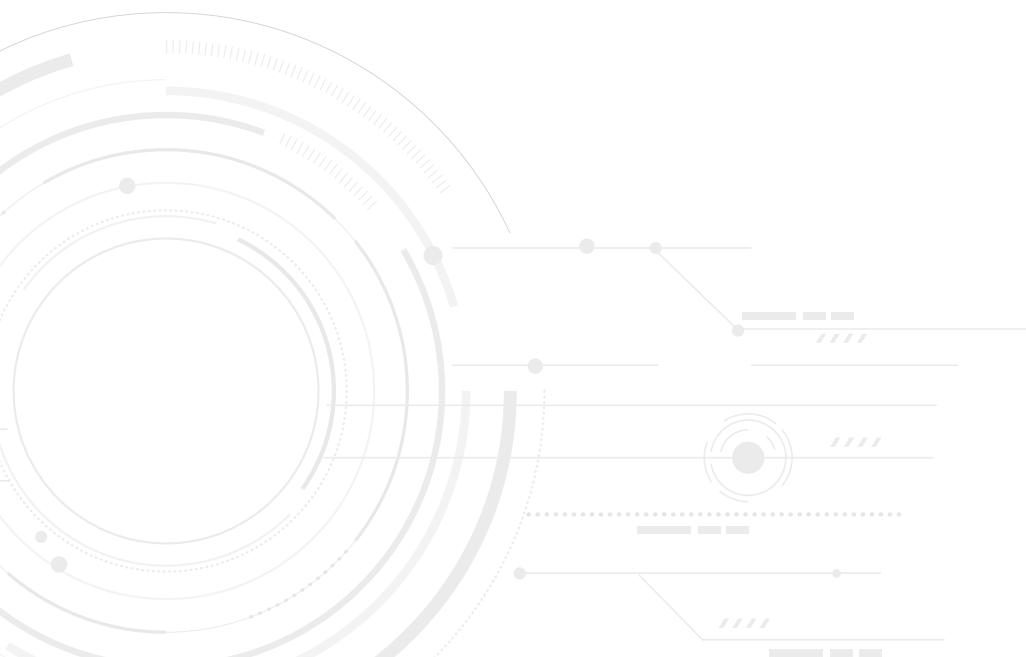
TRENDS & OUTLOOK

At the start of 2020, expectations were of a broad-based recovery to start taking root. The International Monetary Fund (IMF) had projected global growth to rise from an estimated 2.9% in 2019 to 3.3% in 2020 and 3.4% for 2021, underpinned by manufacturing activity and global trade bottoming out, the global shift towards accommodative monetary policy, and continued progress on US-China trade negotiations. The outlook for the Gulf region was also expected to improve against a more favourable global economic backdrop and in a year when the international spotlight is on Saudi Arabia as it undertakes the G20 presidency, and on the UAE as it hosts the World Expo.

However, the outbreak of the new coronavirus, which first emerged in China towards the end of December 2019, is now a global pandemic, according to the World Health Organization. This watershed event has become one of the biggest threats to the global economy and financial markets. At the time of writing, there remains high uncertainty on whether the multiple disruptions and dislocations being experienced by vast swathes of the global economy and across all asset classes will result in a short and sharp decline before reversing, or it truly signals a severe global recession ahead. From the perspective of the GCC region, the recent collapse in oil prices following the abandoning of oil supply constraints by key producers are exacerbating the potential economic threats. Although the OPEC+ production cuts have been reinstated, this has not helped the oil prices to rebound.

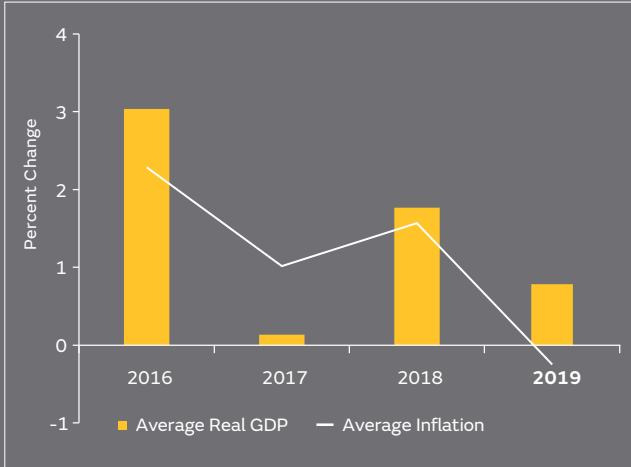
It is difficult, if not impossible to predict the duration and full impact of the Covid-19 virus, and whether there will be any lasting structural impact as the crisis continues to unfold. Under such circumstances, assessing trends for the year or providing any credible outlook is hardly feasible. Much will depend on the effectiveness of containment efforts as well as the wider reaction of consumers, corporates and the financial sector in general. At this point in time, a wide range of scenarios remain plausible.

Rima Bhatia
15th April 2020

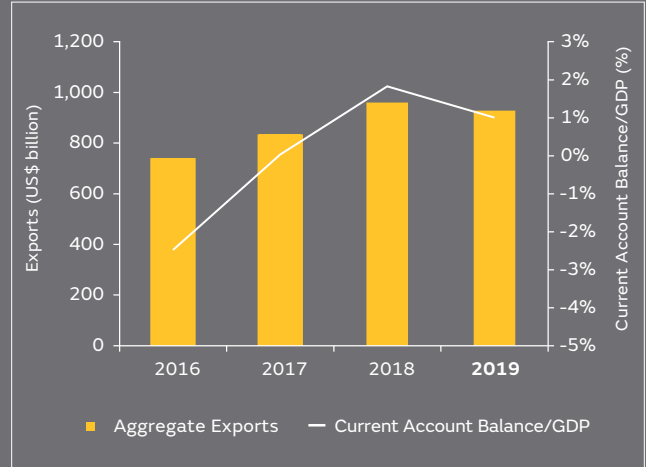


GCC Developments

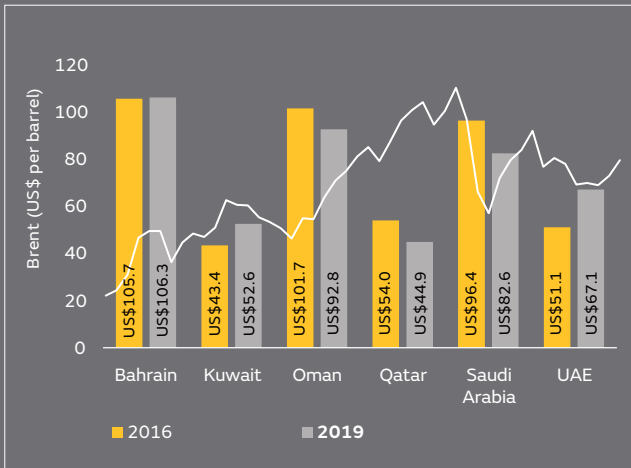
Real GDP & Inflation



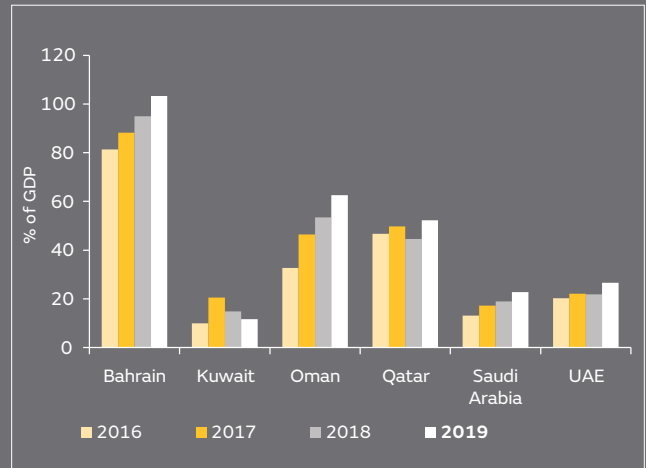
Exports & Current Account Balance



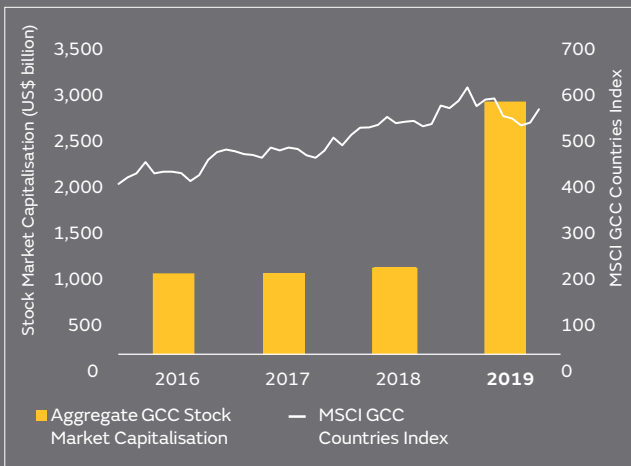
Fiscal Breakeven Oil Prices & Crude Oil Prices



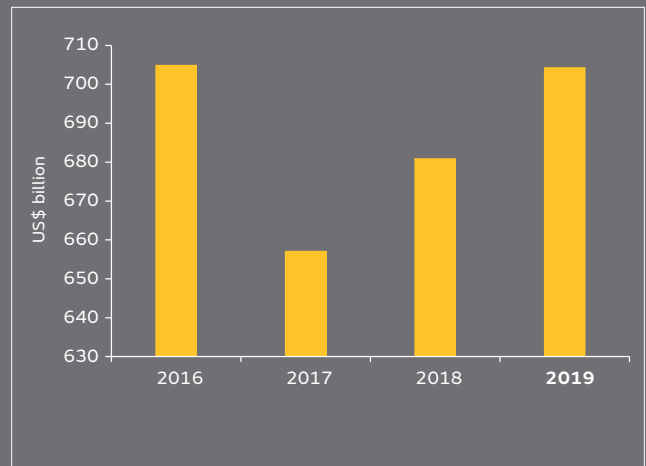
General Government Gross Debt



Stock Market Performance



Foreign Exchange Reserves



Data Source: International Monetary Fund and Bloomberg





Financial review 2019

GIB recorded total income of US\$384.7 million for the year compared to US\$398.5 million in the prior year. However, 2018 total income included an exceptional US\$26.5 million recovery related to a previously written off loan. 2019 gross income reflected year-on-year increases in the two largest sources of revenue – net interest income, and fee and commission income.

Total operating expenses in 2019 were 8 per cent up on the prior year level. Operating expenses included exceptional charges of US\$21.8 million arising on adjustments to the carrying value of certain premises and information technology-related fixed assets resulting from a reassessment of the expected future benefits to be derived from the assets. Excluding these exceptional charges, which will result in lower depreciation expenses in future years, total operating expenses were marginally down on the prior year. After a loan provision charge of US\$30.3 million, GIB recorded net income after tax of US\$63.0 million, compared with a net loss after tax of US\$227.0 million in 2018 that resulted from an exceptional provision charge.

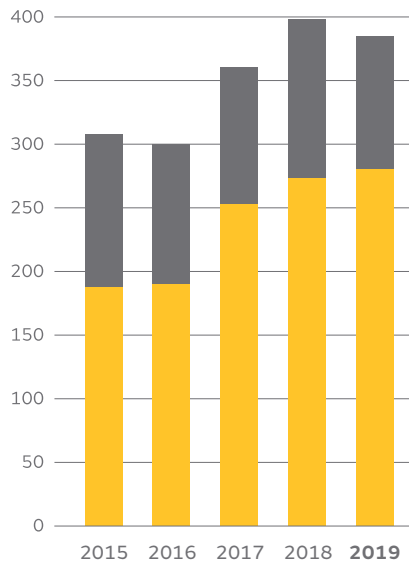
Net interest income, which at US\$280.4 million represented the Bank's largest income source, was US\$6.7 million or 2 per cent up on the prior year. This reflected positive progress in the implementation of GIB's strategy, as the Bank continues to successfully re-orientate its lending activities from transactional-based, long-term project and structured finance to a relationship-based focus on corporate and institutional clients.

Fee and commission income at US\$64.7 million, which comprised 17 per cent of total income, was US\$3.5 million or 6 per cent up on the prior year. The two principal contributors to fee and commission income were commissions on letters of credit and guarantee, and investment banking and management fees.

Foreign exchange income at US\$14.2 million was 24 per cent lower than in the prior year. Foreign exchange income primarily comprised revenue from customer-related activities, and in particular, revenues derived from bespoke structured products designed to assist customers in hedging their foreign exchange exposures in volatile markets.

Financial review (continued)

Gross income development (US\$ millions)



	2015	2016	2017	2018	2019
● Non interest income	119.8	110.0	107.2	124.8	104.3
● Net interest income	188.2	190.0	253.1	273.7	280.4
Gross income	308.0	300.0	360.3	398.5	384.7

Trading income at US\$17.0 million was US\$7.5 million or 79 per cent up on the prior year. Trading income principally comprised customer-related interest rate derivative income and gains on investments in funds managed by the Group's London-based subsidiary, GIB UK and its Saudi Arabia-based subsidiary, GIB Capital.

Other income at US\$8.4 million largely comprised dividends on equity investments accounted for at fair value through other comprehensive income (FVOCI) and a profit recorded on the sale of an impaired loan.

A US\$30.3 million net provision charge was recorded for the year being much in line with the one year expected credit loss in accordance with the IFRS 9 stage 1 provision calculation.

NET INTEREST INCOME

Net interest income at US\$280.4 million was US\$6.7 million higher than in the prior 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, and
- earnings on the investment of the Group's net free capital

Net interest income is also net of the cost of term finance, and premiums over the benchmark interest rates on wholesale deposits.

Higher interest earnings were derived from the investment securities portfolio, global transaction banking, retail banking, and the investment of the net free capital.

Interest earnings on the wholesale loan portfolio accounted for 56 per cent of the Group's net interest income, before the cost of term finance and wholesale deposit premium expense. Margin income derived from wholesale lending was 8 per cent lower than in the prior year. Average performing loan volumes at US\$9.5 billion were 6 per cent lower than in the prior year, while average performing loan margins were 5 basis points lower than the prior year. The lower average performing loan margin in 2019 compared to 2018 was principally attributable to a number of higher margin loans being placed on non-performing status during the latter part of 2018, thereby diluting the overall blended average loan margin in 2019 compared to 2018. The average performing loan margin in 2019 was nevertheless higher than the average loan margin recorded prior to 2018, reflecting the benefit derived from the strategic focus on relationship-based lending, as well as the ongoing run-off of legacy, low margin project and structured finance loans.

Margin income on the investment securities portfolio accounted for 12 per cent of net interest income, before the cost of term finance and wholesale deposit premium expense. The interest earnings from the investment securities portfolio were 6 per cent higher than in the prior year. This was attributable to an 8 basis point increase in the average margin with the average volume being at much the same level as in 2018. 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 2019 accounted for 12 per cent of net interest income, before the cost of term finance and wholesale deposit premium expense. The Group's money book income was 16 per cent lower than the prior year. The year-on-year decrease was due to the negative impact of declining interest rates that took place during 2019 and the associated flattening and inversion of the US\$ yield curve.

Interest income generated by global transaction banking products and services accounted for 7 per cent of net interest income, before the cost of term finance and wholesale deposit premium expense. The interest earnings from global transaction banking were 40 per cent up on the prior year and are accordingly evolving as an increasingly material contribution to the Group's income. The significant increase in global transaction banking income is the result of 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 as it meets the strategic objective of generating less expensive and stable funding.

While interest earnings generated by the new digital retail bank, meem, in 2019 were below the threshold to report as a separate operating business segment in note 26 to the consolidated financial statements that sets out business segment information, retail banking nevertheless recorded a 61 per cent year-on-

Financial review (continued)

year increase in net interest income in 2019. The significant increase in net interest income generated by retail banking was attributable to growth in retail deposits, which accounted for 14 per cent of the Parent Bank's customer deposits at the 2019 year end, a gradual reduction in the premium over benchmark rates, and the launch of retail asset products in the fourth quarter of 2019.

Earnings on the investment of the Group's net free capital, which accounted for 15 per cent of net interest income, before the cost of term finance and wholesale deposit premium expense, were 44 per cent up on 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 banks. 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 2019. However, the negative impact of the unfavourable interest rate environment was more than offset by the increase in the Group's net free capital resulting from the Public Investment Fund's US\$1.0 billion (SAR3.75 billion) capital investment in the Group's new Saudi Arabia subsidiary that was incorporated in April 2019. Income generated from the investment of the net free capital will continue to be impacted by a low interest rate environment, although a rise in interest rates would have a direct beneficial impact on the Group's interest earnings.

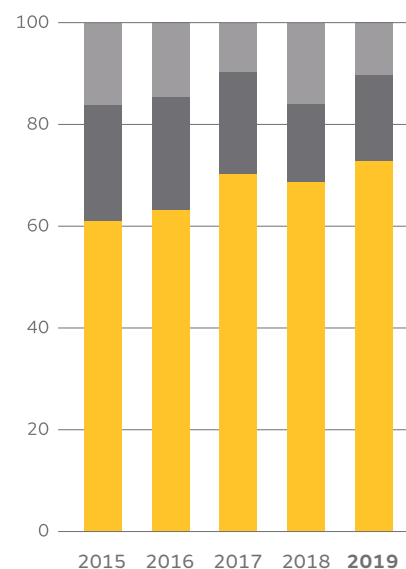
The Group continues to minimise its previous reliance on funding longer tenor assets with short-term deposits, and the associated liquidity and refinancing risk, with proactive actions having been taken over the previous five years to raise new term finance to minimise this potential risk. As a result, at 31st December 2019, no illiquid assets or assets maturing beyond one year were funded by non-sticky or short-term deposits. All customer and bank deposits therefore funded shorter tenor or liquid assets. This effectively addresses one of the key focuses of the new Basel 3 liquidity regulatory guidelines whereby banks have less ability to fund longer tenor assets with shorter tenor wholesale deposits. The initiatives to reduce the Group's exposure to liquidity risk through various forms of term finance resulted in a US\$40.8 million or 13 per cent reduction in the Group's net interest income in 2019. The cost of term finance in 2019 was 23 per cent higher than in 2018. This was due to a higher average volume of term finance during 2019, as disclosed in note 43 to the consolidated financial statements. The strategic focus on generating more stable and sticky retail and global transaction banking deposits will result in a reduced requirement for higher cost term finance to fund longer tenor assets in future years.

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\$64.7 million was 6 per cent up on the prior year level. An analysis of fee and commission income with prior year comparatives is set out in note 22 to the consolidated financial statements. Commissions on letters of credit and guarantee at US\$29.2 million were the largest source of fee-based income, comprising 45 per cent of fee and commission income for the year, while investment banking and management fees at US\$26.8 million represented 41 per cent. 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. The US\$3.5 million year-on-year

Gross income composition (%)



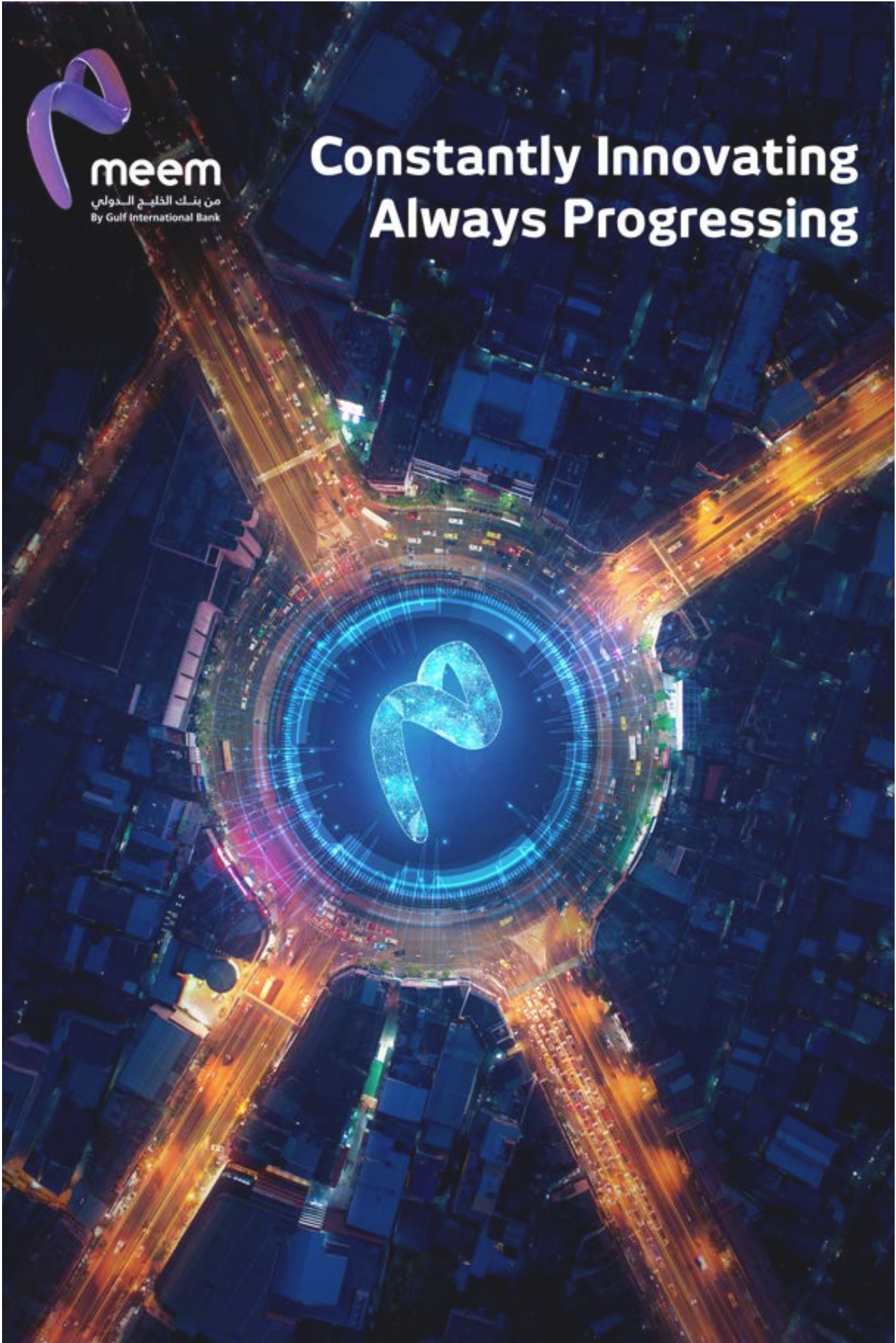
	2015	2016	2017	2018	2019
● Foreign exchange, trading & other income	16.1	14.6	9.6	15.9	10.3
● Fee & commission income	22.8	22.1	20.1	15.4	16.8
● Net interest income	61.1	63.3	70.3	68.7	72.9
	100.0	100.0	100.0	100.0	100.0

increase in fee and commission income was largely due to a US\$2.4 million or 10 per cent increase in investment banking and management fees, and a US\$1.2 million or 150 per cent increase in retail banking fee income. The increase in investment banking and management fees reflected a high level of corporate advisory fees associated with significant debt and equity capital market activity. This was partly offset by a decrease in asset and fund management fees, resulting from a lower level of funds managed by the Group. This reflected the challenging market environment prevailing during the year and that was particularly notable in the emerging markets which were adversely impacted by the US / China trade relationship. Asset and fund management fees were 26 per cent below the prior year level. As referred to in note 37 to the consolidated financial statements, assets held in a fiduciary capacity amounted to US\$12.4 billion at 31st December 2019 compared to US\$15.6 billion at the end of 2018.

The Group's various trading activities recorded a US\$17.0 million profit for the year compared to a US\$9.5 million profit in the prior 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 2019 principally comprised profits recorded on customer-related interest rate derivative transactions, equity securities classified as fair value through the profit or loss (FVTPL), and investments in funds managed by the Group.

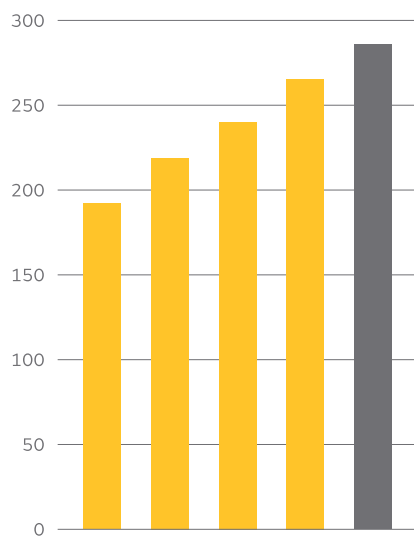


Constantly Innovating Always Progressing



Financial review (continued)

Expenses development (US\$ millions)



	2015	2016	2017	2018	2019
Operating expenses	192.1	219.0	240.0	265.4	285.9

A US\$6.4 million profit was generated from customer-related interest rate derivatives, representing 38 per cent of trading income in 2019. This was 7 per cent higher than the profit recorded in the prior year. During the last few years, the interest rate derivative product range was expanded, with a greater focus on working proactively and constructively with customers to identify opportunities to hedge their interest rate exposures, particularly in the context of a potential rising interest rate environment. A net gain of US\$5.7 million was recorded on trading investments in equity securities, while investments in managed funds generated net gains of US\$4.6 million. As set out in the analysis of trading securities in note 8 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\$14.2 million for the year was US\$4.4 million or 24 per cent lower than the prior year, although was at a similar level to the income recorded in 2017. Foreign exchange income principally comprised income generated from customer-initiated foreign exchange transactions that were 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, albeit at a lower level than in 2018, reflected continued success in the cross-selling of innovative products to meet customers' needs and requirements, and the development of new products to meet those 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 2019, 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. The particularly high level of income recorded in 2018 reflected a higher than usual level of hedging activity by a small number of customers.

Other income of US\$8.4 million was recorded for the year. An analysis of other income is set out in note 25 to the consolidated financial statements. Other income principally comprised US\$5.2 million of dividends received from equity investments classified as fair value through other comprehensive income (FVTOCI) and a US\$3.4 million profit realised on the sale of a loan that was classified as stage 2 for expected credit loss provisioning purposes.

OPERATING EXPENSES

Operating expenses at US\$285.9 million were US\$20.5 million or 8 per cent up on the prior year. The year-on-year increase was principally attributable to a US\$21.8 million exceptional expense arising on adjustments to the carrying amounts of certain fixed assets. The adjustments to the carrying amounts arose on a reassessment of the remaining life of certain information technology assets, as referred to in note 26 to the consolidated financial statements, and on the relocation of staff to a new operational support centre in the Eastern Province of Saudi Arabia that resulted in a reassessment of the remaining life of installation-related assets at the vacated premises. Excluding these exceptional charges, that will result in reduced depreciation expenses in future years, total operating expenses were marginally down on the prior year.

Staff expenses, which at US\$153.3 million accounted for 54 per cent of total operating expenses, were US\$3.5 million or 2 per cent down on the prior year. A reduction in total headcount took place during 2019 as resources previously engaged on a number of infrastructure-related projects were no longer required following the successful completion of these projects. This trend is expected to continue in 2020.

Premises expenses at US\$23.0 million were in line with the prior year. Premises expenses in 2019 included a US\$1.3 million exceptional expense arising on the reassessment of the remaining life of installation-related assets in office premises that were vacated on the transfer of staff to a new operations support centre in the Eastern Province of Saudi Arabia, and a US\$0.7 million reserve for potential additional costs associated with prior year premises fit out costs. Excluding these two exceptional expenses, premises expenses were US\$2.0 million or 9 per cent down on the prior year reflecting efficiencies achieved in the retail banking store network.

Other operating expenses at US\$109.6 million were US\$24.0 million higher than the prior year. The year-on-year increase was principally due to a US\$20.5 million exceptional expense arising on an adjustment to the carrying amounts of certain information technology assets. This followed a reassessment of the expected future benefits to be derived from the assets. The underlying 4 per cent year-on-year increase in other operating expenses was principally due to additional governance-related expenses associated with the new Saudi Arabia subsidiary incorporated in April 2019, Value Added Tax (VAT) that was introduced in Bahrain at the beginning of 2019, and costs relating to a strategy review project.

PROVISIONS

In 2019, the Group recorded a net loan provision charge of US\$30.3 million, compared to an exceptional net charge of US\$353.1 million in 2018. Provisions accordingly reverted to a more normalised level in 2019. The loan provision charge comprised a US\$24.2 million specific (stage 3) provision charge and a US\$6.1 million non-specific (stages 1 and 2) provision charge.

Financial review (continued)

In addition, a US\$2.4 million provision was recorded for contingent liabilities. As referred to in note 27 to the consolidated financial statements, this represented a provision in relation to a standby letter of credit facility.

CAPITAL STRENGTH

Total equity amounted to US\$3,296.3 million at 31st December 2019, of which US\$2,295.9 million was attributable to the shareholders of the Bank. At the 2019 year end, the ratios of total equity and tier 1 capital to total assets were 10.9 per cent and 8.9 per cent respectively, ratios that are relatively high by international comparison.

A US\$1,100.1 million increase in total equity during 2019 mainly comprised the aggregate of a US\$999.8 million (SAR3,750 million) purchase of shares in GIB's new Saudi Arabia subsidiary, GIB Saudi Arabia, by GIB's majority shareholder, the Public Investment Fund, the US\$63.0 million profit for the year, a US\$27.0 million net increase in the fair value of equity investments classified as FVTOCI, and a US\$8.7 million increase arising on the remeasurement of the defined benefit pension plans of the Group's three main subsidiaries, GIB Saudi Arabia, GIB Capital, and GIB UK.

With a total regulatory capital base of US\$2,829.6 million and total risk-weighted exposure of US\$15,373.7 million, the risk asset ratio calculated in accordance with the Central Bank of Bahrain's Basel 3 guidelines was 18.4 per cent while the tier 1 ratio was 17.5 per cent. Tier 1 capital comprised 95 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\$602.3 million of the US\$1,000.4 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.

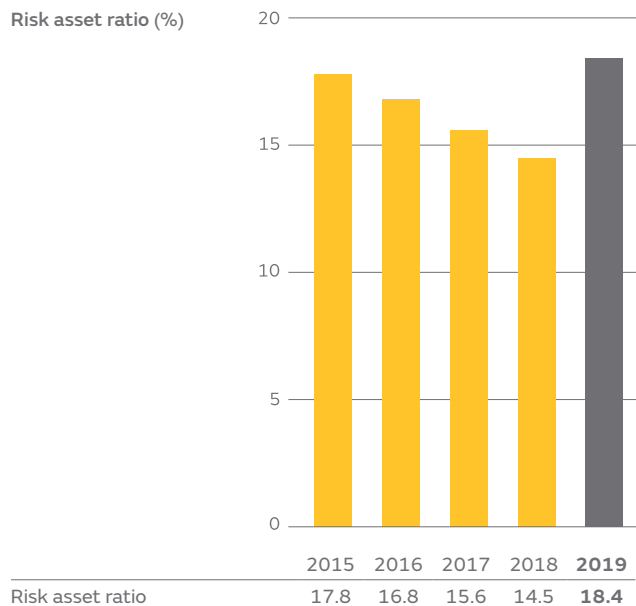
The risk asset ratio incorporates both market and operational risk-weighted exposures. With approval from the Central Bank of Bahrain, the Group applies the internal models approach for market risk, and the standardised approach for determining the capital requirement for operational risk. This demonstrates 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) to the consolidated financial statements. This note demonstrates that 80 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.

Risk asset ratio (%)



Further assessment of asset quality can be facilitated by reference to note 39 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 at 31st December 2019 were not significantly different to their carrying amounts.

At the 2019 year end, cash and other liquid assets, reverse repos and placements accounted for 52 per cent of total assets, investment securities accounted for a further 13 per cent, while loans and advances represented 33 per cent.

Investment Securities

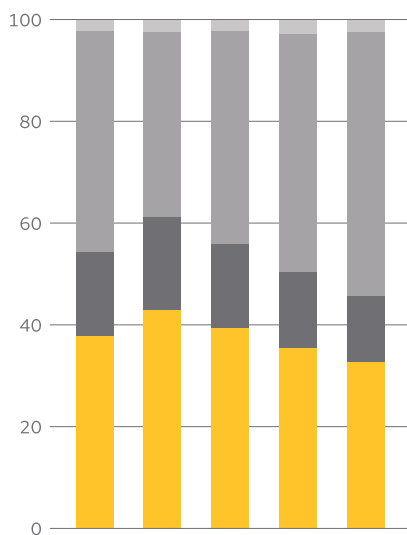
Investment securities totalled US\$3,828.4 million at 31st December 2019. The investment securities portfolio primarily represents the Group's liquidity reserve and accordingly, principally comprises investment-grade rated debt securities issued by major international and regional financial institutions 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. These accounted for US\$3,008.6 million, or 82 per cent, of total investment debt securities at the 2019 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\$673.1 million at the end of 2019 and comprised investments in GCC and OECD government-related fixed rate bonds.

Equity investments at the end of 2019 amounted to US\$146.7 million. Equity investments at 31st December 2019 included listed equities amounting to US\$28.7 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\$77.0 million, and private equity-related investments.

Financial review (continued)

Asset mix by category (%)



	2015	2016	2017	2018	2019
Other	2.2	2.4	2.3	2.8	2.4
Placements & other liquid assets	43.5	36.9	41.8	46.8	51.8
Securities	16.4	18.2	16.4	14.8	13.1
Loans & advances	37.9	42.5	39.5	35.6	32.7
	100.0	100.0	100.0	100.0	100.0

An analysis of the investment securities portfolio by rating category is set out in note 10.1 to the consolidated financial statements. US\$3,209.6 million or 87 per cent of the debt securities at the 2019 year end were rated A- / A3 or above. Based on the rating of the issuer, a further US\$158.3 million or 4 per cent of the debt securities represented other investment-grade rated securities. US\$313.8 million or 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 at 31st December 2019. All debt securities at the 2019 year end were categorised as stage 1 for provisioning purposes, with the exception of one security holding, amounting to US\$10.0 million, that was classified as stage 2 during 2019. The security is contractually due to mature during 2020.

Loans and Advances

Loans and advances amounted to US\$9,876.1 million at the 2019 year end. This represented a small US\$58.3 million increase compared to the 2018 year end. Gross loans and advances at 31st December 2019 were US\$286.0 million lower than at the 2018 year end. This was due to the transfer of US\$374.9 million of 100 per cent provisioned loans to the memorandum records. Excluding the transfer of the 100 per cent provisioned loans to the memorandum records, gross loans and advances increased by a modest US\$88.9 million during 2019. The Bank was cautious and selective in the extension of new loans during the year.

Based on contractual maturities at the balance sheet date, 55 per cent of the loan portfolio was due to mature within one year, while 71 per cent was due to mature within three years. Only 17 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. At 31st December 2019, 18 per cent of the gross loan portfolio comprised exposure to the energy, oil and petrochemical sector compared to 38 per cent at the end of 2011. 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 2019 year end, the largest industry sectorial exposure was to the trading and services sector, comprising 20 per cent of gross loans, reflecting the strategic focus on relationship-based lending. There was relatively limited exposure to the construction (6 per cent of gross loans) and real estate (9 per cent of gross loans) sectors at the 2019 year end.

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\$5,839.3 million or 59 per cent of total loans were rated 4- or above, i.e. the equivalent of investment grade-rated. Only US\$562.0 million or 6 per cent of loans and advances, net of provisions for impairment, were classified as stage 2 exposures in accordance with IFRS 9 (2014), 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 (2014) were US\$223.1 million, or only 2 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 at 31st December 2019 amounted to US\$419.6 million. Counterparty specific provisions (stage 3) amounted to US\$288.3 million while non-specific provisions (stages 1 and 2) were US\$131.3 million. Total provisions of US\$419.6 million represented 82 per cent of the gross book value of past due loans. During 2019, US\$374.9 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.

Non-specific loan provisions of US\$131.3 million at 31st December 2019 represented a high 1.3 per cent of non-specifically provisioned loans.

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.

The gross and net book values of past due loans at 31st December 2019 amounted to US\$511.4 million and US\$223.1 million respectively. The specific provisioning coverage for past due loans was 56 per cent.

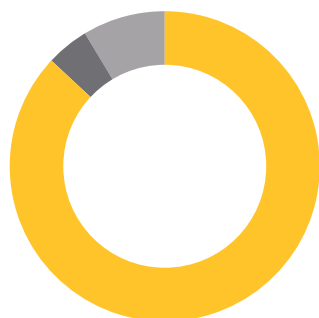
Financial review (continued)

Loan maturity profile



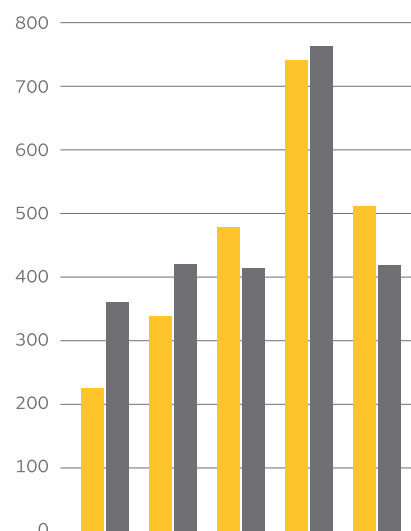
	US\$ millions	%
● Year 1	5,432.7	55.0
● Years 2 & 3	1,628.3	16.5
● Years 4 & 5	1,172.9	11.9
● Over 5 years	1,642.2	16.6
	9,876.1	100.0

Investment debt securities rating profile



	US\$ millions	%
● AAA to A-/Aaa to A3	3,209.6	87.2
● BBB+ to BBB-/Baa1 to Baa3	158.3	4.3
● BB+ to BB-/Ba1 to Ba3	313.8	8.5
	3,681.7	100.0

PDO loan development (US\$ millions)



	2015	2016	2017	2018	2019
● Gross PDO loans	225.1	339.3	479.4	741.3	511.4
● Provisions	361.0	421.0	413.6	763.9	419.6

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.

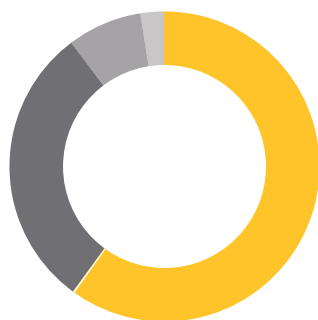
Other Asset Categories

Cash and other liquid assets, amounting to US\$8,085.1 million at the 2019 year end, are analysed in note 6 to the consolidated financial statements. They principally comprised cash and balances with Central Banks, and banks in the key geographic locations in which the Group operates. A US\$3.0 billion year-on-year increase in cash and other liquid assets was principally due to an increase in deposits from customers reflecting in particular a higher level of deposit activity by the Group's London-based subsidiary, GIB UK.

Placements totalled US\$6,171.4 million at the 2019 year end 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 per cent of total assets at the 2019 year end. At the end of 2019, placements were supplemented by US\$1,410.0 million of securities purchased under agreements to resell. These represented collateralised placements, thereby reducing the Group's risk exposure to the financial institution sector.

Financial review (continued)

Risk asset and commitment exposure



	US\$ millions	%
● GCC	20,715.4	60.2
○ Other MENA	1.6	0.0
● Europe	10,171.4	29.6
● North America	2,705.4	7.9
● Asia	800.8	2.3
	34,394.6	100.0

Deposits - geographical profile



	US\$ millions	%
● GCC countries	14,351.7	64.8
● Other MENA	621.8	2.8
● Other countries	7,179.1	32.4
	22,152.6	100.0

An analysis of trading securities is set out in note 9 to the consolidated financial statements. Trading securities at US\$142.2 million at 31st December 2019 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 at 31st December 2019 amounted to US\$34,394.6 million. Risk assets and commitments 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\$20,715.4 million or 60 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 at 31st December 2019 totalled US\$22,152.6 million. Customer deposits amounted to US\$21,223.3 million at the 2019 year end, representing 96 per cent of total deposits. Bank deposits at 31st December 2019 amounted to US\$929.3 million, representing only 4 per cent of total deposits.

Total deposits are analysed by geography in note 14 to the consolidated financial statements. US\$14,351.7 million or 65 per cent of total deposits were derived from counterparties in GCC countries. Deposits derived from non-MENA countries, principally Europe, amounted to US\$7,179.1 million or 32 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\$11,791.1 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\$523.1 million at 31st December 2019. 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 at 31st December 2019 totalled US\$3,502.4 million. Term finance and equity represented 153 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 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.

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 17th December 2019.

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.

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 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%
State General Reserve Fund Sultanate of Oman	0.438%
Ministry of Finance United Arab Emirates	0.438%

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 62 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, their remuneration 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 55-57 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 2019, 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.

The details of Board membership and Directors' attendance during 2019 are set out in the following table:

DIRECTORS' ATTENDANCE JANUARY - DECEMBER 2019 MEETINGS

Board members	Board	ExCom	Audit Comm	Nomination Remuneration Committee (Until Apr 19)	Corporate Governance Committee (Until Apr 19)	Governance, Nomination Remuneration Committee	Risk Policy Comm	Innovation Comm	Executive Non-Executive	Independent Non-Independent
Dr. Abdullah bin Hassan Alabdulgader	6(6)	5(5)						6(6)	Non-Executive	Independent
Mr. Abdulla bin Mohammed Al Zamil	6(6)		5(5)	2(2)	1(1)	2(2)			Non-Executive	Independent
Mr. Abdulaziz bin Abdulrahman Al-Helaissi	6(6)	5(5)						6(6)	Executive	Non-Independent
Dr. Najem bin Abdulla Al Zaid	6(6)			2(2)	1(1)	2(2)	4(4)		Non-Executive	Independent
Mr. Sultan bin Abdul Malek Al-Sheikh	6(6)	1(1)*	5(5)					6(6)	Non-Executive	Non-Independent
Mr. Bander bin Abdulrahman bin Mogren	6(6)			2(2)	1(1)	1(2)			Non-Executive	Non-Independent
Mr. Frank Schwab	6(6)	3(3)*					4(4)	6(6)	Non-Executive	Independent
Mr. Rajeev Kakar	6(6)	5(5)	5(5)				4(4)		Non-Executive	Independent

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

Mr. Sultan Al Sheikh was no longer a member of the Executive Committee in April 2019 and Mr. Frank Schwab was no longer a member of the Executive Committee in

October 2019 as per the Central Bank of Bahrain request for independency purposes to minimise the impact on other Board committees' composition.

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 (JANUARY – APRIL 2019)

Board committees	Member name	Member position
Executive Committee	Dr. Abdullah bin Hassan Alabdulgader	Chairman
	Mr. Abdulaziz bin Abdulrahman Al-Helaissi	Member
	Mr. Rajeev Kakar	Member
	Mr. Frank Schwab	Member
	Mr. Sultan bin Abdul Malek Al-Sheikh	Member
Audit Committee	Mr. Sultan bin Abdul Malek Al-Sheikh	Chairman
	Mr. Abdulla bin Mohammed Al Zamil	Member
	Mr. Rajeev Kakar	Member
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
Corporate Governance Committee	Dr. Najem bin Abdulla Al Zaid	Chairman
	Mr. Abdulla bin Mohammed Al Zamil	Member
	Mr. Bander bin Abdulrahman bin Mogren	Member
Innovation Committee	Mr. Frank Schwab	Chairman
	Mr. Abdulaziz bin Abdulrahman Al-Helaissi	Member
	Mr. Sultan bin Abdul Malek Al-Sheikh	Member

BOARD COMMITTEES' MEMBERSHIP (APRIL – SEPTEMBER 2019)

Board committees	Member name	Member position
Executive Committee	Dr. Abdullah bin Hassan Alabdulgader	Chairman
	Mr. Abdulaziz bin Abdulrahman Al-Helaissi	Member
	Mr. Rajeev Kakar	Member
	Mr. Frank Schwab	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
	Mr. Abdulaziz bin Abdulrahman Al-Helaissi	Member
	Mr. Sultan bin Abdul Malek Al-Sheikh	Member

Corporate governance report (continued)

BOARD COMMITTEES' MEMBERSHIP (OCTOBER - DECEMBER 2019)

Board committees	Member name	Member position
Executive Committee	Dr. Abdullah bin Hassan 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 Hassan Alabdulgader	Member
	Mr. Abdulaziz bin Abdulrahman Al-Helaissi	Member
	Mr. Sultan bin Abdul Malek Al-Sheikh	Member
	Mrs. Anju Patwardhan	Invitee

BOARD AND COMMITTEES MEETINGS DURING 2019

Type of meeting	Meeting dates
Board of Directors	<ol style="list-style-type: none"> 15 February 2019 31 March 2019 13 April 2019 24 July 2019 28 October 2019 17 December 2019
Executive Committee	<ol style="list-style-type: none"> 15 February 2019 13 April 2019 24 July 2019 28 October 2019 17 December 2019
Audit Committee	<ol style="list-style-type: none"> 14 February 2019 12 April 2019 23 July 2019 27 October 2019 16 December 2019
Corporate Governance Committee (until April 2019)	<ol style="list-style-type: none"> 15 February 2019
Nomination & Remuneration Committee (until April 2019)	<ol style="list-style-type: none"> 15 February 2019 19 March 2019
Governance, Nomination & Remuneration Committee (from May 2019)	<ol style="list-style-type: none"> 23 July 2019 16 December 2019
Risk Policy Committee	<ol style="list-style-type: none"> 15 February 2019 12 April 2019 23 July 2019 27 October 2019
Innovation Committee	<ol style="list-style-type: none"> 15 February 2019 12 April 2019 24 July 2019 18 September 2019 27 October 2019 16 December 2019

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.

Corporate governance report (continued)

INDUCTION & 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 CEO, who is assisted by the Chief Financial Officer, Chief Risk Officer, Chief Operating Officer, Wholesale Banking Head, Retail Banking Head, Chief Investment and Treasury Officer, Group Head of Compliance & Governance and Chief Human Resources Officer. The biographies of the key members of the Senior Management team are set out on page 58-61 of this Annual Report.

The following 1st level management committees assist the CEO 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 Committee
7. Tender Review Committee
8. Credit Committee
9. Strategy Execution Committee
10. Change Control Board
11. Investment Committee

These Committees derive their authorities from the CEO, 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.

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

Corporate governance report (continued)

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 bonus
- Deferred bonus share 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\$ 33,000 [2018: US\$ 36,000].

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 2019, the aggregate remuneration paid to Board members and key Management was US\$ 15.0 million [2018: US\$ 14.2 million] of which US\$ 4.2 million [2018: US\$ 2.6 million] was paid to the Board members.

Variable remuneration for staff

The variable remuneration is performance related and consists primarily of the annual performance bonus award. As a part of the staff's variable remuneration, the annual bonus 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 bonus 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.

Corporate governance report (continued)

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

The NRC 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 bonus pool for quality of earnings. It is the Bank's objective to pay out bonuses out of realised and sustainable profits. 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 bonus 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 bonus pool, as determined above, is subject to risk adjustments in line with the risk adjustment and linkage framework.

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 annual bonus. GIB ensures that total variable remuneration does not limit its ability to strengthen its capital base.

The bonus 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.

Corporate governance report (continued)

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 bonus 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 bonus 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.

Components of variable remuneration

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 equity share awards is linked to the Bank's share price 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	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

US\$ 000's	2019	2018
· Remuneration Fees (includes sitting fees)	3,557	1,873
· Sitting Fees	348	318
· Travel Expenses	626	595
· Other Expenses	27	13
TOTAL	4,210	2,481

Employees

US\$ 000's	Number of staff	2019									
		Fixed remuneration		Sign on bonuses (Cash / shares)	Guaranteed bonuses (Cash / shares)	Variable remuneration					Total
		Cash	Others			Upfront		Deferred			
						Cash	Shares	Cash	Shares	Others	
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

Corporate governance report (continued)

2018											
US\$ '000's	Number of staff	Fixed remuneration		Sign on bonuses (Cash / shares)	Guaranteed bonuses (Cash / shares)	Variable remuneration					Total
		Cash	Others			Upfront		Deferred			
				Cash	Shares	Cash	Shares	Others			
Approved persons											
- Business Lines	6	2,858	282	-	-	831	3	200	1,011	-	5,185
- Control & Support	15	4,184	408	-	-	475	57	31	385	-	5,540
Other Material Risk Takers	14	3,513	325	-	-	416	63	25	378	-	4,720
Other Staff	204	25,982	4,990	-	-	1,942	30	-	119	-	33,063
Overseas Staff	773	71,426	19,132	-	-	11,304	-	-	-	-	101,862
TOTAL	1,012	107,963	25,137	-	-	14,968	153	256	1,893	-	150,370

Other staff expenses reported in the consolidated statement of income that have not been included in the table above, amounting to US\$ 6.3 million, comprise indirect staff costs including training, recruitment, retirement, relocation, life assurance contributions, and differences between accrued staff expenses and the amounts actually paid.

Deferred Awards

2019					
	Cash	Shares		Others	Total
	US\$'000s	Number	US\$'000s	US\$'000s	US\$'000s
Opening balance	479	3,686,799	3,550	-	4,029
Awarded during the period	252	2,334,438	2,010	-	2,262
Paid out / released during the period	(246)	(1,980,080)	(1,705)	-	(1,951)
Service, performance and risk adjustments	-	-	-	-	-
Changes in value of unvested awards	-	-	(146)	-	(146)
Closing balance*	485	4,041,157	3,710	-	4,194

* Closing balance Share value based on NAV as on 31-12-19

Severance pay

The severance payments during the year amounted to US\$ 214,200 [2018: US\$ 742,400] of which the highest paid to a single person amounted to US\$ 75,150 [2018: US\$ 160,000]

CORPORATE COMMUNICATIONS

The Bank has in place a Corporate Communications Strategy which ensures 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, corporate brochures, staff newsletters, 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.

Corporate governance report (continued)

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’.

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 Acknowledgment 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 Governance, Nomination & Remuneration Committee of the Board.

Relatives of current employees may be considered subject to the specific approval of the CHRO. The hiring of relatives shall not be permitted, due to there being a conflict of interest, when one of the following is true:

- One relative is allocated within the same sub-division as the new hire;
- One relative reports directly to the other; or
- The relationship creates an actual or perceived conflict of interest.

If the relative relationship is established after commencement of employment, the Bank may consider a different sub-division for the employee to be moved to, subject to the appropriate approvals being obtained.

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.

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.

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.

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 & 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.

Corporate governance report (continued)

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 & Corporate Governance, who reports directly to the CEO, also has access to the Board through the Audit & Governance, Nomination & Remuneration Committees, if required.

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 and the Governance, Nomination & Remuneration 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.

During 2019, the Bank was penalised an amount of BHD 3,200 (4 day delay charged at BHD 800 per day) by the Central Bank of Bahrain due to late submission of the Agreed Upon Procedures report relating to compliance with the remuneration rules on the deadline of 31st March 2019.

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.

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 report (continued)

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 July 1st, 2019. 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 2019 are explained as follows:

Conflict with GIB's Agreement of Establishment & Article of Association, 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 (Public Investment Fund, a Saudi government entity) and does 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.



Board of Directors biographies

Dr. Abdullah bin Hassan Alabdulgader

Elected Chairman on 15th December 2017
Director since 2009

Dr. Abdullah bin Hassan Alabdulgader is a Non-Executive Director (NED) at Saudi Arabian Investment Company, Saudi Arabian Railroads Company, and Al Faisaliah Group. Prior to this, he was an academic and professor of business administration at King Fahd University of Petroleum and Minerals for more than 20 years. In 2004, he was appointed as a Commissioner at the Saudi Capital Market Authority (CMA), where he served for 5 years and led the development of the Kingdom's corporate governance code. Since leaving the CMA he has chaired the Regulatory and Policy Oversight Committee at the Saudi Stock Exchange (Tadawul). From 1998 onwards, Abdullah has been a NED in large banking and telecommunications corporations.

As the founding Executive Director of the GCC Board Directors Institute, a non-profit organisation that provides board effectiveness training, he has continued to promote corporate governance in the region. He has been associated with the Saudi Organization of Certified Public Accountants since 1990. Dr. Alabdulgader 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 35 years' professional experience.

Mr. Abdulla bin Mohammed Al Zamil

Vice Chairman since 2018
Director since 2009

Mr. Abdulla bin Mohammed Al Zamil is a board member and 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 & Dammam Airports Company and his board memberships include Gulf Insulation Group and Ranco-Zamil Concrete Industries. Board memberships of government entities include the Eastern Province Council and Eastern Health Cluster and non-profit organisations including Dhahran Ahliyya School. 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 32 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 non-bank 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 30 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 the Director for the Local Holdings Investment Division at the Public Investment Fund of Saudi Arabia (PIF). He is also a board member of Almarai Company, Saudi Fisheries Company, Tahakom Investment Company, Saudi Company for Exchanging Digital Information and The Helicopter Company as well as being an executive committee member of the Saudi Telecom Company. Prior to joining PIF, Mr. Al-Sheikh was a Vice President, Investment Banking, at Saudi Fransi Capital. Before that he worked as an officer in the Securities Listing and Corporate Finance and Issuance departments at the Saudi Capital Market Authority and as a relationship manager, Corporate Banking Group, at Saudi Arabia's National Commercial Bank. Mr. Al-Sheikh holds a MSc in Finance from George Washington University, USA and a BSc in Finance from King Fahd University of Petroleum and Minerals, Saudi Arabia. He has 16 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 Portfolio Companies Nomination Committee, a board member of the Saudi Development and Investment Company and the Chairman of its Remuneration Committee, and the Vice Chairman 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 Remuneration 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.

Previously, he was Managing Director of Human Resources and Corporate Services at NCB Capital, 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 18 years' professional experience.

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, a member of the Tadawul Regulatory Policies and Oversight Committee and the Audit & Risk Committee of the Diriyah Gate Development Authority. 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.

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. He has 23 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.

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 33 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. His main topics are new ideas, creativity, 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, a senior advisor to McKinsey on banking transformation in Germany and has held numerous management roles at Deutsche Bank AG including Director for Strategy, Architecture, Business Development and Innovation, Group Technology & Operations and Private & Business Clients IT & Operations as well as Head of Internet & E-Commerce Technology. He has also lectured 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 21 years' professional experience.



Senior management biographies

Abdulaziz bin Abdulrahman Al-Helaissi

Group Chief Executive Officer & Board Member, Chairman – Gulf International Bank (UK) Limited, Member of Board Executive Committee and Chairman of Management Committee

Abdulaziz Al-Helaissi has 30 years' banking and regulatory experience, primarily in the Kingdom of Saudi Arabia. He joined GIB in his current position in February 2016. Prior to this, he was Deputy Governor for Supervision at the Saudi Arabian Monetary Authority (SAMA), where he started in May 2013. His responsibilities included oversight of the banking and insurance sectors, together with finance company regulation (mortgages, leasing and other non-bank finance institutions) and consumer protection. Prior to joining SAMA, Abdulaziz was Senior Country Officer and Managing Director - Saudi Arabia, and Head of Global Corporate Banking - Middle East and North Africa, for JPMorgan Chase between September 2010 and May 2013. Earlier in his career, he was Area General Manager - Central Province at Saudi British Bank (SABB), an affiliate of HSBC, covering all lines of business including corporate and consumer banking. His various board memberships have included Tadawul (Saudi Stock Exchange). Abdulaziz holds a Bachelor of Arts degree in Economics from the University of Texas in Austin, USA.

Mushari bin Faisal Al Otaibi

Group Chief Operating Officer, Member of Management Committee, Human Resources Committee, Operational Risk Management Committee, Business Continuity Committee, Information Technology Committee and Information Security Committee

Mushari Al Otaibi has over 28 years' experience in the areas of Back Office Operations, Human Resources, Retail Banking and Wealth Management. He joined GIB as Deputy Chief Operating Officer and Saudi Arabia Country Head in August 2016 and was promoted to Group Chief Operating Officer and Saudi Arabia Country Head in February 2018. He is responsible for Operations, Operational Improvement and Quality, and for business support functions such as Information Technology, Procurement, Administration and Corporate Communications. Prior to his current post, Mushari was General Manager - Operations and Processing at the Saudi British Bank (SABB) in Saudi Arabia. During his 25 years with SABB, he held a number of positions with executive management responsibility across key areas of the bank. These include Head of Human Resources Relationship Management, Regional Head of Retail Banking and Wealth Management, Senior Executive - Network Services and Processing, and Deputy Head of the Credit Card Centre. Mushari attended the High Performers Leadership Programme at INSEAD, France, and attended Finance for Non-Finance Executives Programme at London Business School in UK.

Senior management biographies (continued)

Stephen D. Williams

Group Chief Financial Officer, *Member of the Management Committee, Chairman of the Bank Assets & Liabilities Committee, and Member of the Group Risk Committee, Operational Risk Management Committee, Information Security Management Committee and Tender Review Committee*

Stephen Williams has 39 years' international experience in banking, accountancy and audit. Joining GIB in 1987, he was appointed Group Financial Controller in 2000, and assumed his current position as Group Chief Financial Officer in April 2008. Stephen is responsible for Group-wide statutory, regulatory and management reporting; financial and balance sheet planning; capital planning and management; internal controls, and accounts payable. Prior to joining GIB, he worked for KPMG in London and the Middle East. A Certified Chartered Accountant and member of the Institute of Chartered Accountants in England and Wales (ICAEW), Stephen is the Bahrain country representative for the ICAEW. He holds a BSc degree in Economics from Cardiff University, UK; and is a member of the Institute of International Finance Working Groups on Capital Adequacy and Working Liquidity.

Osamah bin Mohammed Shaker

Chief Executive Officer & Board Member – GIB Capital, *Member of Management Committee and Investment Committee*

Osamah Shaker has over 21 years' experience in investment banking, asset management and banking regulatory control. He joined GIB in his current position in June 2016. Prior to this, Osamah was Director General of Banking Control at the Saudi Arabian Monetary Authority (SAMA), responsible for overseeing and regulating all commercial banks in the Kingdom; and was also a Senior Advisor to the Deputy Governor of SAMA. Previously, he gained over 16 years' experience in investment banking and investment management with the Saudi British Bank (SABB) and HSBC Saudi Arabia. With the latter, Osamah held executive level positions as Managing Director - Head of Financial Markets and Managing Director - Head of Investments. He was also a faculty member at the Institute of Public Administration in Riyadh, Saudi Arabia, where he taught Statistics and also provided statistical consultation. Osamah 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, Kingdom of Saudi Arabia.

Katherine Garrett-Cox

Managing Director and Chief Executive Officer Gulf International Bank (UK) Limited, *Member of Management Committee and Investment Committee*

Katherine Garrett-Cox has over 30 years' experience in the global asset management industry, managing institutional and retail funds across a broad range of investment disciplines. Katherine joined GIB (UK) in her current position in October 2017. Prior to this, she was Chief Executive Officer and Executive Director of Alliance Trust PLC. She previously served as Chief Investment Officer and Executive Director of Morley Fund Management (now Aviva Investors) and Chief Investment Officer of Aberdeen Asset Management PLC. Katherine is a member of the Supervisory Board of Deutsche Bank AG and previously served as a member of the UK Prime Minister's Business Advisory Group and the Scottish Business Board. Katherine is Chair of both the Clean Air Fund and the Carbon Disclosure Project (CDP) Worldwide Board and was awarded a CBE in 2014 for services to the asset management industry, and charitable services through the Baring Foundation. Katherine is a member of the UK Society of Investment Professionals, CFA Institute. She 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.

Khaled Abbas

Group Head of Wholesale Banking, *Member of Management Committee, Assets & Liabilities Committee, Credit Committee, Investment Committee, Digital Committee, Operational Risk Management Committee and Information Security Committee*

Khaled Abbas has more than 22 years' regional banking experience including having managed and grown leading regional wholesale banking divisions. Joining GIB in 2018, originally as UAE Country Head, Khaled is currently responsible for managing the Group's Wholesale Banking division and its relationships with large corporates and financial institutions. Before joining GIB, Khaled spent eight years at Abu Dhabi Islamic Bank, where he last served as Executive Vice President and Regional Head – Wholesale Banking Group. Previously, he held a number of other senior roles at Samba Financial Group and Banque Saudi Fransi. Khaled holds 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.

Senior management biographies (continued)

Sara Abdulhadi

Group Chief Investment & Treasury Officer, Member of the Management Committee, Assets and Liabilities Committee, Operational Risk Management Committee and Information Security Committee

Sara Abdulhadi has more than 15 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. Sara began her career at the Saudi British Bank, holding various senior roles within the organisation including Deputy Treasurer, Head of Balance Sheet Management and Investment, Senior Treasury Investment Dealer, and Strategic Planning Manager. She holds an MSc in Investment Management from Cass Business School, City University, London and a BSc in Accounting from King Saud University, Riyadh.

Arun Hari

Group Chief Risk Officer, Member of Management Committee, Chairman of Group Risk Committee, Operational Risk Management Committee, Information Security Committee, and a Member of Credit Committee, Investment Committee, Change Control Board, Human Resources Committee, Assets & Liabilities Committee and Tender Review Committee

Arun Hari has over 28 years' corporate banking experience in the MENA region, and enjoyed a long and successful career at HSBC Group in the UAE and Saudi Arabia. He joined GIB in his current position in June 2018. Prior to this Arun was the Country Head of Global Banking for the Saudi British Bank (SABB) Saudi Arabia, overseeing multi-functional teams responsible for providing relationship coverage to major corporates and institutional clients. He was instrumental in setting up the Global Banking Business as a stand-alone business division and developing it into a significant revenue contributor for SABB. Prior to that, he was the Regional Head of Corporate Banking for SABB's Central Province Region of KSA. Before moving to SABB, Arun was the Head of Corporate & Institutional Banking at HSBC Abu Dhabi. He holds a BSc in Mathematics from Mahatma Gandhi University, India and an MBA from Southern New Hampshire University, USA.

Khalid M. Mahmood

Group Chief Auditor, Secretary of the Board Audit Committee

Khalid Mahmood has over 34 years' experience in banking, regulatory compliance and audit. Joining GIB's Internal Audit department in 1987, he was appointed Head of Financial Audit in 2004 and Acting Group Chief Auditor in 2010. He was then appointed Group Head of Compliance & Group MLRO in 2012, before taking up his current position in May 2016. Prior to joining GIB, he worked with KPMG in Bahrain. Khalid 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 bin Abdulrahman Al-Ansari

Group Compliance Head & Group Money Laundering Reporting Officer, Secretary of the Board, Member of Management Committee, Operational Risk Management Committee and Information Security Committee

Yasser Al-Ansari has over 21 years' experience in the field of compliance and governance in the Kingdom of Saudi Arabia, at a government level and with international and domestic banks. He joined GIB in his current position in May 2016. Prior to this, Yasser was Advisor to the Saudi Arabian Civil Service Minister on Compliance & Governance Affairs. Previously, he was Global Chief Compliance Officer with Al Rajhi Bank; Head of Compliance & AML at the Riyadh branch of JPMorgan Chase Bank; Country Head of Compliance & AML Manager at the Riyadh branch of BNP Paribas; and Compliance Manager at Saudi Hollandi Bank. During the early stages of his career, he worked at Samba Financial Group and Riyadh Bank in various credit control, risk management and compliance positions. Yasser holds a BSc in Management with Compliance from the University of Manchester, UK. He is a Certified Compliance Officer (Institute of Banking - Saudi Arabian Monetary Authority); a Certified Anti-Money Laundering Specialist (CAMS); and holds two Graduate Diplomas in AntiMoney Laundering and International Compliance from the International Compliance Association.

Senior management biographies (continued)

Helen Janet Lloyd

Group Chief Human Resources Officer, *Member of Management Committee, Human Resources Committee and Information Security Committee*

Helen Lloyd has over 31 years' international experience in human resources development, learning and cultural transformation. She joined GIB in her current position in April 2017. Prior to this, Helen worked at RSA Group PLC where she was HR Director - UK and International. Previously, Helen was AGM - Organisational Effectiveness at Commercial Bank of Qatar; and she spent six years at Lloyds Banking Group PLC, latterly as Head of HR, Commercial Banking. She also worked for Grupo Santander in the UK, where she held a number of senior positions in Human Resources. In her early career, she worked for Standard Bank of South Africa in a number of HR-related roles. Helen 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.

Andreas Skopal

Group Chief Digital Officer, *Member of the Management Committee and Digital Committee*

Andreas Skopal has more than 18 years' experience and is responsible for GIB's digital value propositions, practices and organisation as well as the innovation agenda across the Group, ensuring that GIB maximises the opportunities that digital presents. He has responsibility for transforming the digital landscape across the Bank, including growing the business across multiple digital channels. Specific Group functional accountabilities include: Innovation & Partnerships, Design, Customer Experience, Digital Enablement, Wholesale Digital and Marketing. Prior to joining GIB, Andreas was an equity Partner with Ernst & Young (EY), leading the market segment for digital financial services across all service lines of the firm, based in Dubai. Earlier in his career, he spent 12 years with PricewaterhouseCoopers (PwC), leading the P&L for Digital and Customer practices across Southeast Asia, based in Singapore. Prior to that he was a Senior Director for PwC's Consulting practice across APAC, based in Melbourne. Andreas has Bachelor and Honours Degrees in Commerce from Monash University, Melbourne.

Rima M. Bhatia

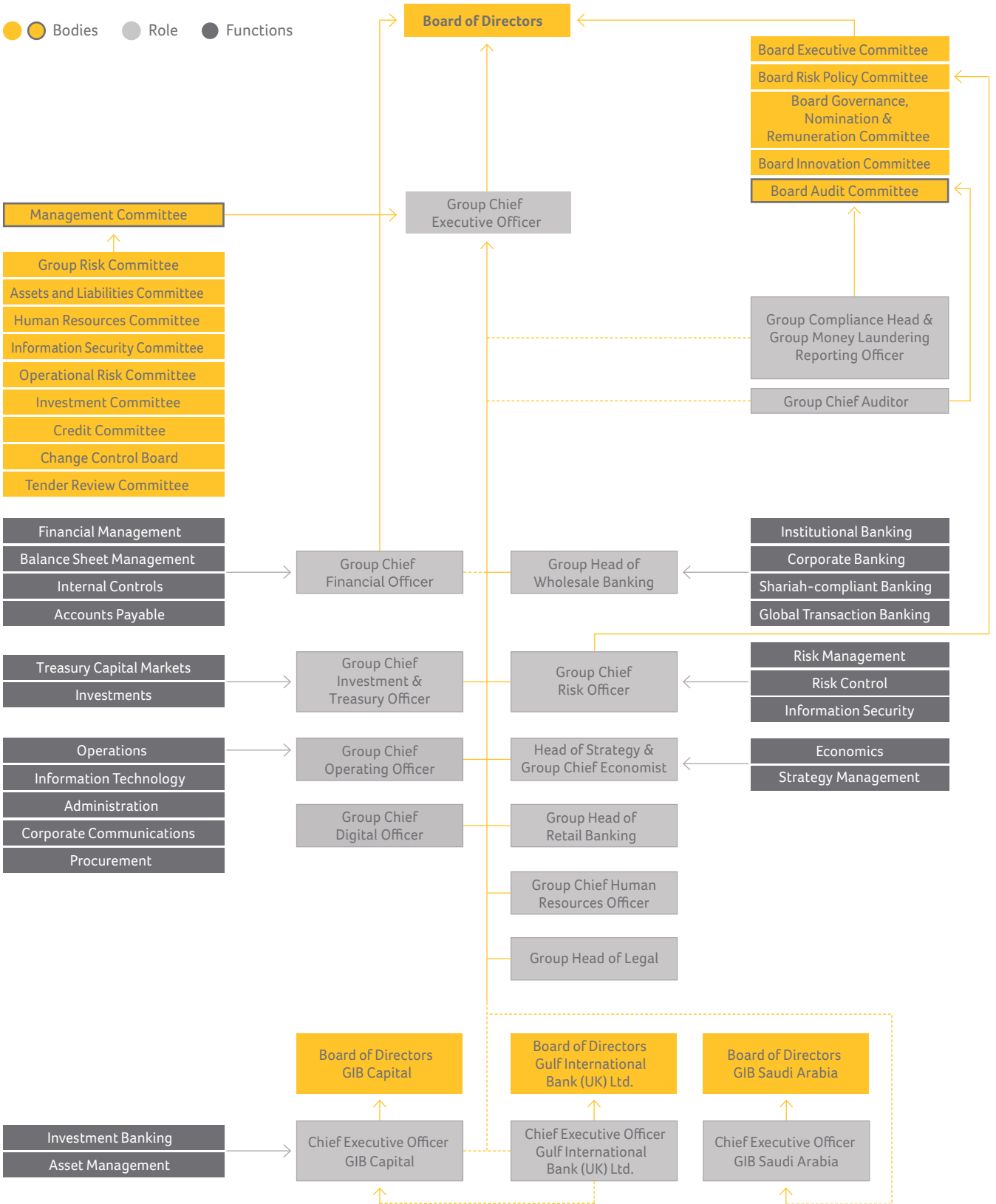
Group Chief Economist and Head of Strategy, *Member of the Management Committee, Group Risk Committee, Assets & Liabilities Committee, IBOR Transition Steering Committee, Strategy Execution & Transformation Steering Committee, Project Evaluation Committee and Retail Committee*

Rima Bhatia has 28 years' experience of forward-looking analysis on economic and financial developments, with a specialisation in the evolving transformation underway in Saudi Arabia and the wider Gulf Cooperation Council (GCC) countries. She joined GIB in 1988 as a university intern.

Rima's dual role encompasses intellectual leadership and strategic guidance in areas of economic development and risk assessment, in addition to driving the Bank's long-term strategy direction and transformation plans. Rima originates research and publishes insights regularly as an economic thought leader and contributes to major business publications and books on the GCC region. She also delivers presentations to regulators, clients, and counterparts, and speaks at regional and international forums.

Rima 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.

Organisation and corporate governance chart





Consolidated financial statement

For the year ended 31st December 2019

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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 2019, 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 2019, and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS")

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 the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended 31 December 2019. 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

The Group exercises significant judgment using subjective assumptions over both when and how much to record as loan impairment, and estimation of the amount of the impairment provision for loans and advances.

Loans and advances form a major portion of the Group's assets, and due to the significance of the judgments used in classifying loans and advances into various stages stipulated in IFRS 9 and determining related provision requirements, this audit area is considered a key audit risk.

As at 31 December 2019, the Group's gross loans and advances amounted to US\$ 10,295.6 million and the related impairment provisions amounted to US\$ 407.8 million, comprising US\$ 134.6 million of provision against Stage 1 and 2 exposures and US\$ 273.2 million against exposures classified under Stage 3. The impairment provision policy is presented in the accounting policies, and in Note 28 to the consolidated financial statements.

How the key audit matter was addressed in the audit

- We gained an understanding of the Group's key credit processes comprising granting, booking, monitoring and provisioning and tested the operating effectiveness of key controls over these processes
- 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 provision 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)

Key audit matter	How the key audit matter was addressed in the audit
	<ul style="list-style-type: none"> ▪ 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 Expected Credit Loss ("ECL") calculations, we held discussions with management and corroborated the assumptions using publicly available information ▪ 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 external published data and checked the appropriateness of conversion of the TTC PDs to Point in Time PDs ▪ We checked that the Loss Given Default used by the Group's management in the ECL calculations are those approved by the Group Risk Committee ▪ For a sample of exposures, we checked the appropriateness of determining Exposure at Default, including the consideration of prepayments and 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 2019 ▪ We involved Risk and Information System specialists to verify the appropriateness of the model and data integrity ▪ We assessed the financial statement disclosures to ensure compliance with IFRS 9. Refer to the accounting policies, critical accounting estimates and judgments, disclosures of loans and advances and credit risk management in notes 3, 4, 11 and 28 respectively to the consolidated financial statements <p>Stage 3 (Specific) Provisions:</p> <ul style="list-style-type: none"> ▪ 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. <p>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.</p>

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 2019 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 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 judgment and maintain professional skepticism throughout the audit. We also:

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

We communicate with the 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, related safeguards.

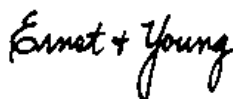
From the matters communicated with the Group's Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or 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 2019 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.



Partner's registration no.145
18 February 2020
Manama, Kingdom of Bahrain

Consolidated Statement of Financial Position

		31.12.19	31.12.18
	Note	US\$ millions	US\$ millions
ASSETS			
Cash and other liquid assets	6	8,085.1	5,114.2
Securities purchased under agreements to resell	7	1,410.0	1,015.9
Placements	8	6,171.4	6,770.8
Trading securities	9	142.2	177.7
Investment securities	10	3,828.4	3,897.2
Loans and advances	11	9,876.1	9,817.8
Other assets	12	728.5	752.5
Total assets		30,241.7	27,546.1
LIABILITIES			
Deposits from banks	14	929.3	2,372.2
Deposits from customers	14	21,223.3	18,322.4
Securities sold under agreements to repurchase	15	523.1	735.4
Other liabilities	16	767.3	581.9
Senior term financing	17	3,502.4	3,338.0
Total liabilities		26,945.4	25,349.9
EQUITY			
Share capital	18	2,500.0	2,500.0
Reserves	19	343.5	361.4
Retained earnings		(547.6)	(665.2)
Equity attributable to the shareholders of the Bank		2,295.9	2,196.2
Non-controlling interest	42	1,000.4	-
Total equity		3,296.3	2,196.2
Total liabilities & equity		30,241.7	27,546.1

The consolidated financial statements were approved by the Board of Directors on 18th February 2020 and signed on its behalf by:



Abdullah bin Hassan 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 Income

	Note	Year ended 31.12.19 US\$ millions	Year ended 31.12.18 US\$ millions
Interest income	21	841.3	764.8
Interest expense	21	560.9	491.1
Net interest income		280.4	273.7
Fee and commission income	22	64.7	61.2
Trading income	23	17.0	9.5
Foreign exchange income	24	14.2	18.6
Other income	25	8.4	35.5
Total income		384.7	398.5
Staff expenses		153.3	156.8
Premises expenses		23.0	23.0
Other operating expenses	26	109.6	85.6
Total operating expenses		285.9	265.4
Net income before provisions and tax		98.8	133.1
Provision charge for loans and advances	11	(30.3)	(353.1)
Provision release for investment securities		0.2	-
Provision charge for contingent liabilities	27	(2.4)	-
Provision charge for other assets		(0.1)	(0.2)
Net income / (loss) before tax		66.2	(220.2)
Taxation charge		(3.2)	(6.8)
Net income / (loss)		63.0	(227.0)
Attributable to:			
Shareholders of the Bank		62.0	(227.0)
Non-controlling interest		1.0	-
		63.0	(227.0)



Abdullah bin Hassan 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 31.12.19	Year ended 31.12.18
	US\$ millions	US\$ millions
Net income / (loss)	63.0	(227.0)
Other comprehensive income:-		
Items that may subsequently be reclassified to consolidated statement of income:-		
Cash flow hedges:-		
- net changes in fair value	2.0	(1.4)
	2.0	(1.4)
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)	27.0	11.5
Remeasurement of defined benefit pension fund	8.7	2.2
	35.7	13.7
Total other comprehensive income	37.7	12.3
Total comprehensive income / (loss)	100.7	(214.7)
Attributable to:		
Shareholders of the Bank	99.7	(214.7)
Non-controlling interest	1.0	-
	100.7	(214.7)

Consolidated Statement of Changes in Equity

	Equity attributable to the shareholders of the Bank				Non-controlling interest	Total
	Share capital	Reserves	Retained earnings	Total		
	US\$ millions	US\$ millions	US\$ millions	US\$ millions		
At 1st January 2019	2,500.0	361.4	(665.2)	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	-	29.4	8.3	37.7	-	37.7
Total comprehensive income for the year	-	29.4	70.3	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	343.5	(547.6)	2,295.9	1,000.4	3,296.3
At 1 st January 2018	2,500.0	352.5	(441.6)	2,410.9	-	2,410.9
Net loss for the year	-	-	(227.0)	(227.0)	-	(227.0)
Other comprehensive income for the year	-	10.1	2.2	12.3	-	12.3
Total comprehensive income / (loss) for the year	-	10.1	(224.8)	(214.7)	-	(214.7)
Transfer to retained earnings	-	(1.2)	1.2	-	-	-
At 31 st December 2018	2,500.0	361.4	(665.2)	2,196.2	-	2,196.2

Consolidated Statement of Cash Flows

	Note	Year ended 31.12.19 US\$ millions	Year ended 31.12.18 US\$ millions
OPERATING ACTIVITIES			
Net income / (loss) before tax		66.2	(220.2)
Adjustments to reconcile net income to net cash flow from operating activities:-			
Provision charge for loans and advances		30.3	353.1
Provision release for investment securities		(0.2)	-
Provision charge for contingent liabilities		2.4	-
Provision charge for other assets		0.1	0.2
Tax paid		(3.7)	(6.3)
Realised losses on debt investment securities		0.6	-
Amortisation of investment securities		7.3	8.1
Amortisation of senior term financing		0.5	0.5
Net increase in statutory deposits with central banks		(57.5)	(15.1)
Net increase in securities purchased under agreements to resell		(394.1)	(160.9)
Net decrease / (increase) in placements		599.4	(737.6)
Net decrease in trading securities		35.5	14.1
Net increase in loans and advances		(88.6)	(127.8)
Decrease / (increase) in accrued interest receivable		49.7	(51.1)
(Decrease) / increase in accrued interest payable		(47.8)	60.6
Net decrease in other net assets		13.3	29.6
Net (decrease) / increase in deposits from banks		(1,442.9)	243.1
Net increase in deposits from customers		2,900.9	2,332.6
Net decrease in securities sold under agreement to repurchase		(212.3)	(395.1)
Net cash inflow from operating activities		1,459.1	1,327.8
INVESTING ACTIVITIES			
Purchase of investment securities		(510.2)	(610.0)
Maturity of investment securities		669.6	682.2
Net cash inflow from investing activities		159.4	72.2
FINANCING ACTIVITIES			
Issuance of senior term financing		1,090.5	1,016.0
Maturity of senior term financing		(926.6)	(942.1)
Non-controlling interest capital injection		999.8	-
Net cash inflow from financing activities		1,163.7	73.9
Increase in cash and cash equivalents		2,782.2	1,473.9
Net foreign exchange difference		131.2	(143.3)
Cash and cash equivalents at 1st January		4,883.2	3,552.6
Cash and cash equivalents at 31st December	6	7,796.6	4,883.2

The notes on pages 71 to 116 form part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31st December 2019

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 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 the Central Bank of Bahrain and Financial Institutions Law.

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 IFRS 16 - Leases with effect from 1st January 2019 as referred to below.

IFRS 16 - Leases

IFRS 16 requires lessees to recognise most leases on their balance sheet as lease liabilities, with the corresponding right of use assets. IFRS 16 is effective for annual periods beginning on or after 1st January 2019. Lessees must adopt IFRS 16 using either a full retrospective or a modified retrospective approach.

The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application as at 1st January 2019 and accordingly, the comparative information has not been restated.

The accounting policies of the Group upon adoption of IFRS 16 are as follows:

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Group applied IFRS 16 only to contracts that were previously identified as leases under IAS 17 - Leases.

As a lessee, the Group leases some office premises. Under IFRS 16, the Group recognises a right-of-use asset and a lease liability at the commencement date of the lease for these office premises.

The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at, or before, the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset, or the site on which it is located, less any lease incentives received. The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if the rate cannot be readily determined, the Group's incremental borrowing rate. The lease liability is remeasured when there is a change in future lease payments. When remeasured, a corresponding adjustment is made to the carrying amount of the right-to-use assets, or is recorded in the consolidated statement of income if the carrying amount of the right-of-use asset has been reduced to zero.

When measuring lease liabilities, the Group discounted lease payments using the Group's incremental borrowing rate as at 1st January 2019. The weighted average rate applied is 3.6 per cent. The impact of this change in accounting policy as at 1st January 2019 has resulted in the Group recognising a right-of-use asset of US\$ 24.4 million, net impact in other assets of US\$0.1 million and a lease liability of US\$ 24.5 million. If IFRS 16 had not been adopted, the consolidated statement of income for the year ended 31st December 2019 would have been impacted by an increase in net profit of US\$ 0.4 million.

Notes to the Consolidated Financial Statements

For the year ended 31st December 2019

2. Basis of preparation (continued)

2.3 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.

2.4 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.

Notes to the Consolidated Financial Statements

For the year ended 31st December 2019

3. Accounting policies (continued)

3.1 Financial assets and liabilities (continued)

a) Recognition and measurement (continued)

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).

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.

Notes to the Consolidated Financial Statements

For the year ended 31st December 2019

3. Accounting policies (continued)

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.

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 ongoing 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 2019

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 2019

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.

Notes to the Consolidated Financial Statements

For the year ended 31st December 2019

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 2019

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 2019. The relevant new standards, amendments to standards, and interpretations, are as follows:-

- Amendments to IFRS 3: Definition of a Business:-

In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 - Business Combinations to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test. New illustrative examples were provided along with the amendments.

Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

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

In October 2018, the IASB issued amendments to IAS 1 - Presentation of Financial Statements and IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.'

The amendments to the definition of material is not expected to have a significant impact on the Group's consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31st December 2019

3. Accounting policies (continued)

3.18 Future accounting developments (continued)

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

Interest Rate Benchmark Reform Amendments to IFRS 9, IAS 39 and IFRS 7 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. 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). These amendments are effective for annual periods beginning on or after 1st January 2020. The Group is currently assessing the impact of this standard and will apply from the effective date.

The Group does not expect any significant impact on the Groups' financial position and results for the standards and amendments that are not yet adopted.

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 judgments estimates and assumptions

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

The use of judgments, 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, judgment 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 judgments made are set out in note 29.1.

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 judgment 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.

Notes to the Consolidated Financial Statements

For the year ended 31st December 2019

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 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
At 31st December 2018						
Cash and other liquid assets	5,114.2	-	-	-	-	5,114.2
Securities purchased under agreements to resell	1,015.9	-	-	-	-	1,015.9
Placements	6,770.8	-	-	-	-	6,770.8
Trading securities	-	177.7	-	-	-	177.7
Investment securities	3,728.7	-	168.5	-	-	3,897.2
Loans and advances	9,817.8	-	-	-	-	9,817.8
Other assets	345.3	219.1	-	-	188.1	752.5
Total assets	26,792.7	396.8	168.5	-	188.1	27,546.1
Deposits from banks	-	-	-	2,372.2	-	2,372.2
Deposits from customers	-	-	-	18,322.4	-	18,322.4
Securities sold under agreements to repurchase	-	-	-	735.4	-	735.4
Other liabilities	-	144.3	-	371.0	66.6	581.9
Senior term financing	-	-	-	3,338.0	-	3,338.0
Equity	-	-	-	-	2,196.2	2,196.2
Total liabilities and equity	-	144.3	-	25,139.0	2,262.8	27,546.1

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.

Notes to the Consolidated Financial Statements

For the year ended 31st December 2019

6. Cash and other liquid assets

	31.12.19	31.12.18
	US\$ millions	US\$ millions
Cash and balances with central banks	6,730.6	4,262.0
Cash and balances with banks	848.1	523.7
Government bills	167.9	97.5
Certificates of deposit	50.0	-
Cash and cash equivalents	7,796.6	4,883.2
Statutory deposits with central banks	288.5	231.0
Cash and other liquid assets	8,085.1	5,114.2

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.

8. Placements

Placements at 31st December 2019 included placements with central banks amounting to US\$2,026.4 million (2018: US\$2,886.4 million). The placements with central banks represented the placement of surplus liquid funds.

9. Trading securities

	31.12.19	31.12.18
	US\$ millions	US\$ millions
Managed funds	78.0	106.4
Equity securities	64.2	58.3
Debt securities	-	13.0
	142.2	177.7

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:-

	31.12.19		31.12.18	
	US\$ millions	%	US\$ millions	%
AAA to A- / Aaa to A3	3,209.6	87.2	3,207.8	86.0
BBB+ to BBB- / Baa1 to Baa3	158.3	4.3	273.6	7.4
BB+ to B- / Ba1 to B3	313.8	8.5	247.3	6.6
Total debt securities	3,681.7	100.0	3,728.7	100.0
Equity investments	146.7		168.5	
	3,828.4		3,897.2	

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 2019 and 31st December 2018 principally comprised GCC sovereign debt securities.

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

Notes to the Consolidated Financial Statements

For the year ended 31st December 2019

10. Investment securities (continued)

10.2 Provisions for impairment

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

	Collective provisions		Specific provisions		2019	Collective provisions		Specific provisions		2018
	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	4.5	-	-	4.5	4.5	-	-	4.5		
Transfer to stage 2	(0.7)	0.7	-	-	-	-	-	-		
Net remeasurement of loss allowance	(0.2)	-	-	(0.2)	-	-	-	-		
At 31st December	3.6	0.7	-	4.3	4.5	-	-	4.5		

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.

11. Loans and advances

11.1 Composition

	31.12.19	31.12.18
	US\$ millions	US\$ millions
Gross loans and advances	10,295.7	10,581.7
Provisions for impairment	(419.6)	(763.9)
Net loans and advances	9,876.1	9,817.8

11.2 Industrial classification

	31.12.19	31.12.18
	US\$ millions	US\$ millions
Trading and services	2,053.1	2,038.1
Energy, oil and petrochemical	1,861.5	1,872.4
Financial	1,479.0	1,630.4
Transportation	1,374.4	1,507.7
Manufacturing	1,099.3	1,232.4
Real estate	910.5	707.7
Construction	664.6	869.3
Communication	181.7	228.7
Agriculture and mining	170.5	173.5
Government	138.0	121.8
Retail	133.5	66.5
Other	229.6	133.2
	10,295.7	10,581.7
Provisions for impairment	(419.6)	(763.9)
	9,876.1	9,817.8

Notes to the Consolidated Financial Statements

For the year ended 31st December 2019

11. Loans and advances (continued)

11.3 Provisions for impairment

	Collective provisions		Specific provisions	2019 Total	Collective provisions		Specific provisions	2018 Total
	Stage 1	Stage 2	Stage 3		Stage 1	Stage 2	Stage 3	
	US\$ millions	US\$ millions	US\$ millions	US\$ millions	US\$ millions	US\$ millions	US\$ millions	US\$ millions
At 1st January	30.5	110.1	623.3	763.9	46.3	106.3	261.0	413.6
Transfer to stage 1	0.1	(0.1)	-	-	0.5	(0.5)	-	-
Transfer to stage 2	(1.9)	1.9	-	-	(7.4)	7.4	-	-
Transfer to stage 3	-	(15.4)	15.4	-	-	(25.9)	25.9	-
Amounts utilised	-	-	(374.9)	(374.9)	-	-	(2.2)	(2.2)
Exchange rate movements	-	-	0.3	0.3	-	-	(0.6)	(0.6)
Net remeasurement of loss allowance	5.5	0.6	24.2	30.3	(8.9)	22.8	339.2	353.1
At 31st December	34.2	97.1	288.3	419.6	30.5	110.1	623.3	763.9

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.

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

The US\$339.2 million stage 3 provision for the year ended 31st December 2018 principally related to a number of borrowers that experienced stressed financial circumstances resulting from challenging micro-economic conditions which impacted the business environment in which the Group operates. This contributed to an increase in past due loans during the year ended 31st December 2018 as set out in note 11.4.

The gross amount of stage 3 loans against which a stage 3 provision had been made at 31st December 2019 was US\$381.6 million (2018: US\$649.2 million). Total stage 3 provisions at 31st December 2019, excluding provisions in relation to credit-related contingent exposures, represented 63.4 per cent of the related stage 3 loans (2018: 83.6 per cent).

Amounts utilised during the years ended 31st December 2019 and 31st December 2018 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 2019 included US\$53.1 million of provisions in relation to credit-related contingent exposures (2018: US\$88.2 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:-

	31.12.19		31.12.18	
	Gross	Carrying Amount	Gross	Carrying Amount
	US\$ millions	US\$ millions	US\$ millions	US\$ millions
Corporates	497.2	215.4	719.1	107.9
Financial sector	14.2	7.7	22.2	10.1
	511.4	223.1	741.3	118.0

Corporates include loans extended for investment purposes.

Gross past due loans at 31st December 2019 included US\$511.4 million of loans that were classified as stage 3 exposures (2018: US\$649.4 million).

At 31st December 2019, total specific provisions against past due loans represented 56.4 per cent of gross past due loans (2018: 84.1 per cent).

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For the year ended 31st December 2019

11. Loans and advances (continued)

11.5 Restructured and modified loans

During the years ended 31st December 2019 and 31st December 2018, 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 years ended 31st December 2019 and 31st December 2018, the Group did not restructure any loans or make any concessions that would ordinarily not have been accepted due to a deterioration in customer's financial position.

11.6 Collateral

The Group did not take possession of any collateral during the years ended 31st December 2019 and 31st December 2018.

12. Other assets

	31.12.19	31.12.18
	US\$ millions	US\$ millions
Derivative financial instruments	231.5	219.1
Accrued interest, fees and commissions	216.1	265.8
Premises and equipment	77.2	102.2
Right-of-use assets	64.2	-
Prepayments	52.3	48.1
Deferred items	32.3	37.8
Other, including accounts receivable	54.9	79.5
	728.5	752.5

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 2019 was principally due to a decrease in market benchmark interest rates.

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 2019 amounted to US\$13.2 million (2018: US\$17.8 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.

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For the year ended 31st December 2019

13. Post retirement benefits (continued)

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

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

	31.12.19	31.12.18
	US\$ millions	US\$ millions
Fair value of plan assets	241.4	195.2
Present value of fund obligations	(246.0)	(207.4)
Net liability in the consolidated statement of financial position	(4.6)	(12.2)

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:-

	2019	2018
	US\$ millions	US\$ millions
At 1st January	195.2	181.8
Included in the consolidated statement of income:-		
- Interest income on the plan assets	6.2	5.1
Included in the consolidated statement of other comprehensive income:-		
- Remeasurements:-		
- Return on plan assets excluding interest income	22.1	(12.1)
Other movements:-		
- Exchange rate movements	23.7	28.6
- Contributions paid by the participant	-	0.5
- Contributions paid by the Group	0.5	0.5
- Benefits paid by the plan	(6.3)	(9.2)
At 31st December	241.4	195.2

The plan assets at 31st December 2019 comprised a 38 per cent (2018: 35 per cent) exposure to equities and a 35 per cent (2018: 33 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.

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

	2019	2018
	US\$ millions	US\$ millions
At 1st January	207.4	193.6
Included in the consolidated statement of income:-		
- Current service cost	0.6	0.7
- Past service cost	-	0.2
- Interest cost on the fund obligations	6.5	5.5
Included in the consolidated statement of other comprehensive income:-		
- Remeasurements due to changed actuarial assumptions:-		
- Financial assumptions	29.8	(14.1)
- Demographic assumptions	(1.8)	(1.1)
- Experience	(15.5)	0.9
Other movements:-		
- Exchange rate movements	25.3	30.4
- Contributions paid by the participant	-	0.5
- Benefits paid by the plan	(6.3)	(9.2)
At 31st December	246.0	207.4

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For the year ended 31st December 2019

13. Post retirement benefits (continued)

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

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

	2019	2018
	US\$ millions	US\$ millions
At 1st January	(12.2)	(11.8)
Net expense included in consolidated statement of income	(1.0)	(1.3)
Remeasurement included in consolidated statement of comprehensive income	8.0	2.2
Contributions paid by the Group	0.5	0.5
Exchange rate movements	0.1	(1.8)
At 31st December	(4.6)	(12.2)

The Group paid US\$0.5 million in contributions to the plan during 2019 and expects to pay US\$0.4 million during 2020.

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

	2019	2018
Discount rate (per cent)	2.0	2.9
Retail price inflation (per cent)	3.0	3.2
Consumer price inflation (per cent)	2.1	2.2
Pension increase rate (per cent)	2.1	3.1
Salary growth rate (per cent)	3.0	3.0
Average life expectancy (years)	89	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:-

	2019	2018
	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

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:-

	31.12.19	31.12.18
	US\$ millions	US\$ millions
Fair value of plan assets	-	-
Present value of fund obligations	14.6	12.9
Net liability in the consolidated statement of financial position	14.6	12.9

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.

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For the year ended 31st December 2019

13. Post retirement benefits (continued)

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

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

	2019	2018
	US\$ millions	US\$ millions
At 1st January	12.9	7.9
Included in the consolidated statement of income:-		
- Current service cost	2.6	5.6
- Interest cost on the fund obligations	0.6	0.1
Included in the consolidated statement of other comprehensive income:-		
- Remeasurements due to changed actuarial assumptions:-		
- Financial assumptions	0.1	0.6
- Demographic assumptions	-	(0.7)
- Experience	(0.8)	0.1
Other movements:-		
- Benefits paid by the plan	(0.8)	(0.7)
At 31st December	14.6	12.9

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

	Gulf International Bank - Saudi Arabia	2019 GIB Capital
Discount rate (per cent)	3.1	3.1
Mortality rate (per cent)	75.0	75.0
Salary growth rate (per cent)	2.7	3.1

d) Sensitivity information

The present value of the fund's obligations, which has a weighted average duration of 10 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 / (decrease) as follows:-

	2019	2018
	US\$ millions	US\$ millions
Discount rate increased by 0.5 per cent	(0.8)	(0.7)
Discount rate decreased by 0.5 per cent	0.8	0.7
Long term salary increased by 0.5 per cent	0.8	0.6
Long term salary decreased by 0.5 per cent	(0.8)	(0.6)

14. Deposits

The geographical composition of total deposits was as follows:-

	31.12.19	31.12.18
	US\$ millions	US\$ millions
GCC countries	14,351.7	13,574.0
Other Middle East and North Africa countries	621.8	466.9
Other countries	7,179.1	6,653.7
	22,152.6	20,694.6

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 2019, GCC deposits represented 64.8 per cent of total deposits (2018: 65.6 per cent).

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For the year ended 31st December 2019

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 2019, the fair value of investment securities that had been pledged as collateral under repurchase agreements was US\$551.8 million (2018: US\$784.8 million). The collateralised borrowing transactions are conducted under standardised terms that are usual and customary for such transactions.

16. Other liabilities

	31.12.19	31.12.18
	US\$ millions	US\$ millions
Derivative financial instruments	290.1	144.3
Accrued interest	208.9	256.7
Deferred items	71.4	66.6
Right-of-use liabilities	61.2	-
Pension liabilities	19.2	25.1
Other, including accounts payable and accrued expenses	116.5	89.2
	767.3	581.9

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.

17. Senior term financing

	Maturity	31.12.19	31.12.18
		US\$ millions	US\$ millions
Floating rate loans	2020 - 2024	2,082.3	1,065.0
Floating rate repurchase agreements	2020 - 2028	391.5	318.5
Floating rate note	2021	529.8	533.1
Floating rate note	2022	498.8	498.2
Floating rate note	2019	-	533.1
Floating rate loans	2019	-	390.1
		3,502.4	3,338.0

18. Share capital

The authorised share capital at 31st December 2019 comprised 3.0 billion shares of US\$1 each (2018: 3.0 billion shares of US\$1 each). The issued share capital at 31st December 2019 comprised 2.5 billion shares of US\$1 each (2018: 2.5 billion shares of US\$1 each). All issued shares are fully paid.

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For the year ended 31st December 2019

19. Reserves

	Share premium	Compulsory reserve	Voluntary reserve	Cash flow hedge reserve	Investment securities revaluation reserve	Total
	US\$ millions	US\$ millions	US\$ millions	US\$ millions	US\$ millions	US\$ millions
At 1st January 2019	7.6	225.8	163.3	(1.9)	(33.4)	361.4
Net fair value gains on cash flow hedges	-	-	-	2.0	-	2.0
Net fair value gains on equity investments classified as FVTOCI	-	-	-	-	27.4	27.4
Transfers to retained earnings	-	4.8	4.8	-	(56.9)	(47.3)
Net (decrease) / increase	-	4.8	4.8	2.0	(29.5)	(17.9)
At 31st December 2019	7.6	230.6	168.1	0.1	(62.9)	343.5
At 1 st January 2018	7.6	225.8	163.3	(0.5)	(43.7)	352.5
Net fair value losses on cash flow hedges	-	-	-	(1.4)	-	(1.4)
Net fair value gains on equity investments classified as FVTOCI	-	-	-	-	11.5	11.5
Transfers to retained earnings	-	-	-	-	(1.2)	(1.2)
Net decrease / increase	-	-	-	(1.4)	10.3	8.9
At 31 st December 2018	7.6	225.8	163.3	(1.9)	(33.4)	361.4

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.

20. Dividends

No dividend is proposed in respect of the financial years ended 31st December 2019 and 31st December 2018.

21. Net interest income

	Year ended 31.12.19	Year ended 31.12.18
	US\$ millions	US\$ millions
Interest income		
Placements and other liquid assets	244.0	187.1
Investment securities	134.0	125.5
Loans and advances	463.3	452.2
Total interest income	841.3	764.8
Interest expense		
Deposits from banks and customers	418.6	368.4
Securities sold under agreements to repurchase	11.4	20.3
Term financing	130.9	102.4
Total interest expense	560.9	491.1
Net interest income	280.4	273.7

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

The increases in interest income on placements and other liquid assets, and interest expense on deposits from banks and customers was principally due to an increase in deposits from customers during the year ended 31st December 2019 reflecting in particular a higher level of deposit activity at the Group's London-based subsidiary, Gulf International Bank (UK) Limited. This also accounted for an increase in cash and other liquid assets. The increases in the average volume of cash and other liquid assets, and deposits from customers is set out in note 43.

Accrued interest on impaired and past due loans included in interest income for the year ended 31st December 2019 amounted to nil (2018: 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 2019 or 31st December 2018.

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22. Fee and commission income

	Year ended 31.12.19	Year ended 31.12.18
	US\$ millions	US\$ millions
Fee and commission income		
Commissions on letters of credit and guarantee	29.2	31.2
Investment banking and management fees	26.8	24.4
Loan commitment fees	4.3	3.9
Retail banking fees	2.0	0.8
Loan agency fees	1.6	1.2
Other fee and commission income	3.2	1.7
Total fee and commission income	67.1	63.2
Fee and commission expense	(2.4)	(2.0)
Net fee and commission income	64.7	61.2

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 2019 included fee income relating to the Group's fiduciary activities amounting to US\$14.3 million (2018: US\$19.3 million).

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

23. Trading income

	Year ended 31.12.19	Year ended 31.12.18
	US\$ millions	US\$ millions
Interest rate derivatives	6.4	6.0
Equity securities	5.7	3.4
Managed funds	4.6	(0.2)
Debt securities	0.2	0.2
Commodity options	0.1	0.1
	17.0	9.5

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.

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25. Other income

	Year ended 31.12.19	Year ended 31.12.18
	US\$ millions	US\$ millions
Dividends on equity investments classified as FVTOCI	5.2	8.6
Recoveries on previously written off assets	0.2	26.7
Net realised losses on investment debt securities	(0.6)	-
Sundry income	3.6	0.2
	8.4	35.5

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 2019 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 contingent liabilities

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.

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.

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28. Segmental information (continued)

28.1 Business segments (continued)

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
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 income 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
2018					
Net interest income	152.1	85.5	-	36.1	273.7
Total income	215.5	113.1	24.0	45.9	398.5
Segment result	(177.6)	102.6	3.9	(149.1)	(220.2)
Taxation charge					(6.8)
Net loss after tax					(227.0)
Segment assets	9,935.1	17,070.9	75.2	464.9	27,546.1
Segment liabilities	1,573.5	18,933.1	-	4,843.3	25,349.9
Total equity					2,196.2
Total liabilities and equity					27,546.1

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:-

	2019		2018	
	Total income	Total assets	Total income	Total assets
	US\$ millions	US\$ millions	US\$ millions	US\$ millions
GCC	324.9	18,296.8	325.2	18,729.5
Other countries	59.8	11,944.9	73.3	8,816.6
	384.7	30,241.7	398.5	27,546.1

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

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29. Risk management

The principle 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 principle 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 Groupwide basis in a consistent manner.

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.

Notes to the Consolidated Financial Statements

For the year ended 31st December 2019

29. Risk management (continued)

29.1 Credit risk (continued)

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 published by Standard & Poors (S&P) 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.

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, and are calculated using Standard & Poor's recovery studies data after consideration of the contractual maturities of exposures and estimated prepayment rates and are derived using the Vasicek model.

The PIT PD estimates are converted to cumulative PIT PDs for exposures that have tenors in excess of one year and that are assessed on lifetime PDs. The 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. At 31st December 2019, the probabilities assigned to the base case, negative case and positive case scenarios were in the ratio of 50:35:15 respectively (2018: 50:35:15).

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For the year ended 31st December 2019

29. Risk management (continued)

29.1 Credit risk (continued)

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.

a) Maximum exposure to credit risk

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

	31.12.19	31.12.18
	US\$ millions	US\$ millions
Balance sheet items:		
Cash and other liquid assets	8,085.1	5,114.2
Securities purchased under agreements to resell	1,410.0	1,015.9
Placements	6,171.4	6,770.8
Trading securities	142.2	177.7
Investment securities	3,828.4	3,897.2
Loans and advances	9,876.1	9,817.8
Accrued interest, fees and commissions	216.1	265.8
Total on-balance sheet credit exposure	29,729.3	27,059.4
Off-balance sheet items:		
Credit-related contingent items	4,881.4	4,536.4
Foreign exchange-related items	64.7	192.4
Derivative-related items	492.2	429.4
Equity and commodity contracts	4.4	1.8
Total off-balance sheet credit exposure	5,442.7	5,160.0
Total gross credit exposure	35,172.0	32,219.4

Notes to the Consolidated Financial Statements

For the year ended 31st December 2019

29. Risk management (continued)

29.1 Credit risk (continued)

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	-

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For the year ended 31st December 2019

29. Risk management (continued)

29.1 Credit risk (continued)

b) Credit risk profile (continued)

	Placements, reverse repos & other liquid assets	Securities	Loans and advances	31.12.19 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 grades 4 to 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				
Equity investments	-	146.7	-	-
Performance bonds	-	-	-	1,009.9
Carrying amount	-	146.7	-	1,009.9
	15,666.5	3,828.4	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)	-

Notes to the Consolidated Financial Statements

For the year ended 31st December 2019

29. Risk management (continued)

29.1 Credit risk (continued)

b) Credit risk profile (continued)

	Placements, reverse repos & other liquid assets	Securities	Loans and advances	<u>31.12.18</u> Credit- related contingent items
	US\$ millions	US\$ millions	US\$ millions	US\$ millions
Stage 1 (12-month ECL)				
Rating grades 1 to 4-	12,636.6	3,481.4	6,165.4	2,612.3
Rating grades 5+ to 5-	252.0	247.3	2,809.8	714.8
Rating grades 6+ to 6-	12.3	-	84.2	38.7
Carrying amount (net)	12,900.9	3,728.7	9,059.4	3,365.8
Stage 2 (Lifetime ECL but not credit-impaired)				
Rating grade 4-	-	-	24.3	0.3
Rating grades 5+ to 5-	-	-	262.2	45.9
Rating grades 6+ to 6-	-	-	342.5	113.5
Rating grade 7	-	-	103.3	0.5
Carrying amount (net)	-	-	732.3	160.2
Stage 3 (Lifetime ECL and credit-impaired)				
Rating grade 8	-	-	12.8	64.0
Rating grade 9	-	-	13.3	31.8
Rating grade 10	-	-	-	20.6
Carrying amount (net)	-	-	26.1	116.4
Other credit risk exposures				
Equity investments	-	168.5	-	-
Performance bonds	-	-	-	894.0
Carrying amount	-	168.5	-	894.0
	12,900.9	3,897.2	9,817.8	4,536.4
The above analysis is reported net of the following provisions for impairment:-				
Stage 1	-	(4.5)	(30.5)	-
Stage 2	-	-	(110.1)	-
Stage 3	-	-	(623.3)	-
Total	-	(4.5)	(763.9)	-

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 2019 or 31st December 2018.

The Group held collateral amounting to US\$140.1 million that was considered as a credit enhancement and hence reduced the ECL of stage 3 financial assets at 31st December 2019 (2018: US\$40.5 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 2019

29. Risk management (continued)

29.1 Credit risk (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.

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

	31.12.19	Average	High	2019		31.12.18	Average	High	2018	
				Low	Low				Low	
	US\$ millions	US\$ millions	US\$ millions	US\$ millions		US\$ millions	US\$ millions	US\$ millions	US\$ millions	US\$ millions
Total VaR	2.7	3.8	5.0	2.2		3.5	2.4	3.7	1.8	
Total undiversified stressed VaR	8.0	10.3	12.5	6.5		9.8	7.2	10.5	5.1	

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 2019, 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\$7.3 million (2018: US\$8.4 million).

Notes to the Consolidated Financial Statements

For the year ended 31st December 2019

29. Risk management (continued)

29.2 Market risk (continued)

b) Non-trading market risk (continued)

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.

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.

Notes to the Consolidated Financial Statements

For the year ended 31st December 2019

29. Risk management (continued)

29.3 Liquidity risk (continued)

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). 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 2019, the Group's LCR and NSFR were 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.

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 2019 and 31st December 2018.

There have been no material changes in the Group's management of capital during the years ended 31st December 2019 and 31st December 2018.

The capital adequacy ratio calculation is set out in note 36.

Notes to the Consolidated Financial Statements

For the year ended 31st December 2019

30. Geographical distribution of risk assets

	Placements, reverse repos & other liquid assets	Securities	Loans and advances	Credit- related contingent items	31.12.19 Total	31.12.18 Total
	US\$ millions	US\$ millions	US\$ millions	US\$ millions	US\$ millions	US\$ millions
GCC	3,875.4	2,951.8	9,488.4	4,399.8	20,715.4	20,787.4
Other Middle East & North Africa	-	-	1.5	0.1	1.6	6.7
Europe	9,560.3	267.6	187.9	155.6	10,171.4	7,707.6
North America	1,828.7	383.1	173.6	320.0	2,705.4	1,965.1
Asia	402.1	368.1	24.7	5.9	800.8	851.0
Latin America	-	-	-	-	-	12.2
	15,666.5	3,970.6	9,876.1	4,881.4	34,394.6	31,330.0

At 31st December 2019, risk exposures to customers and counterparties in the GCC represented 60.3 per cent (2018: 66.3 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.

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 2019						
Cash and other liquid assets	8,085.1	-	-	-	-	8,085.1
Securities purchased under agreements to resell	760.0	650.0	-	-	-	1,410.0
Placements	5,236.5	818.1	-	116.8	-	6,171.4
Trading securities	-	-	-	-	142.2	142.2
Investment securities	151.1	158.6	642.2	602.2	2,274.3	3,828.4
Loans and advances	3,947.5	1,485.2	1,628.3	1,172.9	1,642.2	9,876.1
Other assets	404.9	43.9	12.0	13.9	253.8	728.5
Total assets	18,585.1	3,155.8	2,282.5	1,905.8	4,312.5	30,241.7
Deposits	19,967.8	2,164.1	6.4	14.3	-	22,152.6
Securities sold under agreements to repurchase	326.0	197.1	-	-	-	523.1
Other liabilities	409.9	46.4	14.6	16.9	279.5	767.3
Term financing	97.0	177.8	2,738.2	170.9	318.5	3,502.4
Equity	-	-	-	-	3,296.3	3,296.3
Total liabilities & equity	20,800.7	2,585.4	2,759.2	202.1	3,894.3	30,241.7
At 31st December 2018						
Total assets	15,857.9	3,993.3	2,490.6	1,508.4	3,695.9	27,546.1
Total liabilities & equity	17,316.1	5,291.6	1,740.2	570.5	2,627.7	27,546.1

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 2019

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 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
At 31st December 2018					
Deposits	16,975.6	4,151.6	120.0	3.7	-
Securities sold under agreements to repurchase	365.1	384.8	-	-	-
Term financing	-	976.5	1,705.1	589.4	259.8
Derivative financial instruments					
- contractual amounts payable	128.8	217.0	429.4	302.5	324.6
- contractual amounts receivable	(166.6)	(215.5)	(397.7)	(257.4)	(252.2)
Total undiscounted financial liabilities	17,302.9	5,514.4	1,856.8	638.2	332.2

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 2019						
Cash and other liquid assets	8,072.3	-	-	-	12.8	8,085.1
Securities purchased under agreements to resell	760.0	650.0	-	-	-	1,410.0
Placements	5,241.1	275.3	542.8	112.2	-	6,171.4
Trading securities	-	-	-	-	142.2	142.2
Investment securities						
- Fixed rate	10.1	30.0	49.9	583.1	-	673.1
- Floating rate	2,986.2	26.7	-	-	(4.3)	3,008.6
- Equities	-	-	-	-	146.7	146.7
Loans and advances	8,921.7	1,073.2	12.5	-	(131.3)	9,876.1
Other assets	-	-	-	-	728.5	728.5
Total assets	25,991.4	2,055.2	605.2	695.3	894.6	30,241.7
Deposits	21,045.0	1,035.6	69.3	2.7	-	22,152.6
Securities sold under agreements to repurchase	523.1	-	-	-	-	523.1
Other liabilities	-	-	-	-	767.3	767.3
Term financing	3,502.4	-	-	-	-	3,502.4
Equity	-	-	-	-	3,296.3	3,296.3
Total liabilities & equity	25,070.5	1,035.6	69.3	2.7	4,063.6	30,241.7
Interest rate sensitivity gap	920.9	1,019.6	535.9	692.6	(3,169.0)	-
Cumulative interest rate sensitivity gap	920.9	1,940.5	2,476.4	3,169.0	-	-
At 31st December 2018						
Cumulative interest rate sensitivity gap	703.1	953.9	1,368.1	1,821.3	-	-

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 2019, the modified duration of these fixed rate securities was 4.06. 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\$240,373.

Based on the repricing profile at 31st December 2019, 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\$25.1 million and an increase in the Group's equity by US\$23.7 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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For the year ended 31st December 2019

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 2019				
Foreign exchange contracts:-				
Unmatured spot, forward and futures contracts	7,332.3	-	7,332.3	64.7
Interest rate contracts:-				
Interest rate swaps	6,821.1	13,495.0	20,316.1	272.0
Cross currency swaps	153.9	-	153.9	1.4
Options, caps and floors purchased	1,984.5	-	1,984.5	218.8
Options, caps and floors written	1,984.5	-	1,984.5	-
	10,944.0	13,495.0	24,439.0	492.2
Equity and commodity contracts:-				
Options and swaps purchased	83.8	-	83.8	4.4
Options and swaps written	83.8	-	83.8	-
	167.6	-	167.6	4.4
	18,443.9	13,495.0	31,938.9	561.3
At 31 st December 2018	23,447.4	13,618.9	37,066.3	623.6

There is no credit risk in respect of options written as they represent obligations of the Group.

At 31st December 2019, 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, nil and nil respectively (2018: US\$0.1 million, US\$0.1 million 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	31.12.19 Total	31.12.18 Total
	US\$ millions	US\$ millions	US\$ millions	US\$ millions
OECD countries	267.3	27.3	294.6	469.5
GCC countries	71.3	195.3	266.6	154.0
Other countries	0.1	-	0.1	0.1
	338.7	222.6	561.3	623.6

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For the year ended 31st December 2019

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 2019					
Foreign exchange contracts	7,332.3	-	-	-	7,332.3
Interest rate contracts	9,394.0	2,914.7	4,765.1	7,365.2	24,439.0
Equity and commodity contracts	139.6	28.0	-	-	167.6
	16,865.9	2,942.7	4,765.1	7,365.2	31,938.9
At 31 st December 2018	24,092.7	3,257.3	3,561.8	6,154.5	37,066.3

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

	Positive fair value	31.12.19 Negative fair value	Positive fair value	31.12.18 Negative fair value
	US\$ millions	US\$ millions	US\$ millions	US\$ millions
Derivatives classified as FVTPL:-				
Foreign exchange contracts	0.7	(0.7)	4.7	(4.1)
Interest rate contracts	227.3	(216.7)	144.3	(136.6)
Equity and commodity contracts	3.5	(3.3)	3.7	(3.6)
	231.5	(220.7)	152.7	(144.3)
Derivatives held as fair value hedges:-				
Interest rate contracts	-	(69.4)	66.4	-
Amount included in other assets / (other liabilities)	231.5	(290.1)	219.1	(144.3)

The movement in the fair value of derivatives held as fair value hedges, from a positive fair value of US\$66.4 million at 31st December 2018 to a negative fair value of US\$69.4 million at 31st December 2019, 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 2019 or at 31st December 2018.

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33. Derivatives and foreign exchange instruments (continued)

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.

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 2019					
Fixed rate asset products	3,473.1	822.2	736.8	2,106.0	7,138.1
Fixed rate liability products	4,856.3	1,500.6	-	-	6,356.9
At 31st December 2018					
Fixed rate asset products	3,762.0	733.1	378.0	2,123.8	6,996.9
Fixed rate liability products	5,509.3	609.2	503.5	-	6,622.0

Notes to the Consolidated Financial Statements

For the year ended 31st December 2019

33. Derivatives and foreign exchange instruments (continued)

33.6 Hedge accounting (continued)

Gains and losses recognised in the consolidated statement of income relating to fair value hedging relationships were as follows:-

	2019	2018
	US\$ millions	US\$ millions
Net gains on derivatives fair value hedging instruments	138.5	26.7
Net losses on hedged items attributable to the hedged risk	(138.5)	(26.7)

The notional amount, fair values, and changes in fair values of hedging instruments for the year ended 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 2019			
Financial assets			
Interest rate contracts	4,858.4	13.5	(66.9)
Financial liabilities			
Interest rate contracts	8,636.6	(77.4)	(71.6)
	13,495.0	(63.9)	(138.5)
At 31st December 2018			
Financial assets			
Interest rate contracts	7,975.4	80.4	26.7
Financial liabilities			
Interest rate contracts	5,643.5	(5.8)	-
	13,618.9	74.6	26.7

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For the year ended 31st December 2019

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 2019 and 31st December 2018 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 2019			
Financial assets			
Placements and securities purchased under agreement to resell	3,251.3	(133.4)	(132.9)
Loans and advances	433.3	1.7	12.0
Investment securities	3,453.5	69.3	134.9
	7,138.1	(62.4)	14.0
Financial liabilities			
Deposits and securities sold under agreement to repurchase	6,267.6	126.4	126.7
Senior term financing	89.3	(0.1)	(2.2)
	6,356.9	126.3	124.5
	13,495.0	63.9	138.5
At 31st December 2018			
Financial assets			
Placements and securities purchased under agreement to resell	3,039.1	(0.5)	0.8
Loans and advances	484.8	(10.3)	(2.5)
Investment securities	3,473.0	(65.6)	(25.5)
	6,996.9	(76.4)	(27.2)
Financial liabilities			
Deposits and securities sold under agreement to repurchase	6,151.5	(0.3)	(1.9)
Senior term financing	470.5	2.1	2.4
	6,622.0	1.8	0.5
	13,618.9	(74.6)	(26.7)

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 2019 or 31st December 2018.

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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	31.12.19 Risk-weighted exposure	Notional principal amount	31.12.18 Risk-weighted exposure
	US\$ millions	US\$ millions	US\$ millions	US\$ millions
Direct credit substitutes	406.1	393.0	780.8	765.1
Transaction-related contingent items	2,233.8	843.6	1,959.7	772.4
Short-term self-liquidating trade-related contingent items	583.4	101.8	290.6	46.1
Commitments, including undrawn loan commitments and underwriting commitments under note issuance and revolving facilities	1,658.1	644.5	1,505.3	691.5
	4,881.4	1,982.9	4,536.4	2,275.1

Commitments may be drawdown on demand.

Direct credit substitutes at 31st December 2019 included financial guarantees amounting to US\$287.4 million (2018: US\$651.2 million). Financial guarantees may be called on demand. Provisions in relation to credit-related financial instruments at 31st December 2019 amounted to US\$53.1 million (2018: US\$88.2 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 2019, the Group held cash collateral, guarantees, counter-indemnities or other high quality collateral in relation to credit-related contingent items amounting to US\$362.3 million (2018: US\$342.4 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 2019 and 31st December 2018.

	31.12.19 US\$ millions	31.12.18 US\$ millions
Regulatory capital base		
Tier 1 capital:		
Total equity	3,296.3	2,196.2
Tier 1 adjustments - ineligible Tier 1 capital relating to non-controlling interest	(602.3)	-
Tier 1 capital	2,694.0	2,196.2
Tier 2 capital:		
Stage 1 and stage 2 provisions	135.6	145.2
Tier 2 capital	135.6	145.2
Total regulatory capital base	2,829.6	2,341.4

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36. Capital adequacy (continued)

	Notional principal amount	31.12.19 Risk-weighted exposure	Notional principal amount	31.12.18 Risk-weighted exposure
	US\$ millions	US\$ millions	US\$ millions	US\$ millions
Risk-weighted exposure				
<i>Credit risk</i>				
Balance sheet items:				
Cash and other liquid assets	8,085.1	177.3	5,114.2	102.3
Securities purchased under agreements to resell	1,410.0	3.2	1,015.9	4.3
Placements	6,171.4	1,127.6	6,770.8	1,063.0
Investment securities	3,828.4	785.1	3,897.2	1,006.8
Loans and advances	9,876.1	9,131.4	9,817.8	9,297.5
Other assets, excluding derivative-related items	497.0	456.4	533.4	645.4
		11,681.0		12,119.3
Off-balance sheet items:				
Credit-related contingent items	4,881.4	1,982.9	4,536.4	2,275.1
Foreign exchange-related items	7,332.3	24.0	14,160.8	52.4
Interest rate-related items	24,439.0	554.2	22,759.9	265.4
Equity and commodity contracts	167.6	6.6	145.6	1.2
Repo counterparty risk	-	41.1	-	35.3
		2,608.8		2,629.4
Credit risk-weighted exposure		14,289.8		14,748.7
<i>Market risk</i>				
General market risk		243.3		575.3
Specific market risk		74.6		78.8
Market risk-weighted exposure		317.9		654.1
<i>Operational risk</i>				
Operational risk-weighted exposure		766.0		705.5
Total risk-weighted exposure		15,373.7		16,108.3
Tier 1 risk asset ratio		17.5%		13.6%
Total risk asset ratio		18.4%		14.5%

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 (2018: 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.

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36. Capital adequacy (continued)

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.

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 2019 was US\$12,383.6 million (2018: US\$15,628.1 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 basis for non-consolidation is as follows:-

- The investors are able to vote by simple majority to remove the Group as the fund manager, without cause, and the Group's aggregate economic interest is 20 per cent. As a result, the Group has concluded that it acts as agent for the investors in these cases, and therefore has not consolidated the fund.
- The Group has majority ownership of the fund, and while the fund meets the IFRS 10 criteria for consolidation, the Group has decided not to consolidate on grounds of materiality.

The maximum exposure to loss is equal to the carrying amount of the investment in the funds, which at 31st December 2019 amounted to US\$91.6 million (2018: US\$104.1 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 2019, the Group reported deposits and their related interest expense of US\$1,850.7 million and US\$15.4 million respectively (2018: US\$1,663.5 million and US\$22.2 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:-

	2019	2018
	US\$ millions	US\$ millions
Short-term employee benefits	14.5	13.5
Post-employment benefits	0.5	0.7
	15.0	14.2

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.

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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.

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 2019 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.

Notes to the Consolidated Financial Statements

For the year ended 31st December 2019

39. Fair value of financial instruments (continued)

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 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	-
At 31st December 2018			
Financial assets:			
Trading securities	151.8	0.7	25.2
Investment securities - equities	130.0	-	38.5
Derivative financial instruments	-	219.1	-
Financial liabilities:			
Derivative financial instruments	-	144.3	-

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 2019, the value of investment securities whose measurement was determined by other valuation techniques (level 3 measurement) decreased by US\$3.0 million (2018: decrease of US\$23.8 million). The decrease principally comprised changes in assigned valuations.

Notes to the Consolidated Financial Statements

For the year ended 31st December 2019

39. Fair value of financial instruments (continued)

39.7 Valuation basis (continued)

No transfers out of the level 3 measurement classification occurred during the years ended 31st December 2019 and 31st December 2018. Similarly, no transfers between level 1 and level 2 measurement classifications were made during the years ended 31st December 2019 and 31st December 2018.

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.

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.

	2019	2018
Net income / (loss) (US\$ millions)	63.0	(227.0)
Weighted average number of shares in issue (millions)	2,500	2,500
Basic earnings per share (US\$)	0.03	(0.09)

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	
			31.12.19	31.12.18
Gulf International Bank - Saudi Arabia C.J.S.C.	Wholesale commercial and retail banking	Saudi Arabia	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%

Gulf International Bank - Saudi Arabia was incorporated on 3rd April 2019.

Notes to the Consolidated Financial Statements

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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	31.12.19
	US\$ millions
Total assets	8,162.3
Total liabilities	6,161.6
Total equity	2,000.7
Equity attributable to non-controlling interest	1,000.4

	Period ended 31.12.19
	US\$ millions
Total income	131.5
Total operating expenses	(101.4)
Provision charge	(27.6)
Zakat charge	(0.5)
Net income	2.0
Net income attributable to non-controlling interest	1.0
Total comprehensive income	2.0
Total comprehensive income attributable to non-controlling interest	1.0

Notes to the Consolidated Financial Statements

For the year ended 31st December 2019

43. Average consolidated statement of financial position

The average consolidated statement of financial position was as follows:-

	31.12.19	31.12.18
	US\$ millions	US\$ millions
ASSETS		
Cash and other liquid assets	6,869.2	6,416.4
Securities purchased under agreements to resell	1,492.0	937.7
Placements	6,444.9	5,592.9
Trading securities	177.2	192.3
Investment securities	3,852.2	3,948.0
Loans and advances	9,670.7	10,262.0
Other assets	729.9	697.5
Total assets	29,236.1	28,046.8
LIABILITIES		
Deposits from banks	1,315.8	2,092.0
Deposits from customers	20,386.5	19,222.3
Securities sold under agreements to repurchase	423.9	807.6
Other liabilities	730.6	510.2
Senior term financing	3,356.2	3,047.4
Total liabilities	26,213.0	25,679.5
Total equity	3,023.1	2,367.3
Total liabilities & equity	29,236.1	28,046.8

44. Shariah compliant assets and liabilities

The Shariah compliant assets and liabilities included in the consolidated statement of financial position were as follows:-

	31.12.19	31.12.18
	US\$ millions	US\$ millions
ASSETS		
Placements	199.9	53.3
Investment securities	1,194.6	1,086.7
Loans and advances	4,444.9	3,829.3
LIABILITIES		
Deposits from banks and customers	4,431.3	3,507.3
Senior term financing	977.2	833.6



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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 2019 amounted to US\$15,373.7 million. Credit risk accounted for 92.9 per cent, market risk 2.1 per cent and operational risk 5.0 per cent of the total risk-weighted assets. Tier 1 and total regulatory capital were US\$2,694.0 million and US\$2,829.6 million respectively.

At 31st December 2019, GIB's tier 1 and total capital adequacy ratios were 17.5 per cent and 18.4 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 2019 unless otherwise stated.

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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 2019, 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

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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

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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 Arabian Monetary Authority (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:-

Approaches for determining regulatory capital requirements			
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 co-ordinates 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 2019

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.

Risk Management and Capital Adequacy Report

31st December 2019

2. Group structure, overall risk and capital management (continued)

2.4 Risk in Pillar 1 (continued)

d) 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. 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 Groupwide 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.

e) 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.

Risk Management and Capital Adequacy Report

31st December 2019

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 pre-defined 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.

f) 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.

Risk Management and Capital Adequacy Report

31st December 2019

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.

Risk Management and Capital Adequacy Report

31st December 2019

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 & 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.

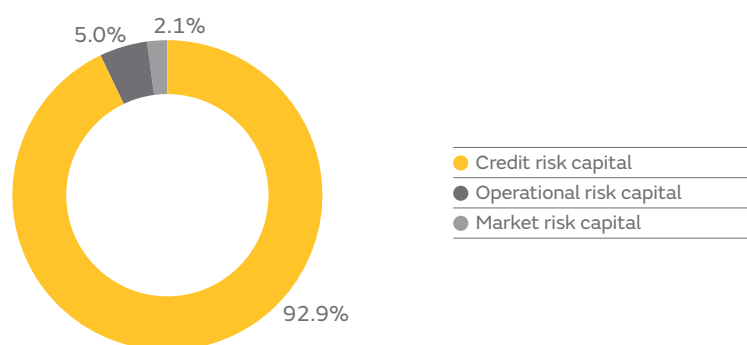
Risk Management and Capital Adequacy Report

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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	US\$ millions
Sovereigns	12,237.5	0.2	12,237.7	1%	70.0	8.8
PSEs	197.2	-	197.2	0%	0.3	-
Banks	8,370.7	14.8	8,385.5	22%	1,872.7	234.1
Corporates	1,901.9	10,817.8	12,719.7	86%	10,928.2	1,366.0
Equities	-	262.6	262.6	129%	337.5	42.2
Past due loans	-	270.1	270.1	120%	323.5	40.4
Other assets	35.3	717.8	753.1	101%	757.7	94.7
	22,742.6	12,083.3	34,825.9	41%	14,289.9	1,786.2

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.

Risk Management and Capital Adequacy Report

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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	170.1	21.3
Equities	54.3	6.8
Foreign exchange risk	18.9	2.4
Total general market risk	243.3	30.5
Total specific market risk	74.6	9.3
	317.9	39.8

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 2019 amounted to US\$95.8 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	(547.6)	-	(547.6)
Unrealised losses from fair valuing equity investments	(62.9)	-	(62.9)
Cash flow hedge reserve	0.1	-	0.1
Non-controlling interest	1,000.4	-	1,000.4
Collective impairment provisions	-	135.6	135.6
Non-controlling interest deduction from regulatory capital	(602.3)	-	(602.3)
Tier 1 and tier 2 capital base	2,694.0	135.6	2,829.6

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.

Risk Management and Capital Adequacy Report

31st December 2019

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.

Risk Management and Capital Adequacy Report

31st December 2019

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)	8,085.1	6,869.2
Securities purchased under agreements to resell	1,410.0	1,492.0
Placements	6,171.4	6,444.9
Trading securities	142.2	177.2
Investment securities	3,828.4	3,852.2
Loans and advances	9,876.1	9,670.7
Accrued interest and fees receivable	216.1	241.8
Total on-balance sheet credit exposure	29,729.3	28,748.0
Off-balance sheet items:		
Credit-related contingent items	4,881.4	4,704.6
Derivative and foreign exchange instruments	561.3	472.7
Total off-balance sheet credit exposure	5,442.7	5,177.3
Total gross credit exposure	35,172.0	33,925.3

The average gross credit exposure is based on monthly averages during the year ended 31st December 2019.

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.

Risk Management and Capital Adequacy Report

31st December 2019

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	3,875.4	2,951.8	9,488.4	128.9	4,659.4	21,103.9
Europe	9,560.3	267.6	187.9	76.7	377.2	10,469.7
North America	1,828.7	383.1	173.6	6.6	383.0	2,775.0
Asia	402.1	368.1	24.7	3.9	15.9	814.7
Latin America	-	-	-	-	7.1	7.1
MENA (excluding GCC)	-	-	1.5	-	0.1	1.6
	15,666.5	3,970.6	9,876.1	216.1	5,442.7	35,172.0

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	9,572.1	2,464.2	136.2	30.1	18.3	12,220.9
Financial services	6,094.4	432.3	1,453.0	128.2	826.0	8,933.9
Energy, oil and petrochemical	-	367.1	1,837.0	11.5	1,110.1	3,325.7
Trading and services	-	-	1,921.2	16.0	797.2	2,734.4
Construction	-	10.6	510.6	4.9	1,512.0	2,038.1
Manufacturing	-	275.8	1,077.8	7.8	449.7	1,811.1
Transportation	-	101.7	1,356.3	5.5	300.4	1,763.9
Real estate	-	30.0	898.5	3.8	16.4	948.7
Agriculture and mining	-	-	168.3	1.1	282.2	451.6
Equity investments	-	288.9	-	2.3	-	291.2
Communication	-	-	159.1	1.1	9.5	169.7
Retail banking	-	-	131.5	-	-	131.5
Other	-	-	226.6	3.8	120.9	351.3
	15,666.5	3,970.6	9,876.1	216.1	5,442.7	35,172.0

Risk Management and Capital Adequacy Report

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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-	15,213.8	3,367.9	5,839.3	178.1	3,389.4	27,988.5
Rating grades 5+ to 5-	451.5	303.6	2,991.6	30.0	674.5	4,451.2
Rating grades 6+ to 6-	1.2	-	260.1	1.8	44.9	308.0
Carrying amount (net)	15,666.5	3,671.5	9,091.0	209.9	4,108.8	32,747.7
Stage 2						
Rating grades 1 to 4-	-	-	12.8	0.9	0.8	14.5
Rating grades 5+ to 5-	-	-	285.0	1.1	91.5	377.6
Rating grades 6+ to 6-	-	10.2	152.7	1.3	93.8	258.0
Rating grade 7	-	-	111.5	0.6	5.3	117.4
Carrying amount (net)	-	10.2	562.0	3.9	191.4	767.5
Stage 3						
Rating grades 6+ to 6-	-	-	166.4	-	1.5	167.9
Rating grade 7	-	-	21.2	-	49.4	70.6
Rating grade 8	-	-	22.0	-	25.5	47.5
Rating grade 9	-	-	13.5	-	34.7	48.2
Rating grade 10	-	-	-	-	21.5	21.5
Carrying amount (net)	-	-	223.1	-	132.6	355.7
Other credit risk exposures						
Equity investments	-	288.9	-	2.3	-	291.2
Performance bonds	-	-	-	-	1,009.9	1,009.9
Carrying amount	-	288.9	-	2.3	1,009.9	1,301.1
	15,666.5	3,970.6	9,876.1	216.1	5,442.7	35,172.0

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

Stage 1	-	(3.8)	(34.2)	-	-	(38.0)
Stage 2	-	(0.5)	(97.1)	-	-	(97.6)
Stage 3	-	-	(288.3)	-	-	(288.3)
	-	(4.3)	(419.6)	-	-	(423.9)

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.

Risk Management and Capital Adequacy Report

31st December 2019

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	14,081.6	151.1	3,947.5	181.5	18,361.7
4 months to 1 year	1,468.1	158.6	1,485.2	34.6	3,146.5
Years 2 to 5	116.8	1,244.4	2,801.2	-	4,162.4
Years 6 to 10	-	1,804.1	845.2	-	2,649.3
Years 11 to 20	-	327.9	56.5	-	384.4
Over 20 years and other	-	284.5	740.5	-	1,025.0
	15,666.5	3,970.6	9,876.1	216.1	29,729.3

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 2019, equity investment securities held in the banking book amounted to US\$146.7 million, of which US\$28.6 million comprised listed equities received in settlement of a secured past due loan and US\$9.9 million comprised managed funds.

During the year ended 31st December 2019, US\$56.9 million of gains were realised on equity investments. At 31st December 2019, net unrealised losses on equity investment securities amounted to US\$62.9 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.

Risk Management and Capital Adequacy Report

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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	Eligible guarantees or credit derivatives of which secured
	US\$ millions	US\$ millions	US\$ millions
Sovereigns	83.1	-	83.1
Banks	3,270.1	2,304.4	782.9
Corporates	532.9	215.9	-

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 re-organisation, 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	497.2	281.8	215.4
Financial sector	14.2	6.5	7.7
	511.4	288.3	223.1

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	Total
	Stage 1	Stage 2	Stage 3	
	US\$ millions	US\$ millions	US\$ millions	US\$ millions
At 1 st January	30.5	110.1	623.3	763.9
Transfer to stage 1	0.1	(0.1)	-	-
Transfer to stage 2	(1.9)	1.9	-	-
Transfer to stage 3	-	(15.4)	15.4	-
Amounts utilised	-	-	(374.9)	(374.9)
Exchange rate movements	-	-	0.3	0.3
Net remeasurement of loss allowance	5.5	0.6	24.2	30.3
At 31st December 2019	34.2	97.1	288.3	419.6

c) Impaired investment securities and related provisions for impairment

There were no impaired debt investment securities at 31st December 2019.

d) Provisions for impairment – investment securities

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

	Collective provisions		Specific provisions	Total
	Stage 1	Stage 2	Stage 3	
	US\$ millions	US\$ millions	US\$ millions	US\$ millions
At 1 st January	4.5	-	-	4.5
Transfer to stage 2	(0.7)	0.7	-	-
Net remeasurement of loss allowance	-	(0.2)	-	(0.2)
At 31st December 2019	3.8	0.5	-	4.3

At 31st December 2019, 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 US\$ millions	Carrying amount US\$ millions
Corporates	497.2	215.4
Financial sector	14.2	7.7
	511.4	223.1

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 US\$ millions	Years 2 and 3 US\$ millions	Over 3 years US\$ millions	Total US\$ millions
Corporates	128.3	258.7	110.9	497.9
Financial sector	-	13.5	-	13.5
	128.3	272.2	110.9	511.4

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)

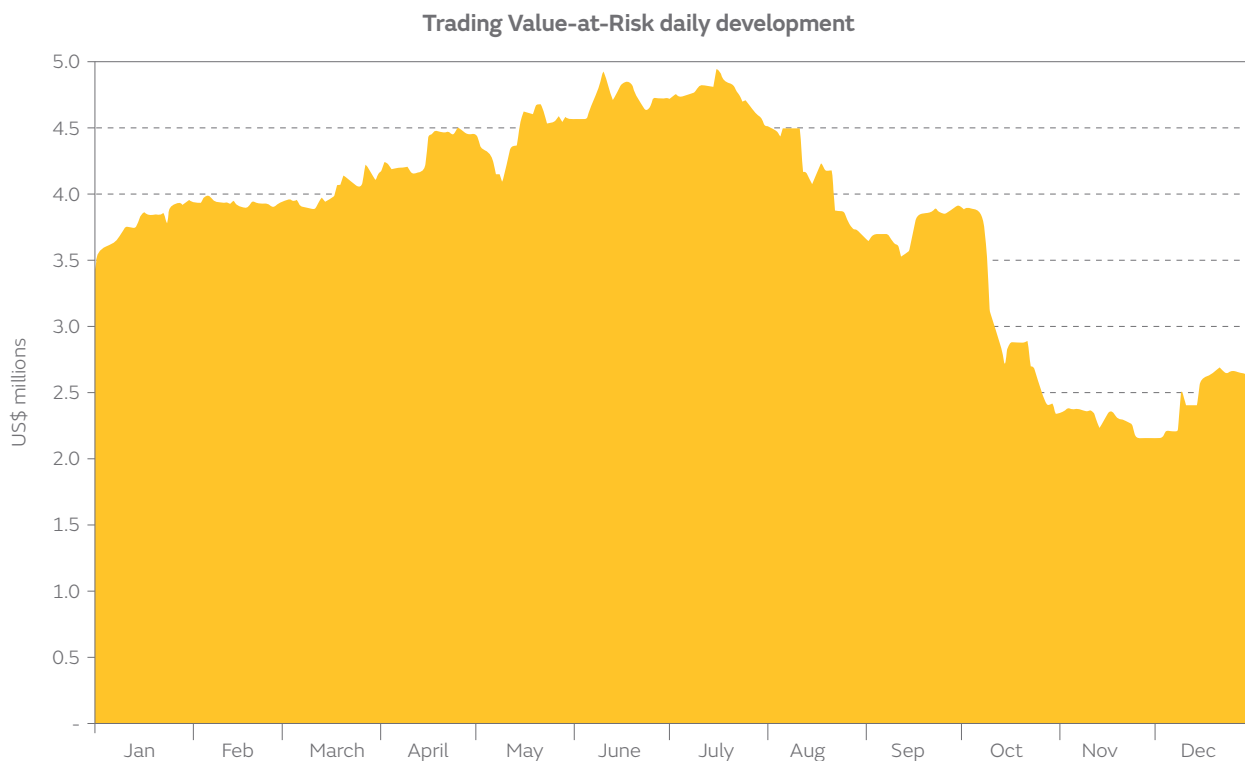
5.2 VaR model (continued)

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 ten-day holding period using one-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:-

	31.12.19 US\$ millions	Average US\$ millions	High US\$ millions	Low US\$ millions
Total VaR	2.7	3.8	5.0	2.2
Total undiversified stressed VaR	8.0	10.3	12.5	6.5

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 2019:-



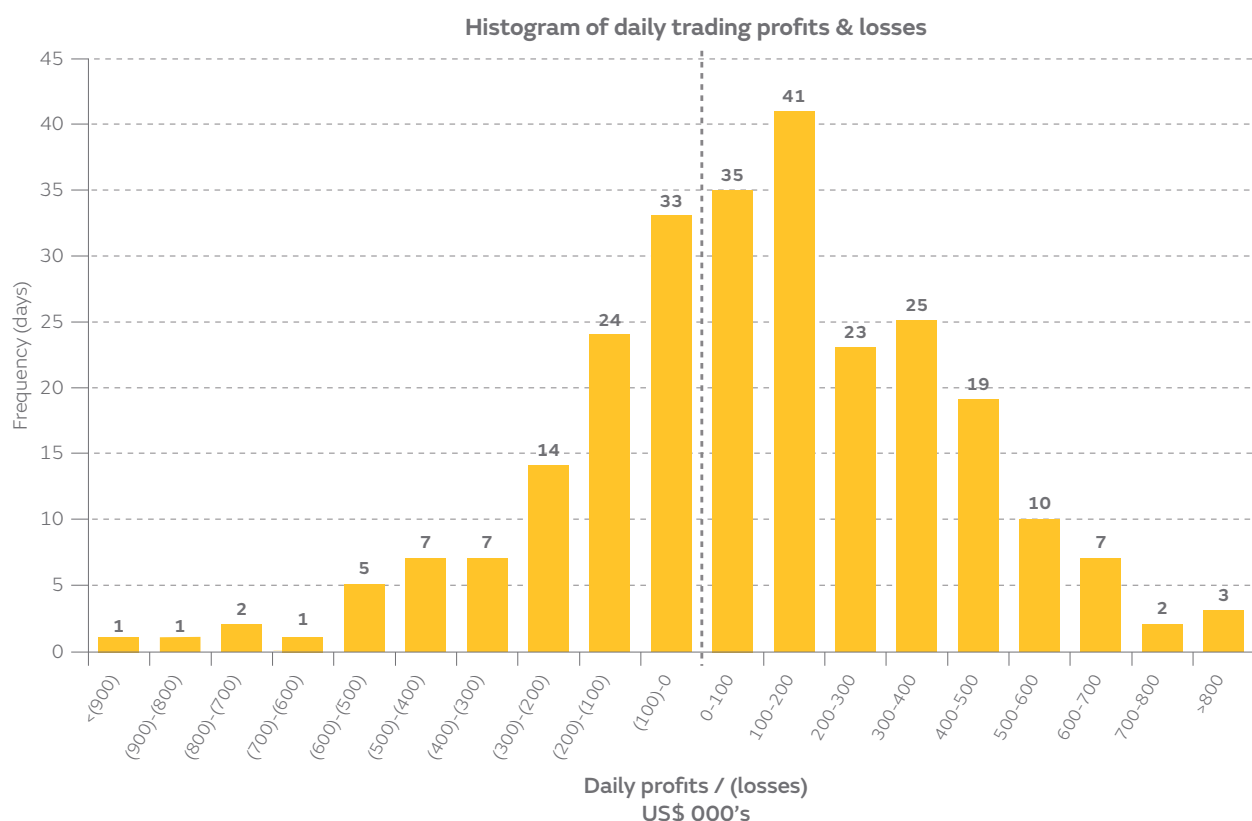
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5. Market risk – Pillar 3 disclosure (continued)

5.2 VaR model (continued)

The daily trading profits and losses during the year ended 31st December 2019 are summarised as follows:-



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 2019, there were no 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 period ended 31st December 2019 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
13 th May	1,121	1,293
23 rd Aug	854	1,318
3 rd May	840	1,412
24 th May	740	1,463
10 th May	693	1,319

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 drawdown 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	406.1	393.0	49.1
Transaction-related contingent items	2,233.8	843.6	105.5
Short-term self-liquidating trade-related contingent items	583.4	101.8	12.7
Commitments	1,658.1	644.5	80.6
	4,881.4	1,982.9	247.9

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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 drawdown 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 2019, the Group held cash collateral, guarantees, counter-indemnities or other high quality collateral in relation to credit-related contingent items amounting to US\$362.3 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 2019 were as follows:-

	Trading	Hedging	Total
	US\$ millions	US\$ millions	US\$ millions
Foreign exchange contracts:-			
Unmatured spot, forward and futures contracts	7,332.3	-	7,332.3
Interest rate contracts:-			
Interest rate swaps	6,821.1	13,495.0	20,316.1
Cross currency swaps	153.9	-	153.9
Options, caps and floors purchased	1,984.5	-	1,984.5
Options, caps and floors written	1,984.5	-	1,984.5
	10,944.0	13,495.0	24,439.0
Equity and commodity contracts:-			
Options and swaps purchased	83.8	-	83.8
Options and swaps written	83.8	-	83.8
	167.6	-	167.6
	18,443.9	13,495.0	31,938.9

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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 mark-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 a risk weight. The risk weight depends on the risk categorisation 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)			CVA	RWA	Capital requirement
	Current exposure	Future exposure	Total exposure			
	US\$ millions	US\$ millions	US\$ millions	US\$ millions	US\$ millions	US\$ millions
Banks	315.0	106.0	421.0	79.2	147.9	18.5
Corporates	262.0	122.2	384.2	68.5	289.0	36.1
Governments	5.5	1.0	6.5	0.1	0.1	-
	582.5	229.2	811.7	147.8	437.0	54.6

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	582.5	(363.0)	219.5

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 2019, 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 up to 25 individual investments.

At 31st December 2019, the underlying investments in the CDOs for which the Group acted as collateral manager amounted to US\$0.1 billion. At 31st December 2019, 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\$3,502.4 million at 31st December 2019. 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 2019, 72.3 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\$14,351.7 million or 64.8 per cent of the Group's deposits at 31st December 2019 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 2019, 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 2019, the following single obligor exposures exceeded 15 per cent of the Group's regulatory capital base (i.e. exceeded US\$424.4 million).

	On-balance sheet exposure	Off-balance sheet exposure	Total exposure
	US\$ millions	US\$ millions	US\$ millions
Counterparty A	825.3	-	825.3
Counterparty B	319.1	169.1	488.2

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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	Months	Months	Over	Non-interest bearing	Total
	US\$ millions	US\$ millions	US\$ millions	US\$ millions	US\$ millions	US\$ millions
Cash and other liquid assets	8,072.3	-	-	-	12.8	8,085.1
Securities purchased under agreements to resell	760.0	650.0	-	-	-	1,410.0
Placements	5,241.1	275.3	542.8	112.2	-	6,171.4
Trading securities	-	-	-	-	142.2	142.2
Investment securities:						
- Fixed rate	10.1	30.0	49.9	583.1	-	673.1
- Floating rate	2,986.2	26.7	-	-	(4.3)	3,008.6
- Equities	-	-	-	-	146.7	146.7
Loans and advances	8,921.7	1,073.2	12.5	-	(131.3)	9,876.1
Other assets	-	-	-	-	728.5	728.5
Total assets	25,991.4	2,055.2	605.2	695.3	894.6	30,241.7
Deposits	21,045.0	1,035.6	69.3	2.7	-	22,152.6
Securities sold under agreements to repurchase	523.1	-	-	-	-	523.1
Other liabilities	-	-	-	-	767.3	767.3
Term financing	3,502.4	-	-	-	-	3,502.4
Equity	-	-	-	-	3,296.3	3,296.3
Total liabilities & equity	25,070.5	1,035.6	69.3	2.7	4,063.6	30,241.7
Interest rate sensitivity gap	920.9	1,019.6	535.9	692.6	(3,169.0)	-
Cumulative interest rate sensitivity gap	920.9	1,940.5	2,476.4	3,169.0	-	-

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\$695.3 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 2019, the modified duration of these fixed rate government securities was 4.06. 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\$240,373.

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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 2019, 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\$25.1 million and US\$23.7 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 business overall 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 & 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 GIBUK, and the Group were as follows:-

	GIBKSA	GIBUK	Group
Total RWAs (US\$ millions)	6,823.4	1,200.7	15,373.7
Capital base (US\$ millions)	2,035.4	368.0	2,829.6
Tier 1 capital (US\$ millions)	2,000.6	368.0	2,694.0
Tier 1 ratio (per cent)	29.3	30.6	17.5
Total ratio (per cent)	29.8	30.6	18.4

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 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 2019. 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.
GIBUK	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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