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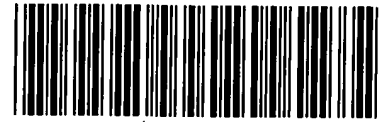
Companies House

DON'T
STAPLE**OS AA01**Statement of details of parent law and other
information for an overseas company

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

✗ **What this form is NOT for**
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with accounting requirement

WEDNESDAY



A05 *AB3A45KP* #24
04/05/2022
COMPANIES HOUSE

Part 1 Corporate company nameCorporate name of
overseas company ①

Gulf International Bank B.S.C.

UK establishment
number

B R 0 0 1 2 2 7

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

All fields are mandatory unless
specified or indicated by *

① This is the name of the company in
its home state.

**Part 2 Statement of details of parent law and other
information for an overseas company****A1 Legislation**

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

Legislation ②

IFRS

② This means the relevant rules or
legislation which regulates the
preparation of accounts.

A2 Accounting principles

Accounts

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

Please tick the appropriate box.

☐ **No.** Go to **Section A3**.

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

Name of organisation
or body ③

EY

③ Please insert the name of the
appropriate accounting organisation
or body.

OS AA01

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

A3

Audited accounts

Audited accounts	<p>Have the accounts been audited in accordance with a set of generally accepted auditing standards?</p> <p>Please tick the appropriate box.</p> <p><input type="checkbox"/> No. Go to Part 3 'Signature'.</p> <p><input checked="" type="checkbox"/> Yes. Please enter the name of the organisation or other body which issued those standards below, and then go to Part 3 'Signature'.</p>	<p>● Please insert the name of the appropriate accounting organisation or body.</p>
Name of organisation or body ●	Audited by EY under International Standards of Auditing.	

Part 3

Signature

	I am signing this form on behalf of the overseas company.	
Signature	<p>Signature</p> <p>X <i>C. Kheaven</i> X</p>	
	This form may be signed by: Director, Secretary, Permanent representative.	

OS AA01

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



Presenter information

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

Contact name Charbel Khazen

Company name Gulf International Bank B.S.C.

Address 1 Curzon Street

Post town London

County/Region

Postcode W 1 J 5 H D

Country

DX

Telephone 020 7393 0410



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



Important information

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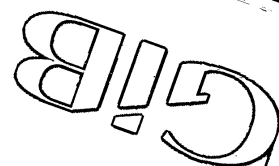
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For the year ended 31st December 2021

CONSOLIDATED FINANCIAL STATEMENTS

A large, empty, light blue parallelogram shape, tilted slightly to the right, occupying the majority of the page. The shape is defined by a thin black border and is set against a white background. It is positioned such that its top-left corner is near the top-left of the page, and its bottom-right corner is near the bottom-right of the page. The interior of the parallelogram is a solid, light blue color.

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INDEPENDENT AUDITOR'S 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 2021, 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 2021, and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") as modified by the Central Bank of Bahrain ("CBB").

Basis for opinion

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended 31 December 2021. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

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

**INDEPENDENT AUDITOR'S 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 IFRS 9	
Key audit matter	How the key audit matter was addressed in the audit
<p>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 Expected Credit Losses ("ECL") for loans and advances.</p> <p>The COVID-19 pandemic has impacted management determination of the ECL. This has resulted in an increased level of uncertainty associated with management judgement, which may result in outputs significantly different from the future credit losses and staging of the customers.</p> <p>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 ECL requirements, this audit area is considered a key audit risk.</p> <p>As at 31 December 2021, the Group's gross loans and advances amounted to US\$ 11,952.6 million and the related impairment provisions amounted to US\$ 295.1 million, comprising of US\$ 128.7 million of provision against Stage 1 and 2 exposures and US\$ 166.4 million against exposures classified under Stage 3.</p> <p>The accounting policies relating to estimating ECL are presented in the accounting policies, and the associated credit risk disclosure is presented in Note 30 to the consolidated financial statements.</p>	<ul style="list-style-type: none"> • We gained an understanding of the Group's key credit processes comprising granting, booking, monitoring and provisioning, including an understanding of the design and operating effectiveness of relevant controls over the ECL model, including model build and approval, ongoing monitoring/validation, model governance and mathematical accuracy. • We read the Group's IFRS 9 based impairment provisioning policy and compared it with the requirements of IFRS 9 as well as relevant regulatory guidelines and pronouncements. • We assessed the soundness of the Group's loan grading processes. <p>Stage 1 and Stage 2 Provisions:</p> <ul style="list-style-type: none"> • For ECL against exposures classified as Stage 1 and Stage 2, we obtained an understanding of the Group's provisioning methodology, the underlying assumptions and the sufficiency of the data used by management. • We obtained an understanding of the Group's internal rating model for loans and advances. We have read the annual external validation report on the internal rating model to assess the appropriateness of the rating model. • We checked the appropriateness of the Group's determination of significant increase in credit risk and the resultant basis for classification of exposures into various stages. • For forward looking assumptions used by the Group in its ECL calculations, we held discussions with management and corroborated the assumptions using publicly available information. We also assessed the reasonableness of changes made to the economic scenarios to reflect the effect of COVID-19.

**INDEPENDENT AUDITOR'S 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 IFRS 9 (continued)	
Key audit matter	How the key audit matter was addressed in the audit
	<ul style="list-style-type: none"> • For a sample of exposures, we checked the appropriateness of the Group's staging. • For Probability of Default ("PD") used in the ECL calculations we checked the Through the Cycle ("TTC") PDs with internal historical data and checked the appropriateness of conversion of the TTC PDs to Point in Time PDs. • We checked the appropriateness of the Loss Given Default used by the Group's management in the ECL calculations. • For a sample of exposures, we checked the appropriateness of determining Exposure at Default, including the consideration of repayments in the cash flows and the resultant arithmetical calculations. • We checked the completeness of loans and advances and credit related contingent items included in the ECL calculations as of 31 December 2021. • We involved Financial Services Risk Management and Information System specialists to verify the appropriateness of the model. • We considered the adequacy of the disclosures in the consolidated financial statements in accordance with IFRS 9. Refer to the accounting policies, accounting judgements, estimates and assumptions, disclosures of loans and advances and credit risk management in notes 3, 5, 12 and 30 respectively to the consolidated financial statements. • We assessed the basis of determination of the management overlays considering the impact of the COVID-19 global pandemic against the requirements of the Group's ECL policy.

**INDEPENDENT AUDITOR'S 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 IFRS 9 (continued)	
Key audit matter	How the key audit matter was addressed in the audit
	<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. 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 the industry.

Other information included in the Group's 2021 Annual Report

Other information consists of the information included in the Group's 2021 Annual Report, other than the consolidated financial statements and our auditor's report thereon. The Board of Directors is responsible for the other information. Prior to the date of this auditor's report, we obtained the Chairman's Statement which will form part of the annual report, and the remaining sections of the annual report are expected to be made available to us after that date.

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

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

Responsibilities of the Board of Directors for the consolidated financial statements

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

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

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF GULF INTERNATIONAL BANK B.S.C. (continued)

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

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.



INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF GULF INTERNATIONAL BANK B.S.C. (continued)

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

Auditor's responsibilities for the audit of the consolidated financial statements (continued)

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.

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

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

Report on Other Legal and Regulatory Requirements

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

- a) the Bank has maintained proper accounting records and the consolidated financial statements are in agreement therewith;
- b) the financial information contained in the Chairman's Statement is consistent with the consolidated financial statements;
- c) we are not aware of any violations of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 1 and applicable provisions of Volume 6) and CBB directives, or the terms of the Bank's memorandum and articles of association during the year ended 31 December 2021 that might have had a material adverse effect on the business of the Bank or on its consolidated financial position; and
- d) satisfactory explanations and information have been provided to us by management in response to all our requests.

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

Partner's registration no.115
24 February 2022
Manama, Kingdom of Bahrain

Consolidated Statement of Financial Position

	Note	31.12.21 US\$ millions	31.12.20 US\$ millions
ASSETS			
Cash and other liquid assets	7	6,735.6	6,368.9
Securities purchased under agreements to resell	8	200.0	1,170.0
Placements	9	6,396.1	5,953.4
Trading securities	10	121.1	107.0
Investment securities	11	5,988.5	4,689.8
Loans and advances	12	11,657.5	10,489.7
Other assets	13	718.2	827.5
Total assets		31,797.0	29,606.3
LIABILITIES			
Deposits from banks	15	991.3	708.6
Deposits from customers	15	20,994.8	19,577.9
Securities sold under agreements to repurchase	16	685.2	175.2
Other liabilities	17	932.6	1,207.2
Senior term financing	18	5,100.1	4,924.9
Total liabilities		28,704.0	26,593.8
EQUITY			
Share capital	19	2,500.0	2,500.0
Reserves	20	435.5	379.2
Retained earnings		(790.1)	(807.4)
Equity attributable to the shareholders of the Bank		2,145.4	2,071.8
Non-controlling interest	43	947.6	940.7
Total equity		3,093.0	3,012.5
Total liabilities & equity		31,797.0	29,606.3

The consolidated financial statements were approved by the Board of Directors on 24th February 2022 and signed on its behalf by:


Abdulla Mohammed Al Zamil
Chairman of the Board



Rajeev Katar
Chairman of the Board Audit Committee


Abdulaziz A. Al-Helwasi
Group Chief Executive Officer

The notes on pages 6 to 69 form part of these consolidated financial statements.

Consolidated Statement of Income

		Year ended 31.12.21	Year ended 31.12.20
	Note	US\$ millions	US\$ millions
Interest income	22	420.6	505.9
Interest expense	22	174.5	273.1
Net interest income		246.1	232.8
Fee and commission income	26	72.5	59.0
Trading income / (loss)	24	32.2	(14.2)
Foreign exchange income	25	18.5	15.8
Other income	26	25.4	14.3
Total operating income		394.7	307.7
Staff expenses		176.8	157.9
Premises expenses		23.3	25.8
Other operating expenses		86.6	93.2
Total operating expenses		286.7	276.9
Net income before provisions and tax		98.0	30.8
Impairment of leased assets		(1.2)	-
Provision for expected credit losses	27	(44.5)	(340.5)
Net income / (loss) before tax		52.3	(309.7)
Taxation reversal	28	0.4	1.7
Net income / (loss)		52.7	(308.0)
Attributable to:			
Shareholders of the Bank		37.9	(249.6)
Non-controlling interest		14.8	(58.4)
		52.7	(308.0)


Abdulla Mohammed Al Zamil
 Chairman of the Board


Rajeev Katar
 Chairman of the Board Audit Committee


Abdulaziz A. Al-Hataisi
 Group Chief Executive Officer

The notes on pages 6 to 69 form part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

		Year ended 31.12.21 US\$ millions	Year ended 31.12.20 US\$ millions
	<i>Note</i>		
Net income / (loss)		52.7	(308.0)
Other comprehensive income:			
<u>Items that may subsequently be reclassified to consolidated statement of income:</u>			
Net changes in fair value of cash flow hedges	20	-	(0.1)
		-	(0.1)
<u>Items that will not be reclassified to consolidated statement of income:</u>			
Net changes in fair value of equity investments classified as fair value through other comprehensive income (FVTOCI)		3.9	9.9
Remeasurement of defined benefit pension fund	20	32.1	15.6
Net changes in deferred tax reserves	20	(8.2)	(1.2)
		27.8	24.3
Total other comprehensive income		27.8	24.2
Total comprehensive income / (loss)		80.5	(283.8)
Attributable to:			
Shareholders of the Bank		64.8	(224.1)
Non-controlling interest		15.7	(59.7)
		80.5	(283.8)

The notes on pages 6 to 69 form part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

	Equity attributable to the shareholders of the Bank					
	Share capital	Reserves	Retained earnings	Total	Non-controlling interest	Total
	US\$ millions	US\$ millions	US\$ millions	US\$ millions	US\$ millions	US\$ millions
At 1st January 2021	2,500.0	379.2	(807.4)	2,071.8	940.7	3,012.5
Net income for the year	-	-	37.9	37.9	14.8	52.7
Other comprehensive income for the year	-	26.9	-	26.9	0.9	27.8
Total comprehensive income for the year	-	26.9	37.9	64.8	15.7	80.5
Transfers during the year	-	29.4	(20.6)	8.8	(8.8)	-
At 31st December 2021	2,500.0	435.5	(790.1)	2,145.4	947.6	3,093.0
At 1st January 2020	2,500.0	336.0	(540.1)	2,295.9	1,000.4	3,296.3
Net (loss) for the year	-	-	(249.6)	(249.6)	(58.4)	(308.0)
Other comprehensive income / (loss) for the year	-	25.5	-	25.5	(1.3)	24.2
Total comprehensive income / (loss) for the year	-	25.5	(249.6)	(224.1)	(59.7)	(283.8)
Transfers during the year	-	17.7	(17.7)	-	-	-
At 31st December 2020	2,500.0	379.2	(807.4)	2,071.8	940.7	3,012.5

The notes on pages 6 to 69 form part of these consolidated financial statements.

Consolidated Statement of Cash Flows

		Year ended 31.12.21 US\$ millions	Year ended 31.12.20 US\$ millions
	Note		
OPERATING ACTIVITIES			
Net income / (loss) for the year		52.7	(308.0)
Adjustments for:			
Depreciation and amortisation		41.0	37.8
Impairment of leased assets		1.2	-
Provision for expected credit losses - net		44.5	340.5
Realised gains on debt investment securities		(1.7)	(2.2)
Operating income before changes in operating assets and liabilities		137.7	68.1
Changes in operating assets and liabilities:			
Statutory deposits with central banks		(122.0)	(18.4)
Securities purchased under agreements to resell		970.0	240.0
Placements		(442.8)	218.0
Trading securities		(14.1)	35.2
Loans and advances		(1,225.1)	(893.5)
Interest receivable		4.2	103.0
Other assets		116.1	(172.9)
Deposits from banks		282.7	(220.7)
Deposits from customers		1,416.9	(1,645.4)
Securities sold under agreement to repurchase		510.0	(347.9)
Interest payable		12.3	(107.5)
Other liabilities		(272.4)	488.0
Net cash from / (used in) operating activities		1,373.5	(2,254.0)
INVESTING ACTIVITIES			
Purchase of investment securities		(1,824.2)	(1,037.6)
Maturity / sale of investment securities		535.6	350.7
Purchase of premises and equipment		(14.6)	(47.5)
Net cash used in investing activities		(1,303.2)	(734.4)
FINANCING ACTIVITIES			
Issuance of senior term financing		1,517.2	1,765.8
Maturity of senior term financing		(1,342.8)	(344.1)
Net cash from financing activities		174.4	1,421.7
Net increase / (decrease) in cash and cash equivalents		244.7	(1,566.7)
Cash and cash equivalents at 1st January		6,062.0	7,628.7
Cash and cash equivalents at 31st December	7	6,306.7	6,062.0

The notes on pages 6 to 69 form part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**For the year ended 31st December 2021****1 Incorporation and registration**

The parent company, 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 (together "the Group") are 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 six countries worldwide. The total number of staff at the end of the financial year was 1,188 (31st December 2020: 1,017).

2 Basis of preparation**2.1 Statement of compliance**

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

- a) recognition of modification losses on financial assets arising from payment holidays provided to customers impacted by COVID-19, without charging additional interest, in equity instead of profit or loss as required by IFRS 9 'Financial Instruments'. Any other modification gain or loss on financial assets is recognised in accordance with the requirements of IFRS 9. Please refer note 2.3 for further details; and
- b) recognition of financial assistance received from the government and / or regulators in response to its COVID-19 support measures, and meeting the government grant requirements, in equity instead of profit or loss. This will only be to the extent of any modification loss recorded in equity as a result of (a) above, and the balance amount to be recognized in profit or loss. Any other financial assistance is recognised in accordance with the requirements of IAS 20. Please refer note 2.3 for further details.

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

The accounting policies, estimates and assumptions used in the preparation of the consolidated financial statements of the Group for the year ended 31 December 2021 were in accordance with IFRS as issued by IASB, except for the modifications to accounting policies as mentioned above and in note 2.3 and 4, all of which have been applied retrospectively. The retrospective application of the change in accounting policies did not result in any change to the financial information reported for the comparative period.

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 assets and 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 Group's consolidated financial statements are presented in United States Dollars (US\$), which is also the Bank's functional currency. All values are rounded-off to the nearest million (US\$ million), except where otherwise indicated.

2.3 Novel Coronavirus ("COVID-19")

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTSFor the year ended 31st December 2021.**2 Basis of preparation** (continued)**2.3 Novel Coronavirus ("COVID-19")** (continued)

The Group's management revisited its significant judgments in applying the Group's accounting policies and the methods of computation and the key sources of estimation applied to the annual consolidated financial statements for the year ended 31 December 2021.

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

The Group has evaluated the current situation through conducting stress testing scenarios on expected movements of oil prices and their impact on key credit, liquidity, operational, solvency and performance indicators, in addition to other risk management practices to manage the potential business disruption that the COVID-19 outbreak may have on its operations and financial performance.

- **Expected credit losses**

The Group uses various inputs and assumptions for the determination of expected credit losses ("ECLs") taking into consideration the uncertainties caused by COVID 19 and oil price volatility. The ECL forecast economic conditions have been consistently applied by the Group and are consistent with those of the previous year, although economic forecasts have improved during the year, however, the group is being prudent considering that the situation is evolving. The Group has considered the impact of higher volatility in the forward-looking macro-economic factors, when determining the severity and likelihood of economic scenarios for ECL determination.

This volatility has been reflected through adjustment in the methods of scenario construction and the underlying weightages assigned to these scenarios. The forward-looking factors used to derive the point-in-time (PIT) probability of default (PD) incorporate the following assumptions for the key markets of the Kingdom of Saudi Arabia and United Arab Emirates: real GDP growth between -1.2% to 0.9% ; and fiscal deficit as a percentage of GDP between -8.1% and -11.8% over the next 12 months for the years ended 31st December 2021 and 31st December 2020. The Bank has assigned probabilities for the aforementioned macro-economic factors for the base case, negative case and positive case scenarios in the ratio of 50:25:25, respectively (31st December 2020: 50:25:25).

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

In addition to the assumptions outlined above, the Group continues to closely monitor the potential repayment risk impact of COVID-19 on affected industry sectors. However, the Group has also recognised management overlays of US\$ 6.1 million (2020: US\$14.9 million) based on anticipated changes in the through-the-cycle probability of defaults.

2.4 Consolidation principles

The consolidated financial statements include the accounts of Gulf International Bank B.S.C. and its subsidiaries. Subsidiaries are companies and other entities, including special purpose entities, which the Bank controls. Control is achieved when the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect those returns.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTSFor the year ended 31st December 2021**2 Basis of preparation (continued)****2.4 Consolidation principles (continued)**

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without loss of control, is accounted for as an equity transaction. If the Bank loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interests and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value at the date of loss of control.

The principal subsidiaries and the Group's ownership of each are set out in note 42.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTSFor the year ended 31st December 2021**3 Accounting policies (continued)****3.1 Financial assets and liabilities (continued)****a) Recognition and measurement (continued)**

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

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

Financial assets at amortised cost

Financial assets are measured at amortised cost using the effective interest rate method if:-

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

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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTSFor the year ended 31st December 2021**3 Accounting policies** (continued)**3.1 Financial assets and liabilities** (continued)**b) Modification of assets and liabilities***Financial assets*

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

Financial liabilities

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

3.2 Impairment of financial assets

The Group assesses on a forward-looking basis, the expected credit loss (ECL) associated with its debt instruments assets carried at amortised cost and FVOCI and against the exposure arising from loan commitments and financial guarantee contracts. The Group recognises an ECL for such losses on origination and reassess the expected credit losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

To calculate ECL, the Group estimates the risk of a default occurring on the financial instrument during its expected life. ECLs are estimated based on the present value of all cash shortfalls over the remaining expected life of the financial asset, i.e., the difference between: the contractual cash flows that are due to the Group under the contract, and the cash flows that the Group expects to receive, discounted at the effective interest rate of the loan.

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- Financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive);
- Financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- Financial guarantee contracts: estimates the ECLs based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the guarantor expects to receive from the holder, the debtor or any other party. If a loan is fully guaranteed, the ECL estimate for the financial guarantee contract would be the same as the estimated cash shortfall estimate for the loan subject to the guarantee.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**For the year ended 31st December 2021****3 Accounting policies (continued)****3.2 Impairment of financial assets (continued)***Measurement of ECL (continued)*

For the purposes of ECL calculation, the Group categorises its financial instruments that are not measured at FVTPL into Stage 1, Stage 2 and Stage 3, based on the applied impairment methodology, as described below. Equity investments are not subject to impairment assessments.

- 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.
- Stage 3: for credit-impaired financial instruments, the Group recognises the lifetime ECL.

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

Lifetime ECL 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 at the reporting date. For stage 3 financial instruments, 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.

The Group incorporates forward-looking information in the measurement of ECLs, such as macroeconomic factors (e.g., GDP growth, oil prices, country's equity indices and unemployment rates) and economic forecasts. To evaluate a range of possible outcomes, the Group formulates three scenarios: a base case, a positive and a negative scenario. For each scenario, the Group derives an ECL and apply a probability weighted approach to determine the impairment allowance.

For the purposes of categorisation into above stages, the Group has established a policy to perform an assessment at the end of each reporting period of whether credit risk has increased significantly since initial recognition by considering the change in the risk of default occurring over the remaining life of the financial instrument as follows:

Stage 1

The Group measures loss allowances at an amount up to 12-month ECL for Stage 1 customers. All financial assets are classified as Stage 1 on initial recognition date. Subsequently on each reporting date the Group classifies following as Stage 1:

- Debt type assets that are determined to have low credit risk at the reporting date; and
- On which credit risk has not increased significantly since their initial recognition.

The Group applies the low credit risk presumption and considers all exposures to GCC sovereigns as low credit risk.

Stage 2

IFRS 9 requires financial assets to be classified in Stage 2 when their credit risk has increased significantly since their initial recognition. For these assets, a loss allowance needs to be recognised based on their lifetime ECLs.

The Group considers whether there has been a significant increase in credit risk of an asset by comparing the rating migration upon initial recognition of the asset against the risk of a default occurring on the asset as at the end of each reporting period. In each case, this assessment is based on forward-looking assessment, in order to recognise the probability of higher losses associated with more negative economic outlooks. In addition, a significant increase in credit risk is assumed if the borrower falls more than 30 days past due in making its contractual payments, or if the Group expects to grant the borrower forbearance or facility has been restructured owing to credit related reasons, or the facility is placed on the Group's list of accounts requiring close monitoring. Further, any facility having an internal credit risk rating of 8 are also subject to stage 2 ECL calculation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTSFor the year ended 31st December 2021**3 Accounting policies** (continued)**3.2 Impairment of financial assets** (continued)*Stage 2 (continued)*

It is the Group's policy to evaluate additional available reasonable and supportive forward-looking information as further additional drivers.

For revolving facilities such as credit cards and overdrafts, the Group measures ECLs by determining the period over which it expects to be exposed to credit risk, taking into account the credit risk management actions that it expects to take once the credit risk has increased and that serve to mitigate losses.

Stage 3

Financial assets are included in Stage 3 when there is objective evidence that the loan is credit impaired. At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to deterioration in the borrower's condition is usually considered to be credit impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a loan that is overdue for 90 days or more is considered impaired.

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Group considers the following factors.

- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of creditworthiness.
- The country's ability to access the capital markets for new debt issuance.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.
- The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

Financial assets which have been renegotiated or modified are no longer considered to be past due and are placed 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.

In general, loans are transferred out of Stage 3 if they no longer meet the criteria of credit-impaired and after satisfying the curing criteria of the Bank.

Provisions for expected credit losses are recognised in the consolidated statement of income and are presented in the consolidated statement of financial position in an allowance account against loans and advances, investment securities, and placements (as a deduction from the gross carrying amount of the assets).

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**For the year ended 31st December 2021****3 Accounting policies (continued)****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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**For the year ended 31st December 2021****3 Accounting policies (continued)****3.5 Repurchase and reverse repurchase agreements**

Securities sold under agreements to repurchase at a specified future date are not derecognised from the statement of financial position as the Group retains substantially all of the risks and rewards of ownership. The corresponding cash received is recognised in the consolidated statement of financial position as an asset with a corresponding obligation to return it, including accrued interest as a liability within cash collateral on securities lent and repurchase agreements, reflecting the transaction's economic substance as a loan to the Group. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of agreement using the EIR. When the counterparty has the right to sell or re-pledge the securities, the Group reclassifies those securities in its statement of financial position to financial assets held for trading pledged as collateral or to financial investments available-for-sale pledged as collateral, as appropriate.

Conversely, securities purchased under agreements to resell at a specified future date are not recognised in the statement of financial position. The consideration paid, including accrued interest, is recorded in the statement of financial position, within cash collateral on securities borrowed and reverse repurchase agreements, reflecting the transaction's economic substance as a loan by the Bank. The difference between the purchase and resale prices is recorded in net interest income and is accrued over the life of the agreement using the EIR.

If securities purchased under an agreement to resell are subsequently sold to third parties, the obligation to return the securities is recorded as a short sale within financial liabilities held for trading and measured at fair value with any gains or losses included in net trading income.

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.

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. The expense relating to any provision is presented in the consolidated statement of income net of any reimbursement.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTSFor the year ended 31st December 2021**3 Accounting policies (continued)****3.8 Derivative financial instruments and hedge accounting (continued)**

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 (OCI) are transferred to the consolidated statement of income at the same time that the income or expense of the corresponding hedged item is recognised in the consolidated statement of income and are included in the same income or expense category as the hedged item. Unrealised gains or losses on any ineffective portion of cash flow hedging transactions are included in trading income.

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTSFor the year ended 31st December 2021**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.

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

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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTSFor the year ended 31st December 2021**3 Accounting policies (continued)****3.12 Cash and cash equivalents**

Cash and cash equivalents referred to in the consolidated statement of cash flows comprise of cash and non-restricted balances with central banks and deposits with banks.

3.13 Trading securities

Trading securities are initially recorded at fair value. Subsequent to initial measurement, gains and losses arising from changes in fair values are included in the consolidated statement of income in the period in which they arise. Interest earned and dividends received are included in 'interest income' and 'other income' respectively, in the consolidated statement of income.

3.14 Placements

Placements are initially measured at fair value and subsequently remeasured at amortised cost, net of any amounts written off and provision for ECL. The carrying values of such assets which are being effectively hedged for changes in fair value are adjusted to the extent of the changes in fair value being hedged, with the resultant changes being recognised in the consolidated statement of income.

3.15 Deposits

All bank and customer deposits are initially measured at fair value and subsequently remeasured at amortised cost. An adjustment is made to these, if part of an effective fair value hedging strategy, to adjust the value of the deposit for the fair value being hedged with the resultant changes being recognised in the consolidated statement of income.

3.16 Leases

At inception, the Group assesses whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the lease term. The right-of-use assets are also subject to impairment. The Group discloses right of use assets under other assets.

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (less any lease incentives receivable), variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**For the year ended 31st December 2021****3 Accounting policies (continued)****3.16 Leases (continued)***Lease liabilities (continued)*

The Group discloses lease liabilities under other liabilities.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

3.17 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.

3.18 Foreign currencies

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.

3.19 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.

3.20 Employee pension and other end of service benefits

Costs relating to employee pension and other end of service benefits are generally accrued in accordance with actuarial valuations based on prevailing regulations applicable in each location.

3.21 Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset.

When the Group receives grants of non-monetary assets, the asset and the grant are recorded at nominal amounts and released to the consolidated statement of income over the expected useful life of the asset, based on the pattern of consumption of the benefits of the underlying asset by equal annual instalments.

3.22 Dividends

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTSFor the year ended 31st December 2021**3 Accounting policies (continued)****3.23 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).

3.24 Comparatives

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

3.25 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 New and amended standards and interpretations**4.1 New and amended standards and interpretations issued and effective for the year**

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in previous year except for changes in framework as set out in note 2.1 "Statement of compliance" and the adoption of the following new and amended standards and interpretations, applicable to the Group, and which are effective for annual periods beginning on or after 1 January 2021:

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

The Group has adopted amendments to IFRS 9, IAS 39, IFRS 7 and IFRS 16 Interest Rate Benchmark Reform - Phase 2 (IBOR reform phase 2) on its effective date of 1 January 2021. In accordance with the transition provisions, the amendments have been adopted retrospectively to hedging relationships and financial instruments. Comparative amounts have not been restated, and there was no impact on the current period opening reserves amounts on adoption.

Hedge relationships

The IBOR reform phase 2 amendments address issues arising during interest rate benchmark reform (IBOR reform), including specifying when the 'phase 1' amendments will cease to apply, when hedge designations and documentation should be updated, and when hedges of the alternative benchmark rate or alternative reference rate (ARR) as the hedged risk are permitted.

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

For the year ended 31 December 2021, the Group has adopted the following hedge accounting reliefs provided by IBOR reform phase 2 of the amendments:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTSFor the year ended 31st December 2021**4 New and amended standards and interpretations (continued)****4.1 New and amended standards and interpretations issued and effective for the year (continued)****Interest Rate Benchmark Reform: Amendments to IFRS 9, IAS 39 and IFRS 7 (continued)***Hedge relationships (continued)*

Hedge designation: When the phase 1 amendments cease to apply, the Group will amend its hedge designation to reflect changes which are required by IBOR reform, but only to make one or more of these changes:

- Designating an ARR (contractually or non-contractually specified) as a hedged risk;
- Amending the description of the hedged item, including the description of the designated portion of the cash flows or fair value being hedged; or
- Amending the description of the hedging instrument. The Group will update its hedge documentation to reflect this change in designation by the end of the reporting period in which the changes are made. These amendments to the hedge documentation do not require the Group to discontinue its hedge relationships. The Group has not made any amendments to its hedge documentation in the reporting period relating to IBOR reform.

Retrospective effectiveness test: When the phase 1 retrospective effectiveness relief ceases to apply, on a hedge-by-hedge basis, the Group could reset to zero the cumulative fair value changes of the hedged item and hedging instrument for the purposes of retrospective hedge effectiveness test. However, this does not affect the amounts of hedge ineffectiveness reported in the consolidated statement of profit or loss. During the period, the Group has not reset to zero the cumulative fair value changes of the hedged item and hedging instrument in any of its hedges.

Risk components: The Group is permitted to designate an ARR as a non-contractually specified risk component, even if it is not separately identifiable at the date when it is designated, provided that the Group reasonably expects that it will meet the requirements within 24 months of the first designation and the risk component is reliably measurable. The 24-month period applies separately to each ARR which the Group might designate. During the year, the Group has not designated any risk components of ARR in any hedge relationships during the year.

The expedients applied under 'phase 1' of the amendments are detailed within the hedge accounting policies.

Financial instruments measured using amortised cost measurement and lease receivables

IBOR reform phase 2 requires that, for financial instruments measured using amortised cost measurement (i.e. financial instruments classified as amortised cost and debt financial assets classified as FVOCI), changes to the basis for determining the contractual cash flows required by IBOR reform are reflected by adjusting their effective interest rate. No immediate gain or loss is recognised. A similar practical expedient exists for lease liabilities (see below). These expedients are only applicable to changes that are required by IBOR reform, which is the case if, and only if, the change is necessary as a direct consequence of IBOR reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis (i.e. the basis immediately preceding the change).

Where some or all of a change in the basis for determining the contractual cash flows of a financial asset and liability does not meet the above criteria, the above practical expedient is first applied to the changes required by IBOR reform, including updating the instrument's effective interest rate. Any additional changes are accounted for in the normal way i.e. assessed for modification or derecognition, with the resulting modification gain / loss recognised immediately in profit or loss where the instrument is not derecognised.

For lease liabilities where there is a change to the basis for determining the contractual cash flows, as a practical expedient the lease liability is remeasured by discounting the revised lease payments using a discount rate that reflects the change in the interest rate where the change is required by IBOR reform. If lease modifications are made in addition to those required by IBOR reform, the normal requirements of IFRS 16 are applied to the entire lease modification, including those changes required by IBOR reform.

For the year ended 31 December 2021, the Group has applied the practical expedients offered under IBOR reform phase 2 of the amendments only to US\$ 25.0 million of modified loans measured at amortised cost.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTSFor the year ended 31st December 2021**4 New and amended standards and interpretations (continued)****4.1 New and amended standards and interpretations issued and effective for the year (continued)****Amendments to IFRS 16 Covid-19 Related Rent Concessions beyond 30 June 2020**

On 28 May 2020, the IASB issued Covid-19-Related Rent Concessions - amendment to IFRS 16 Leases (IFRS 16). The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification. The amendment was intended to apply until 30 June 2021, but as the impact of the Covid-19 pandemic is continuing, on 31 March 2021, the IASB extended the period of application of the practical expedient to 30 June 2022. The amendment applies to annual reporting periods beginning on or after 1 April 2021. Earlier application is permitted. This amendment had no material impact on the consolidated financial statements of the Group.

4.2 New and amended standards and interpretations issued but not yet effective

New and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's consolidated financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. IFRS 17 is effective for reporting periods beginning on or after 1 January 2023, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. The Group expects that the new standard will have no impact on the Group's consolidated financial statements.

Definition of Accounting Estimates - Amendments to IAS 8

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

Classification of Liabilities as Current or Non-current - Amendments to IAS 1

In January 2020, the Board issued amendments to paragraphs 69 to 76 of IAS 1 Presentation of Financial Statements to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement.
- That a right to defer must exist at the end of the reporting period.
- That classification is unaffected by the likelihood that an entity will exercise its deferral right.
- That only if an embedded derivative in a convertible liability is itself an equity instrument, would the terms of a liability not impact its classification.

These amendments are effective for reporting periods beginning on or after 1 January 2023, with early application permitted. The Group is not expected to be affected by these amendments on the date of transition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTSFor the year ended 31st December 2021**4 New and amended standards and interpretations (continued)****4.2 New and amended standards and interpretations issued but not yet effective (continued)****Amendments to IAS 37 - Onerous Contracts: – Cost of Fulfilling a Contract**

In May 2020, the IASB issued amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a 'directly related cost approach'. The costs that relate directly to a contract to provide goods or services include both incremental costs (e.g., the costs of direct labour and materials) and an allocation of costs directly related to contract activities (e.g., depreciation of equipment used to fulfil the contract as well as costs of contract management and supervision). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. Since the amendments apply prospectively to transactions or other events that occur on or after 1 January 2022, the Group will not be affected by these amendments on the date of transition.

Amendments to IAS 16 - Property, Plant and Equipment: Proceeds before Intended Use

In May 2020, the IASB issued Property, Plant and Equipment – Proceeds before Intended Use, which prohibits entities from deducting from the cost of an item of property, plant and equipment (PP&E), any proceeds of the sale of items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss. These amendments are effective for reporting periods beginning on or after 1 January 2022, with early application permitted. The Group is not expected to be affected by these amendments on the date of transition.

Amendments to IFRS 3 - Reference to the Conceptual Framework

In May 2020, the IASB issued Amendments to IFRS 3 Business Combinations - Reference to the Conceptual Framework. The amendments are intended to replace a reference to a previous version of the IASB's Conceptual Framework (the 1989 Framework) with a reference to the current version issued in March 2018 (the Conceptual Framework) without significantly changing its requirements. The amendments add an exception to the recognition principle of IFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets (IAS 37) or IFRIC 21 Levies (IFRIC 21), if incurred separately. The exception requires entities to apply the criteria in IAS 37 or IFRIC 21, respectively, instead of the Conceptual Framework, to determine whether a present obligation exists at the acquisition date. At the same time, the amendments add a new paragraph to IFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date. Since the amendments apply prospectively to transactions or other events that occur on or after 1 January 2022, the Group will not be affected by these amendments on the date of transition.

Annual improvements 2018-2020 cycle

These improvements include:

- IFRS 1 First-time Adoption of International Financial Reporting Standards - Subsidiary as a First-time Adopter.
- IFRS 9 Financial Instruments - Fees in the '10 per cent' Test for Derecognition of Financial Liabilities.
- IAS 41 Agriculture - Taxation in Fair Value Measurements.
- Illustrative Examples accompanying IFRS 16 Leases - Lease Incentives.

These improvements are effective for reporting periods beginning on or after 1 January 2022, with early application permitted. The Group is not expected to be affected by these amendments on the date of initial application.

5 Accounting judgements estimates and assumptions

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTSFor the year ended 31st December 2021**5 Accounting judgements estimates and assumptions (continued)****5.1 Provisions for expected credit losses**

Financial assets are evaluated for impairment on the basis set out in note 3.2. In determining impairment of financial assets, judgement is required in the estimation of the amount and timing of future cash flows as well as an assessment of whether the credit risk on the financial asset has increased significantly since initial recognition and incorporation of forward-looking information in the measurement of ECL.

As a result of the impact of COVID-19, the Group has considered providing its customers with extensions / forbearance in payment schedules. These were assessed on a case by case basis and in line with local regulatory guidelines in each jurisdiction. Further, forbearances granted were approved by appropriate governance and local regulatory guidelines and appropriate management judgement were applied for staging and ECL purposes.

5.2 Fair value of financial assets and liabilities

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

5.3 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 14 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.

5.4 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.

5.5 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 20216 Classification of assets and liabilities

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

	<u>FVTPL</u>	<u>FVTOCI</u>	<u>Amortised</u>	<u>Non-</u>	<u>Total</u>
	<u>US\$ millions</u>	<u>US\$ millions</u>	<u>cost</u>	<u>financial</u>	<u>US\$ millions</u>
			<u>US\$ millions</u>	<u>assets,</u>	
				<u>liabilities</u>	
				<u>& equity</u>	
				<u>US\$ millions</u>	
At 31st December 2021					
Cash and other liquid assets	-	-	6,735.6	-	6,735.6
Securities purchased under agreements to resell	-	-	200.0	-	200.0
Placements	-	-	6,396.1	-	6,396.1
Trading securities	121.1	-	-	-	121.1
Investment securities	-	97.0	5,871.5	-	5,968.5
Loans and advances	-	-	11,657.5	-	11,657.5
Other assets	295.2	46.3	228.4	148.3	718.2
Total assets	416.3	143.3	31,089.1	148.3	31,797.0
Deposits from banks	-	-	991.3	-	991.3
Deposits from customers	-	-	20,994.8	-	20,994.8
Securities sold under agreements to repurchase	-	-	685.2	-	685.2
Other liabilities	367.7	16.7	457.1	91.1	932.6
Senior term financing	-	-	5,100.1	-	5,100.1
Equity	-	-	-	3,093.0	3,093.0
Total liabilities and equity	367.7	16.7	28,228.5	3,184.1	31,797.0
At 31st December 2020					
Cash and other liquid assets	-	-	6,368.9	-	6,368.9
Securities purchased under agreements to resell	-	-	1,170.0	-	1,170.0
Placements	-	-	5,953.4	-	5,953.4
Trading securities	107.0	-	-	-	107.0
Investment securities	-	153.8	4,536.0	-	4,689.8
Loans and advances	-	-	10,489.7	-	10,489.7
Other assets	409.1	14.2	244.9	159.3	827.5
Total assets	516.1	168.0	28,762.9	159.3	29,606.3
Deposits from banks	-	-	708.6	-	708.6
Deposits from customers	-	-	19,577.9	-	19,577.9
Securities sold under agreements to repurchase	-	-	175.2	-	175.2
Other liabilities	636.9	15.5	462.0	92.8	1,207.2
Senior term financing	-	-	4,924.9	-	4,924.9
Equity	-	-	-	3,012.5	3,012.5
Total liabilities and equity	636.9	15.5	25,848.6	3,105.3	29,606.3

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 34.4.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2021**7 Cash and other liquid assets**

	<u>31.12.21</u>	<u>31.12.20</u>
	US\$ millions	US\$ millions
Cash and balances with central banks	5,352.5	4,844.8
Cash and balances with banks	954.2	1,217.2
Cash and cash equivalents	6,306.7	6,062.0
Statutory deposits with central banks	428.9	306.9
Cash and other liquid assets	6,735.6	6,368.9

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

8 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.

9 Placements

	<u>31.12.21</u>	<u>31.12.20</u>
	US\$ millions	US\$ millions
Placements with central banks	1,038.1	2,200.0
Placements with banks	5,238.1	3,643.9
Other placements	120.0	109.5
Provisions for expected credit losses	(0.1)	-
Net placements	6,396.1	5,953.4

The placements with central banks represented the placement of surplus liquid funds.

10 Trading securities

	<u>31.12.21</u>	<u>31.12.20</u>
	US\$ millions	US\$ millions
Managed funds	112.2	99.3
Equity securities	8.9	7.7
	121.1	107.0

Managed funds comprised funds placed for investment with specialist managers.

11 Investment securities**11.1 Composition**

	<u>31.12.21</u>	<u>31.12.20</u>
	US\$ millions	US\$ millions
Debt securities	5,874.8	4,538.4
Equity investments	97.0	153.8
Provisions for expected credit losses	(3.3)	(2.4)
Net investment securities	5,968.5	4,689.8

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 202111 Investment securities (continued)11.1 Composition (continued)

	31 st December 2021				31 st December 2020			
	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
Gross investment securities	5,971.8	-	-	5,971.8	4,692.2	-	-	4,692.2
ECL allowances	(3.3)	-	-	(3.3)	(2.4)	-	-	(2.4)
Net investment securities	5,968.5	-	-	5,968.5	4,689.8	-	-	4,689.8

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

	31.12.21		31.12.20	
	US\$ millions	%	US\$ millions	%
AAA to A- / Aaa to A3	4,390.2	74.8	3,707.7	81.7
BBB+ to BBB- / Baa1 to Baa3	1,034.1	17.6	338.3	7.5
BB+ to B- / Ba1 to B3	447.2	7.6	490.0	10.8
Total debt securities	5,871.5	100.0	4,536.0	100.0
Equity investments	97.0		153.8	
	5,968.5		4,689.8	

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 2021 and 31st December 2020 principally comprised GCC sovereign debt securities.

Debt securities are classified as investment securities at amortised cost and equity investments are classified as FVTOCI (note 6).

11.2 Provisions for expected credit losses

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

	31 st December 2021				31 st December 2020			
	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	2.4	-	-	2.4	3.6	0.7	-	4.3
Net remeasurement of loss allowance	0.9	-	-	0.9	(1.2)	(0.7)	-	(1.9)
At 31st December	3.3	-	-	3.3	2.4	-	-	2.4

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2021

12. Loans and advances

12.1 Composition

	31.12.21 US\$ millions	31.12.20 US\$ millions
Gross loans and advances	11,952.6	10,771.3
Provisions for expected credit losses	(295.1)	(281.6)
Net loans and advances	11,657.5	10,489.7

	31 st December 2021				31 st December 2020			
	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
Gross loans and advances	10,424.5	1,229.7	298.4	11,952.6	9,247.7	1,160.1	363.5	10,771.3
ECL allowances	(45.8)	(82.9)	(166.4)	(295.1)	(59.4)	(40.0)	(182.2)	(281.6)
Net loans and advances	10,378.7	1,146.8	132.0	11,657.5	9,188.3	1,120.1	181.3	10,489.7

12.2 Provisions for expected credit losses

The movements in the provisions for expected credit losses during the year was as follows:

	31 st December 2021				31 st December 2020			
	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	59.4	40.0	182.2	281.6	30.9	93.7	241.9	366.5
Transfer to stage 1	-	-	-	-	0.9	(0.9)	-	-
Transfer to stage 2	(3.3)	20.2	(16.9)	-	(2.5)	2.5	-	-
Transfer to stage 3	(0.2)	(3.6)	3.8	-	(0.4)	(78.0)	78.4	-
Exchange rate movements	-	-	-	-	-	-	0.5	0.5
Net remeasurement of loss allowance	(10.1)	28.3	41.1	57.3	30.5	22.7	282.9	336.1
Write-offs	-	-	(43.8)	(43.8)	-	-	(421.5)	(421.5)
At 31st December	45.8	82.9	166.4	295.1	59.4	40.0	182.2	281.6

Amounts written-off during the years ended 31st December 2021 and 31st December 2020 mainly represented provisions 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.

12.3 Industrial classification

	31.12.21 US\$ millions	31.12.20 US\$ millions
Energy, oil and petrochemical	2,314.6	1,866.1
Financial	2,101.7	1,615.7
Trading and services	1,848.9	1,957.6
Manufacturing	1,297.5	1,066.7
Transportation	1,163.2	1,621.2
Real estate	799.2	620.4
Government	722.2	492.7
Construction	549.9	471.8
Agriculture and mining	269.6	280.0
Retail	257.0	182.6
Communication	83.8	231.1
Other	545.0	365.4
	11,952.6	10,771.3
Provisions for expected credit losses	(295.1)	(281.6)
	11,657.5	10,489.7

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTSFor the year ended 31st December 2021**12 Loans and advances (continued)****12.4 Past due but not credit impaired loans and advances**

Below is an age analysis of past due but not credit impaired loans and advances:

	Up to 30 days	31 to 60 days	61 to 89 days	Total
	US\$ millions	US\$ millions	US\$ millions	US\$ millions
At 31st December 2021				
Corporates - gross	406.0	-	5.4	411.4
Retail banking - gross	11.3	1.1	0.5	12.9
	417.3	1.1	5.9	424.3
	Up to 30 days	31 to 60 days	61 to 89 days	Total
	US\$ millions	US\$ millions	US\$ millions	US\$ millions
At 31st December 2020				
Corporates - gross	227.1	29.8	18.0	274.9
Retail banking - gross	7.3	0.7	0.2	8.2
	234.4	30.5	18.2	283.1

Gross past due loans at 31st December 2021 included exposures of US\$11.3 million (2020: US\$18.5 million) which were fully collateralised.

12.5 Credit impaired loans and advances

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

	31.12.21		31.12.20	
	Gross	Carrying Amount	Gross	Carrying Amount
	US\$ millions	US\$ millions	US\$ millions	US\$ millions
Corporates	297.4	131.9	362.6	180.6
Retail banking	1.0	0.1	0.9	0.7
	298.4	132.0	363.5	181.3

12.6 Restructured and modified loans

During the years ended 31st December 2021 and 31st December 2020, 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 or modification gains.

During the year ended 31st December 2021, the Group restructured US\$722.1 million gross loans (31st December 2020: US\$332.8 million) with no significant additional impact on ECL during the year.

12.7 Collateral

The fair value of collateral that the Group holds relating to loans and advances individually determined to be impaired and classified under Stage 3 at 31st December 2021 amounts to US\$95.7 million (31st December 2020: US\$100.5 million).

During the year ended 31st December 2021, the Group took possession of collateral amounting to US\$4.0 million (31st December 2020: nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTSFor the year ended 31st December 2021**13 Other assets**

	31.12.21	31.12.20
	US\$ millions	US\$ millions
Derivative financial instruments	295.2	409.1
Accrued interest, fees and commissions	108.9	113.1
Premises and equipment	66.6	69.5
Right-of-use assets	81.7	89.8
Prepayments	25.3	42.7
Deferred items	44.3	27.5
Pension asset	46.3	14.2
Other, including accounts receivable	49.9	61.6
	718.2	827.5

Derivative financial instruments represent the positive fair values of derivative financial instruments entered into for trading purposes, or designated as fair value hedges. An analysis of the fair value of derivative financial instruments is set out in note 34.4.

Below are the carrying amounts of the Group's right-of-use assets and movements during the year recognised in the consolidated statement of financial position and consolidated statement of income:

	31.12.21	31.12.20
	US\$ millions	US\$ millions
At 1st January	89.8	64.2
New / (terminated) leases - net	2.6	35.4
Depreciation	(9.5)	(9.8)
Others (including foreign exchange movements)	(1.2)	-
At 31st December	81.7	89.8

14 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 2021 amounted to US\$ 14.1 million (2020: US\$14.3 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 202114 **Post retirement benefits** (continued)14.1 **Gulf International Bank (UK) Limited (GIBUK)**

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

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

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

	31.12.21 US\$ millions	31.12.20 US\$ millions
Fair value of plan assets	249.1	222.8
Present value of fund obligations	(202.8)	(208.6)
Net asset in the consolidated statement of financial position	46.3	14.2

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:**

	31.12.21 US\$ millions	31.12.20 US\$ millions
At 1st January	222.8	206.3
Included in the consolidated statement of income:-		
- Interest income on the plan assets	2.8	3.9
Included in the consolidated statement of other comprehensive income:-		
- Remeasurements:-		
- Return on plan assets excluding interest income	26.6	9.5
Other movements:-		
- Exchange rate movements	2.3	7.9
- Contributions paid by the participant		
- Contributions paid by the Group	0.4	4.2
- Benefits paid by the plan	(5.8)	(9.0)
At 31st December	249.1	222.8

The plan assets at 31st December 2021 comprised 33% (2020: 37%) exposure to equities and 25% (2020: 27%) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTSFor the year ended 31st December 2021**14 Post retirement benefits** (continued)**14.1 Gulf International Bank (UK) Limited (GIBUK)** (continued)**c) The movements in the present value of fund obligations were as follows:**

	31.12.21	31.12.20
	US\$ millions	US\$ millions
At 1st January	208.6	210.9
Included in the consolidated statement of income:-		
- Current service cost	0.6	0.5
- Interest cost on the fund obligations	2.8	4.0
Included in the consolidated statement of other comprehensive income:-		
- Remeasurements due to changed actuarial assumptions:-		
- Past service cost	-	(0.6)
- Financial assumptions	(13.3)	23.3
- Demographic assumptions	0.2	0.9
- Experience	7.7	(27.5)
Other movements:-		
- Exchange rate movements	2.0	6.1
- Contributions paid by the participant	-	-
- Benefits paid by the plan	(5.8)	(9.0)
At 31st December	202.8	208.6

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

	31.12.21	31.12.20
	US\$ millions	US\$ millions
At 1st January	14.2	(4.6)
Net expense included in consolidated statement of income	(0.6)	(0.5)
Remeasurement included in consolidated statement of comprehensive income	32.0	15.2
Contributions paid by the Group	0.4	4.2
Exchange rate movements	0.3	(0.1)
At 31st December	46.3	14.2

The Group paid US\$0.4 million in contributions to the plan during 2021 and expects to pay US\$0.6 million during 2022.

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

	31.12.21	31.12.20
Discount rate (per cent)	1.9	1.3
Retail price inflation (per cent)	3.4	2.9
Consumer price inflation (per cent)	2.7	2.2
Pension increase rate (per cent)	2.3	2.1
Salary growth rate (per cent)	3.0	3.0
Average life expectancy (years)	90	90

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTSFor the year ended 31st December 2021**14 Post retirement benefits (continued)****14.1 Gulf International Bank (UK) Limited (GIBUK) (continued)****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:-

	31.12.21	31.12.20
	US\$ millions	US\$ millions
Life expectancy increased by 1 year	0.1	0.2
Discount rate decreased by 0.5 per cent	0.1	0.2
Inflation increased by 0.5 per cent	0.1	0.2

14.2 Gulf International Bank - Saudi Arabia (GIB KSA)

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:

	31.12.21	31.12.20
	US\$ millions	US\$ millions
Present value of fund obligations	16.7	15.5
Net liability in the consolidated statement of financial position	16.7	15.5

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 discounted measure of the plan's future obligations over a duration of 11 years for GIB KSA and 10 years for GIB Capital.

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

	31.12.21	31.12.20
	US\$ millions	US\$ millions
At 1st January	15.5	14.6
Included in the consolidated statement of income:-		
- Current service cost	2.9	2.8
- Interest cost on the fund obligations	0.4	0.5
Included in the consolidated statement of other comprehensive income:-		
- Remeasurements due to changed actuarial assumptions:-		
- Financial assumptions	(0.0)	0.1
- Demographic assumptions	(1.1)	-
- Experience	0.9	(0.6)
Other movements:-		
- Benefits paid by the plan	(1.9)	(1.9)
At 31st December	16.7	15.5

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTSFor the year ended 31st December 2021**14 Post retirement benefits** (continued)**14.2 Gulf International Bank - Saudi Arabia (GIB KSA)** (continued)**c) The principal actuarial assumptions used for accounting purposes were as follows:-**

	31.12.21	31.12.20
Discount rate	2.3%	2.4%
Mortality rate	75.0%	75.0%
Salary growth rate	1.9% - 2.3%	2.0%

d) Sensitivity information

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

	31.12.21	31.12.20
	US\$ millions	US\$ millions
Discount rate increased by 0.5 per cent	(0.6)	(0.8)
Discount rate decreased by 0.5 per cent	0.6	0.9
Long term salary increased by 0.5 per cent	0.6	0.8
Long term salary decreased by 0.5 per cent	(0.6)	(0.8)

15 Deposits

The geographical composition of total deposits was as follows:-

	31.12.21	31.12.20
	US\$ millions	US\$ millions
GCC countries	13,994.4	12,673.5
Other Middle East and North Africa countries	953.5	759.7
Other countries	7,038.2	6,853.3
	21,986.1	20,286.5

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 2021, GCC deposits represented 63.6% of total deposits (2020: 62.5%).

16 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 2021, the fair value of investment securities that had been pledged as collateral under repurchase agreements was US\$704.8 million (2020: US\$206.6 million). The collateralised borrowing transactions are conducted under standardised terms that are usual and customary for such transactions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 202117 Other liabilities

	31.12.21	31.12.20
	US\$ millions	US\$ millions
Derivative financial instruments	367.7	636.9
Deferred items	146.5	134.2
Accrued interest	88.1	101.4
Contingent provisions	41.4	56.2
Lease liabilities	91.1	92.8
Pension liabilities	16.7	15.5
Other, including accounts payable and accrued expenses	181.1	170.2
	932.6	1,207.2

Below are the carrying amounts of the Group's lease liabilities and movements during the year recognised in the consolidated statements of financial position and profit or loss:

	31.12.21	31.12.20
	US\$ millions	US\$ millions
At 1st January	92.8	61.2
New / (terminated) leases - net	3.4	34.8
Interest expense	4.3	3.9
Repayments	(9.1)	(9.7)
Others (including foreign exchange movements)	(0.3)	2.6
At 31st December	91.1	92.8

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 34.4.

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 14. Further, details of contingent provisions is set out in note 36.

18 Senior term financing

	Maturity	31.12.21	31.12.20
		US\$ millions	US\$ millions
Floating rate loans	2021 - 2026	3,648.0	2,943.6
Floating rate repurchase agreements	2022 - 2028	322.9	322.9
Floating rate note	2021 - 2025	629.2	1,158.5
Fixed rate note	2025	500.0	499.9
		5,100.1	4,924.9

19 Share capital

	31.12.21	31.12.20
	US\$ millions	US\$ millions
Authorised - 3,000 million shares of US\$ 1 each (2020: 3,000 million shares of US\$ 1 each)	3,000	3,000
Issued and fully paid - 2,500 million shares of US\$ 1 each (2020: 2,500 million shares of US\$ 1 each)	2,500	2,500

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTSFor the year ended 31st December 2021**20 Reserves**

	Share premium	Compulsory reserve	Voluntary reserve	Cash flow hedge reserve	Investment securities revaluation reserve	Defined pension reserve	Deferred tax and other reserve	Total
	US\$ millions	US\$ millions	US\$ millions	US\$ millions	US\$ millions	US\$ millions	US\$ millions	US\$ millions
At 1st January 2021	7.6	230.6	168.1	-	(33.8)	7.9	(1.2)	379.2
Net fair value gains on equity investments classified as FVTOCI	-	-	-	-	3.0	-	-	3.0
Transfers from / to retained earnings	-	3.0	3.0	-	23.4	-	-	29.4
Movement during the period	-	-	-	-	-	32.1	(8.2)	23.9
Net increase / (decrease)	-	3.0	3.0	-	26.4	32.1	(8.2)	56.3
At 31st December 2021	7.6	233.6	171.1	-	(7.4)	40.0	(9.4)	435.5
At 1st January 2020	7.6	230.6	168.1	0.1	(62.9)	(7.5)	-	336.0
Net fair value losses on cash flow hedges	-	-	-	(0.1)	-	-	-	(0.1)
Net fair value gains on equity investments classified as FVTOCI	-	-	-	-	11.4	-	-	11.4
Transfers to retained earnings	-	-	-	-	17.7	-	-	17.7
Movement during the period	-	-	-	-	-	15.4	(1.2)	14.2
Net increase / (decrease)	-	-	-	(0.1)	29.1	15.4	(1.2)	43.2
At 31st December 2020	7.6	230.6	168.1	-	(33.8)	7.9	(1.2)	379.2

Share premium

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

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.

21 Dividends

No dividend is proposed in respect of the financial years ended 31st December 2021 and 31st December 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTSFor the year ended 31st December 2021**22 Net Interest Income**

	Year ended 31.12.21 US\$ millions	Year ended 31.12.20 US\$ millions
Interest income		
Placements and other liquid assets	34.9	91.3
Investment securities	95.4	96.9
Loans and advances	290.3	317.7
Total interest income	420.6	505.9
Interest expense		
Deposits from banks	10.0	35.2
Deposits from customers	59.8	115.0
Securities sold under agreements to repurchase	2.2	6.0
Term financing	102.5	116.9
Total interest expense	174.5	273.1
Net interest income	246.1	232.8

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

Accrued interest on impaired loans included in interest income for the year ended 31st December 2021 amounted to nil (2020: nil).

23 Fee and commission income

	Year ended 31.12.21 US\$ millions	Year ended 31.12.20 US\$ millions
Fee and commission income		
Commissions on letters of credit and guarantee	29.5	28.6
Investment banking and management fees	27.7	21.9
Loan commitment fees	7.7	5.6
Retail banking fees	3.6	1.3
Loan agency and distribution fees	3.6	1.6
Other fee and commission income	4.2	2.9
Total fee and commission income	76.3	61.9
Fee and commission expense	(3.8)	(2.9)
Net fee and commission income	72.5	59.0

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 2021 included fee income relating to the Group's fiduciary activities amounting to US\$ 14.6 million (2020: US\$11.3 million).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTSFor the year ended 31st December 2021**24 Trading Income**

	Year ended 31.12.21 US\$ millions	Year ended 31.12.20 US\$ millions
Equity securities	27.8	(0.2)
Commodity options	3.6	0.8
Interest rate derivatives	3.4	4.7
Managed funds	(2.6)	(19.5)
	32.2	(14.2)

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 expense / 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.

25 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.

26 Other Income

	Year ended 31.12.21 US\$ millions	Year ended 31.12.20 US\$ millions
Recoveries on previously written off assets	20.7	6.5
Dividends on equity investments classified as FVTOCI	4.0	4.9
Net realised gains on investment debt securities	1.7	2.2
Sundry (loss) / income	(1.0)	0.7
	25.4	14.3

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 gains on investment debt securities principally relates to the sale of securities for liquidity management.

Sundry loss for the year ended 31st December 2021 principally comprised a US\$1.3 million loss realised on the sale of a loan which was partially offset by other revenues. The loan was classified as stage 1 for ECL provisioning purposes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTSFor the year ended 31st December 2021**27 Provision for expected credit losses**

31 st December 2021				
	Stage 1	Stage 2	Stage 3	Total
	US\$ millions	US\$ millions	US\$ millions	US\$ millions
Loans and advances (note 12.2)	(10.1)	26.3	41.1	57.3
Investment securities (note 11.1)	0.9	-	-	0.9
Placements (note 9)	0.1	-	-	0.1
Credit-related financial instruments (note 35)	0.9	-	(15.4)	(14.5)
Other assets	0.7	-	-	0.7
	(7.5)	26.3	25.7	44.5

31 st December 2020				
	Stage 1	Stage 2	Stage 3	Total
	US\$ millions	US\$ millions	US\$ millions	US\$ millions
Loans and advances (note 12.2)	30.5	22.7	282.9	336.1
Investment securities (note 11.1)	(1.2)	(0.7)	-	(1.9)
Credit-related financial instruments (note 35)	2.1	0.3	0.8	3.2
Other assets	3.1	-	-	3.1
	34.5	22.3	283.7	340.5

Provision charge for other assets during the years ended 31st December 2021 and 31st December 2020 represented provisions in relation to other receivables.

28 Taxation and zakat

	31.12.21	31.12.20
	US\$ millions	US\$ millions
Consolidated statement of financial position		
Current tax asset	1.0	2.5
Deferred tax asset	9.7	-
	10.7	2.5
Current tax liability	7.3	3.1
Deferred tax liability	11.4	-
	18.7	3.1
	31.12.21	31.12.20
	US\$ millions	US\$ millions
Consolidated statement of income		
Current tax reversal on foreign operations	(7.0)	(4.8)
Zakat expense arising from subsidiary operations	6.6	3.1
	(0.4)	(1.7)

The reversal mainly pertains to GIB UK subsidiary due to realisation of deferred tax asset as a result of surplus in pension assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTSFor the year ended 31st December 2021**29 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.

29.1 Business segments

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

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

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

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

The business segment analysis is as follows:-

	Wholesale banking US\$ millions	Treasury US\$ millions	Asset management and investment banking US\$ millions	Head office and support units US\$ millions	Total US\$ millions
For the year ended 31st December 2021					
Net interest income	170.3	61.9	0.1	13.8	246.1
Total income	233.5	88.7	32.3	40.2	394.7
Segment result	155.8	75.2	9.9	(188.6)	52.3
Taxation charge					0.4
Net income after tax					52.7
At 31st December 2021					
Segment assets	11,575.3	19,493.3	73.9	654.5	31,797.0
Segment liabilities	9,658.5	12,796.9	-	6,248.6	28,704.0
Total equity					3,093.0
Total liabilities and equity					31,797.0

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTSFor the year ended 31st December 2021**29 Segmental information** (continued)**29.1 Business segments** (continued)

	Wholesale banking US\$ millions	Treasury US\$ millions	Asset management and investment banking US\$ millions	Head office and support units US\$ millions	Total US\$ millions
For the year ended 31st December 2020					
Net interest income	115.8	66.9	-	50.1	232.8
Total income	159.7	77.8	13.8	56.4	307.7
Segment result	(238.2)	66.1	(5.1)	(132.5)	(309.7)
Taxation charge					1.7
Net loss after tax					(308.0)
At 31st December 2020					
Segment assets	10,465.5	18,427.8	50.5	662.5	29,606.3
Segment liabilities	4,398.2	15,949.3	-	6,246.3	26,593.8
Total equity					3,012.5
Total liabilities and equity					29,606.3

29.2 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:

	At 31st December 2021		At 31st December 2020	
	Total income US\$ millions	Total assets US\$ millions	Total income US\$ millions	Total assets US\$ millions
GCC	356.6	20,855.7	277.4	18,960.5
Other countries	38.1	10,941.3	30.3	10,645.8
	394.7	31,797.0	307.7	29,606.3

The geographical analyses of deposits and risk assets are set out in notes 15 and 30 respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTSFor the year ended 31st December 2021**30 Risk management**

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

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

30.1 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 STATEMENTSFor the year ended 31st December 2021**30 Risk management** (continued)**30.1 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 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. For corporate exposures, corporate PD estimates are internally derived using the Bank's central default tendency for the Corporate portfolio. For financial institutions and sovereign government exposures, the PDs are based on external rating data of all global financial institutions rated by Standard & Poor's.

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTSFor the year ended 31st December 2021**30 Risk management** (continued)**30.1 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:-

	31.12.21	31.12.20
	US\$ millions	US\$ millions
Balance sheet items:		
Cash and other liquid assets	6,735.6	6,368.9
Securities purchased under agreements to resell	200.0	1,170.0
Placements	6,396.1	5,953.4
Investment securities	5,871.5	4,536.0
Loans and advances	11,657.5	10,489.7
Accrued interest, fees and commissions	108.9	113.1
Total on-balance sheet credit exposure	30,969.6	28,631.1
Off-balance sheet items:		
Credit-related contingent items	6,754.0	5,168.4
Foreign exchange-related items	99.4	44.3
Derivative-related items	432.7	607.1
Equity and commodity contracts	-	10.8
Total off-balance sheet credit exposure	7,286.1	5,830.6
Total gross credit exposure	38,255.7	34,461.7

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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2021

30 Risk management (continued)

30.1 Credit risk (continued)

b) Credit risk profile (continued)

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	-
			31.12.21
	Placements, reverse repos & other liquid assets	Loans and advances	Credit-related contingent items
	US\$ millions	US\$ millions	US\$ millions
Stage 1			
Rating grades 1 to 4-	13,204.3	5,424.3	7,324.3
Rating grades 5+ to 5-	126.7	447.2	2,666.9
Rating grades 6+ to 6-	0.7	-	387.5
Carrying amount (net)	13,331.7	5,871.5	10,378.7
Stage 2			
Rating grades 4 to 4-	-	-	216.8
Rating grades 5+ to 5-	-	-	375.9
Rating grades 6+ to 6-	-	-	488.3
Rating grade 7	-	-	65.8
Carrying amount (net)	-	-	1,146.8
Stage 3			
Rating grade 8	-	-	82.5
Rating grade 9	-	-	49.5
Rating grade 10	-	-	-
Carrying amount (net)	-	-	132.0
Other credit risk exposures			
Performance bonds	-	-	-
Carrying amount	-	-	-
	13,331.7	5,871.5	11,657.5

The above on-balance sheet exposures analysis is reported net of the following provisions for impairment, whereas provisions for off-balance sheet items are recorded in other liabilities:

Stage 1	(0.1)	(3.3)	(45.8)	(6.1)
Stage 2	-	-	(82.9)	(2.5)
Stage 3	-	-	(166.4)	(32.9)
Total	(0.1)	(3.3)	(295.1)	(41.5)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTSFor the year ended 31st December 2021**30 Risk management** (continued)**30.1 Credit risk** (continued)**b) Credit risk profile** (continued)

	Placements, reverse repos & other liquid assets US\$ millions	Securities US\$ millions	Loans and advances US\$ millions	31.12.20 Credit- related contingent items US\$ millions
Stage 1 (12-month ECL)				
Rating grades 1 to 4-	13,311.2	4,046.0	5,908.7	2,966.2
Rating grades 5+ to 5-	178.1	490.0	3,112.5	584.0
Rating grades 6+ to 6-	3.0	-	167.1	114.0
Carrying amount (net)	13,492.3	4,536.0	9,188.3	3,664.2
Stage 2 (Lifetime ECL but not credit-impaired)				
Rating grade 4-	-	-	248.8	42.4
Rating grades 5+ to 5-	-	-	526.1	197.3
Rating grades 6+ to 6-	-	-	317.4	87.6
Rating grade 7	-	-	27.8	5.4
Carrying amount (net)	-	-	1,120.1	332.7
Stage 3 (Lifetime ECL and credit-impaired)				
Rating grades 6+ to 6-	-	-	-	-
Rating grade 7	-	-	-	-
Rating grade 8	-	-	181.3	19.9
Rating grade 9	-	-	-	20.8
Rating grade 10	-	-	-	27.6
Carrying amount (net)	-	-	181.3	68.3
Other credit risk exposures				
Performance bonds	-	-	-	1,103.2
Carrying amount	-	-	-	1,103.2
	13,492.3	4,536.0	10,489.7	5,168.4

The above analysis is reported net of the following provisions for expected credit losses:

Stage 1	-	(2.4)	(59.4)	(5.3)
Stage 2	-	-	(40.0)	(3.0)
Stage 3	-	-	(182.2)	(47.9)
Total	-	(2.4)	(281.6)	(56.2)

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 2021 or 31st December 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTSFor the year ended 31st December 2021**30 Risk management** (continued)**30.1 Credit risk** (continued)**b) Credit risk profile** (continued)

The Group held collateral amounting to US\$164.3 million that was considered as a credit enhancement and hence reduced the ECL of stage 3 financial assets at 31st December 2021 (2020: US\$178.8 million).

An analysis of the credit risk in respect of foreign exchange and derivative financial instruments is set out in note 34 while the notional and risk-weighted exposures for off-balance sheet credit-related financial instruments are set out in note 35.

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 12.3. The geographical distribution of risk assets is set out in note 31. An analysis of the credit risk in respect of foreign exchange and derivative financial instruments is set out in note 34.

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.

30.2 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 10. An analysis of derivative financial instruments, including the VaR of foreign exchange and derivative trading contracts, is set out in note 34.

Managing interest rate benchmark reform and associated risks overview

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTSFor the year ended 31st December 2021**30 Risk management (continued)****30.2 Market risk (continued)****a) Trading market risk (continued)**

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

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

Derivatives

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

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

	Non-derivative financial assets - carrying value US\$ million	Non-derivative financial liabilities -carrying value US\$ million	Derivatives - nominal amount US\$ million
31 December 2021			
IBOR	-	-	10.8
LIBOR	4,563.7	2,902.5	17,288.4
Cross currency swaps LIBOR (to IBOR)	-	-	566.1
	Non-derivative financial assets - carrying value US\$ million	Non-derivative financial liabilities -carrying value US\$ million	Derivatives - nominal amount US\$ million
31 December 2020			
IBOR	-	-	14.6
LIBOR	2,096.2	1,175.6	12,680.3
Cross currency swaps LIBOR (to IBOR)	-	-	118.2

Hedge accounting

The specific impact on the Group's hedging activities is being carefully managed as part of the overall project to achieve IBOR reform. These benchmark rates are quoted each day and the IBOR cash flows are exchanged with counterparties as usual.

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

	Derivatives - nominal amount US\$ million	31.12.21 Average maturity (in years)	Derivatives - nominal amount US\$ million	31.12.20 Average maturity (in years)
Interest rate swaps				
IBOR	10.8	1.0	14.6	4.0
LIBOR	4,330.5	4.0	2,804.0	3.9
Cross currency swaps LIBOR to IBOR	473.3	1.6	40.0	3.5

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTSFor the year ended 31st December 2021**30 Risk management** (continued)**30.2 Market risk** (continued)**a) Trading market risk** (continued)

The VaR for the Group's trading positions was as follows:

	31.12.21	Average	High	2021 Low	31.12.20	Average	High	2020 Low
	US\$ millions	US\$ millions	US\$ millions	US\$ millions	US\$ millions	US\$ millions	US\$ millions	US\$ millions
Total VaR	0.9	1.5	3.3	0.3	2.9	4.6	5.8	2.5
Total stressed VaR	-	-	-	-	4.3	7.2	8.2	4.3

Effective 30th June 2021, all the Group entities compute the regulatory capital for general market risk based on the standardised approach (2020: Internal models approach).

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 33. 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 34.5. Movements in the fair value of equity investment securities are accounted for in other comprehensive income. At 31st December 2021, a 5.0% change in the market price of equity investments accounted for at FVTOCI would have resulted in an increase/decrease in equity of US\$4.9 million (2020: US\$7.7 million).

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

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

30.3 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTSFor the year ended 31st December 2021**30 Risk management** (continued)**30.3 Liquidity risk** (continued)

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.

The Group is also required to comply with Basel 3 liquidity ratio requirements as stipulated by its lead regulator, the Central Bank of Bahrain (CBB), which became effective during 2019. These requirements relate to maintaining a minimum 100% liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) which was revised down to 80% until 31st December 2021 and extended to 30th June 2022. 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 2021, the Group's LCR and NSFR were 176.3% and 146.2% respectively, (31st December 2020: 155.2% and 156.0% respectively).

The maturity profile of assets and liabilities is set out in note 32. An analysis of debt investment securities by rating classification is set out in note 30.1.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2021

30 Risk management (continued)

30.3 Liquidity risk (continued)

	No specified maturity	Within 6 months	6 months to 1 year	Over 1 year	Total unweighted value	Total weighted value
	US\$ millions	US\$ millions	US\$ millions	US\$ millions	US\$ millions	US\$ millions
At 31st December 2021						
Available Stable Funding (ASF):						
Capital:						
Regulatory Capital	2,441.2	-	-	-	2,441.2	2,441.2
Other Capital Instruments	651.8	-	-	-	651.8	651.8
Retail deposits and deposits from small business customers:						
Stable deposits	-	-	-	-	-	-
Less stable deposits	147.2	660.4	7.1	-	814.8	733.3
Wholesale funding:						
Operational deposits	-	-	-	-	-	-
Other wholesale funding	8,732.5	10,975.0	3,142.8	4,078.0	26,928.3	12,906.8
Other liabilities:						
NSFR derivative liabilities	-	-	-	-	-	-
All other liabilities not included in the above categories	-	-	-	-	-	-
Total ASF						16,733.1
Total NSFR high-quality liquid assets (HQLA)						
	-	-	-	-	-	803.9
Deposits held at other financial institutions for operational purposes						
	-	-	-	-	-	-
Performing loans and securities:						
Performing loans to financial institutions secured by Level 1 HQLA	-	-	-	-	-	-
Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	1,323.8	3,548.1	501.8	147.0	4,196.9	1,128.7
Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which:	-	5,244.3	1,207.7	4,510.6	10,962.7	7,060.1
- With a risk weight of less than or equal to 35% as per the CBB Capital Adequacy Ratio guidelines	-	-	-	820.7	820.7	533.5
Performing residential mortgages, of which:	-	-	-	-	-	-
- With a risk weight of less than or equal to 35% under the CBB Capital Adequacy Ratio Guidelines	-	-	-	-	-	-
Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	-	9.6	102.4	62.7	174.7	116.6
Other assets:						
Physical traded commodities, including gold	-	-	-	-	-	-
Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs	-	133.2	-	-	133.2	113.2
NSFR derivative assets	-	82.9	-	-	82.9	83.0
NSFR derivative liabilities before deduction of variation margin posted	-	67.0	-	-	67.0	67.0
All other assets not included in the above categories	1,101.4	-	-	-	1,101.4	1,101.0
OBS items	-	2,590.7	1,849.6	4,246.0	8,686.3	434.3
Total Required Stable Funds (RSF)						11,441.3
NSFR (%)						146%

At 31st December 2020

NSFR (%)

156%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTSFor the year ended 31st December 2021**30 Risk management** (continued)**30.4 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.

30.5 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 37, 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 2021 and 31st December 2020.

There have been no material changes in the Group's management of capital during the years ended 31st December 2021 and 31st December 2020.

The capital adequacy ratio calculation is set out in note 37.

For the year ended 31st December 2021

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

					31.12.21
	Placements, reverse repos & other liquid assets	Securities	Loans and advances	Credit- related contingent items	Total
	US\$ millions	US\$ millions	US\$ millions	US\$ millions	US\$ millions
GCC	3,126.8	4,355.0	11,158.1	5,867.7	24,507.6
Other Middle East & North Africa	0.1	-	257.4	118.1	375.6
Europe	7,618.2	344.4	24.7	154.4	8,141.7
North America	1,719.4	411.0	132.4	286.9	2,549.7
Asia (excluding GCC)	867.2	979.2	84.9	326.9	2,258.2
	13,331.7	6,089.6	11,657.5	6,754.0	37,832.8
					31.12.20
	Placements, reverse repos & other liquid assets	Securities	Loans and advances	Credit- related contingent items	Total
	US\$ millions	US\$ millions	US\$ millions	US\$ millions	US\$ millions
GCC	3,780.3	3,821.4	10,216.6	4,636.5	22,454.8
Other Middle East & North Africa	0.1	-	105.4	24.4	129.9
Europe	8,014.3	281.0	-	146.7	8,442.0
North America	1,285.4	439.5	153.7	290.9	2,169.5
Asia (excluding GCC)	412.2	254.9	14.0	69.9	751.0
	13,492.3	4,796.8	10,489.7	5,168.4	33,947.2

At 31st December 2021, on-balance sheet risk exposures to customers and counterparties in the GCC represented 60.0% (2020: 61.8%) 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 34.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 202132 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 US\$ millions	4 months to 1 year US\$ millions	Years 2 and 3 US\$ millions	Years 4 and 5 US\$ millions	Over 5 years and undated US\$ millions	Total US\$ millions
At 31st December 2021						
Cash and other liquid assets	6,735.6	-	-	-	-	6,735.6
Securities purchased under agreements to resell	200.0	-	-	-	-	200.0
Placements	4,311.1	1,742.8	342.2	-	-	6,396.1
Trading securities	-	-	-	-	121.1	121.1
Investment securities	419.2	1,179.8	1,215.8	668.4	2,485.3	5,968.5
Loans and advances	4,515.2	2,040.2	2,565.0	1,689.1	848.0	11,657.5
Other assets	241.5	171.2	-	-	305.5	718.2
Total assets	16,422.6	5,134.0	4,123.0	2,357.5	3,759.9	31,797.0
Deposits	16,426.7	5,548.0	11.4	-	-	21,986.1
Securities sold under agreements to repurchase	349.2	-	336.0	-	-	685.2
Other liabilities	279.2	200.2	-	-	453.2	932.6
Term financing	632.0	747.2	2,025.6	1,600.8	94.5	5,100.1
Equity	-	-	-	-	3,093.0	3,093.0
Total liabilities and equity	17,687.1	6,495.4	2,373.0	1,600.8	3,640.7	31,797.0
At 31st December 2020						
Cash and other liquid assets	6,368.9	-	-	-	-	6,368.9
Securities purchased under agreements to resell	740.0	430.0	-	-	-	1,170.0
Placements	4,344.3	1,239.5	367.8	1.8	-	5,953.4
Trading securities	-	-	-	-	107.0	107.0
Investment securities	239.8	155.8	847.2	658.9	2,788.1	4,689.8
Loans and advances	4,529.1	1,720.2	1,945.0	1,396.4	899.0	10,489.7
Other assets	467.6	36.1	28.6	18.3	276.9	827.5
Total assets	16,689.7	3,581.6	3,188.6	2,075.4	4,071.0	29,606.3
Deposits	17,821.3	2,373.0	92.2	-	-	20,286.5
Securities sold under agreements to repurchase	175.2	-	-	-	-	175.2
Other liabilities	618.0	44.3	43.6	27.8	473.5	1,207.2
Term financing	4.2	1,329.7	1,881.4	1,435.1	274.5	4,924.9
Equity	-	-	-	-	3,012.5	3,012.5
Total liabilities and equity	18,618.7	3,747.0	2,017.2	1,462.9	3,760.5	29,606.3

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTSFor the year ended 31st December 2021**32 Maturities of assets and liabilities** (continued)

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted repayment obligations:

	Within 3 months US\$ millions	4 months to 1 year US\$ millions	Years 2 and 3 US\$ millions	Years 4 and 5 US\$ millions	Over 5 years and undated US\$ millions
At 31st December 2021					
Deposits	16,462.9	5,588.1	11.4	-	-
Securities sold under agreements to repurchase	349.3	-	336.0	-	-
Term financing	652.5	771.4	2,091.3	1,652.7	97.6
Derivative financial instruments					
- contractual amounts payable	38.2	208.2	428.2	311.5	298.4
- contractual amounts receivable	(80.1)	(125.2)	(209.1)	(133.4)	(172.7)
Total undiscounted financial liabilities	17,422.8	6,442.5	2,657.8	1,830.8	223.3
	Within 3 months US\$ millions	4 months to 1 year US\$ millions	Years 2 and 3 US\$ millions	Years 4 and 5 US\$ millions	Over 5 years and undated US\$ millions
At 31st December 2020					
Deposits	17,850.7	2,411.0	92.4	-	-
Securities sold under agreements to repurchase	175.2	3.1	-	-	-
Term financing	4.5	1,419.5	2,008.5	1,532.1	293.0
Derivative financial instruments					
- contractual amounts payable	6.5	135.0	326.2	226.7	292.6
- contractual amounts receivable	(40.3)	(94.5)	(127.3)	(51.1)	(95.6)
Total undiscounted financial liabilities	17,996.6	3,874.1	2,299.8	1,707.7	490.0

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 34.3.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTSFor the year ended 31st December 2021**33 Interest rate risk**

The repricing profile of assets and liabilities categories and equity were as follows:-

	Within 3 months US\$ millions	Months 4 to 6 US\$ millions	Months 7 to 12 US\$ millions	Over 1 year US\$ millions	Non-Interest bearing items US\$ millions	Total US\$ millions
At 31st December 2021						
Cash and other liquid assets	6,728.1	-	-	-	7.5	6,735.6
Securities purchased under agreements to resell	200.0	-	-	-	-	200.0
Placements	4,653.2	1,219.8	523.1	-	-	6,396.1
Trading securities	-	-	-	-	121.1	121.1
Investment securities						
- Fixed rate	387.5	336.3	438.9	1,272.3	-	2,435.0
- Floating rate	3,178.7	160.1	13.3	-	84.4	3,436.5
- Equities	-	-	-	-	97.0	97.0
Loans and advances	9,887.2	1,653.7	116.6	-	-	11,657.5
Other assets	-	-	-	-	718.2	718.2
Total assets	25,034.7	3,369.9	1,091.9	1,272.3	1,028.2	31,797.0
Deposits	15,636.6	2,940.6	2,065.9	79.1	1,263.9	21,986.1
Securities sold under agreements to repurchase	349.2	-	-	336.0	-	685.2
Other liabilities	-	-	-	-	932.6	932.6
Term financing	4,558.6	-	-	541.5	-	5,100.1
Equity	-	-	-	-	3,093.0	3,093.0
Total liabilities & equity	20,544.4	2,940.6	2,065.9	956.6	5,289.5	31,797.0
Interest rate sensitivity gap	4,490.3	429.3	(974.0)	315.7	(4,261.3)	-
Cumulative Interest rate sensitivity gap	4,490.3	4,919.6	3,945.6	4,261.3	-	-
At 31st December 2020						
Cash and other liquid assets	6,358.1	-	-	-	10.8	6,368.9
Securities purchased under agreements to resell	740.0	430.0	-	-	-	1,170.0
Placements	4,713.9	911.3	328.2	-	-	5,953.4
Trading securities	-	-	-	-	107.0	107.0
Investment securities						
- Fixed rate	154.8	66.9	58.7	683.5	-	963.9
- Floating rate	3,179.2	155.9	-	-	237.0	3,572.1
- Equities	-	-	-	-	153.8	153.8
Loans and advances	8,904.6	1,548.5	36.6	-	-	10,489.7
Other assets	-	-	-	-	827.5	827.5
Total assets	24,050.6	3,112.6	423.5	683.5	1,336.1	29,606.3
Deposits	18,900.3	1,229.7	79.4	77.1	-	20,286.5
Securities sold under agreements to repurchase	175.2	-	-	-	-	175.2
Other liabilities	-	-	-	-	1,207.2	1,207.2
Term financing	4,924.9	-	-	-	-	4,924.9
Equity	-	-	-	-	3,012.5	3,012.5
Total liabilities & equity	24,000.4	1,229.7	79.4	77.1	4,219.7	29,606.3
Interest rate sensitivity gap	50.2	1,882.9	344.1	606.4	(2,883.6)	-
Cumulative Interest rate sensitivity gap	50.2	1,933.1	2,277.2	2,883.6	-	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTSFor the year ended 31st December 2021**33 Interest rate risk (continued)**

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 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 2021, the modified duration of these fixed rate securities was 3.52 (31st December 2020: 3.77). Modified duration represents the approximate percentage change in the portfolio value resulting from a 100 basis point change in yield. More precisely in dollar terms, the price value of a basis point of the fixed rate securities was US\$461,618 (31st December 2020: US\$266,000).

Based on the repricing profile at 31st December 2021, 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\$34.2 million (31st December 2020: US\$31.9 million) and an increase in the Group's equity by US\$16.8 million (31st December 2020: US\$19.1 million). The impact on the Group's equity represents the cumulative effect of the increase in interest rates over the entire duration of the mismatches in the repricing profile of the interest rate sensitive financial assets and liabilities.

The Value-at-Risk by risk class for the Group's trading positions is set out in note 30. The market risk relating to derivative and foreign exchange instruments classified as FVTPL is set out in note 34.

34 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 202134 Derivatives and foreign exchange instruments (continued)

34.1 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 2021				
Foreign exchange contracts:				
Unmatured spot, forward and futures contracts	9,510.1	-	9,510.1	99.4
Options purchased	37.7	-	37.7	-
Options written	37.7	-	37.7	-
	9,585.5	-	9,585.5	99.4
Interest rate contracts:				
Interest rate swaps	11,410.9	5,752.9	17,163.8	255.6
Cross currency swaps	138.2	-	138.2	4.4
Futures	-	53.9	53.9	-
Options, caps and floors purchased	2,684.8	-	2,684.8	172.7
Options, caps and floors written	2,684.8	-	2,684.8	-
	16,918.7	5,806.8	22,725.5	432.7
Equity and commodity contracts:				
Options and swaps purchased	-	-	-	-
Options and swaps written	-	-	-	-
	-	-	-	-
	26,504.2	5,806.8	32,311.0	532.1
At 31st December 2020				
Foreign exchange contracts:				
Unmatured spot, forward and futures contracts	4,200.0	-	4,200.0	44.3
Options purchased	25.8	-	25.8	-
Options written	25.8	-	25.8	-
	4,251.6	-	4,251.6	44.3
Interest rate contracts:				
Interest rate swaps	7,344.2	11,466.9	18,811.1	308.6
Cross currency swaps	81.1	-	81.1	9.6
Futures	-	27.4	27.4	-
Options, caps and floors purchased	2,148.7	-	2,148.7	288.9
Options, caps and floors written	2,148.7	-	2,148.7	-
	11,722.7	11,494.3	23,217.0	607.1
Equity and commodity contracts:				
Options and swaps purchased	200.8	-	200.8	10.8
Options and swaps written	200.8	-	200.8	-
	401.6	-	401.6	10.8
	16,375.9	11,494.3	27,870.2	662.2

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

At 31st December 2021, the Value-at-Risk of the foreign exchange, interest rate and equity trading contracts analysed in the table above was US\$0.3 million; US\$0.1 million and US\$0.5 million respectively (2020: US\$0.3 million, US\$0.1 million and US\$0.1 million 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2021

34 Derivatives and foreign exchange instruments (continued)

34.2 Counterparty analysis

	Financial sector US\$ millions	Corporates US\$ millions	31.12.21 Total US\$ millions	31.12.20 Total US\$ millions
OECD countries	219.3	9.8	229.1	300.4
GCC countries	107.2	195.3	302.5	360.6
Other countries	0.5	-	0.5	1.2
	327.0	205.1	532.1	662.2

34.3 Maturity analysis

At 31st December 2021

Foreign exchange contracts
Interest rate contracts

	Year 1 US\$ millions	Years 2 & 3 US\$ millions	Years 4 & 5 US\$ millions	Over 5 years US\$ millions	Total US\$ millions
Foreign exchange contracts	9,548.8	36.7	-	-	9,585.5
Interest rate contracts	2,543.0	4,880.4	4,754.5	10,547.6	22,725.5
	12,091.8	4,917.1	4,754.5	10,547.6	32,311.0

At 31st December 2020

Foreign exchange contracts
Interest rate contracts
Equity and commodity contracts

	Year 1 US\$ millions	Years 2 & 3 US\$ millions	Years 4 & 5 US\$ millions	Over 5 years US\$ millions	Total US\$ millions
Foreign exchange contracts	4,251.6	-	-	-	4,251.6
Interest rate contracts	7,811.4	4,496.3	1,646.1	9,263.2	23,217.0
Equity and commodity contracts	23.5	134.8	243.3	-	401.6
	12,086.5	4,631.1	1,889.4	9,263.2	27,870.2

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.

34.4 Fair value analysis

	Positive fair value US\$ millions	31.12.21 Negative fair value US\$ millions	Positive fair value US\$ millions	31.12.20 Negative fair value US\$ millions
Derivatives held for trading:				
Foreign exchange contracts	5.9	(5.6)	0.9	(1.1)
Interest rate contracts	287.9	(276.3)	388.9	(376.4)
Equity and commodity contracts	-	-	19.3	(18.6)
	293.8	(281.9)	409.1	(396.1)
Derivatives held as fair value hedges:				
Interest rate contracts	1.4	(85.8)	-	(240.8)
Amount included in other assets / (other liabilities)	295.2	(367.7)	409.1	(636.9)

The movement in the fair value of derivatives held as fair value hedges, from a negative fair value of US\$240.8 million at 31st December 2020 to a negative fair value of US\$85.8 million at 31st December 2021, was principally due to movement in market benchmark interest rates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTSFor the year ended 31st December 2021**34 Derivatives and foreign exchange instruments** (continued)**34.5 Significant net open positions**

There were no significant derivative trading or foreign currency net open positions at either 31st December 2021 or at 31st December 2020.

34.6 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 30.1 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 2021					
Fixed rate asset products	310.4	787.2	882.4	1,813.0	3,793.0
Fixed rate liability products	1,913.8	-	100.0	-	2,013.8
At 31st December 2020					
Fixed rate asset products	2,036.1	677.1	603.6	2,225.6	5,542.4
Fixed rate liability products	4,841.8	1,070.1	40.0	-	5,951.9

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

	2021	2020
	US\$ millions	US\$ millions
Net gain / (loss) on derivatives fair value hedging instruments	131.9	(156.8)
Net (loss) / gain on hedged items attributable to the hedged risk	(131.9)	156.8

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTSFor the year ended 31st December 2021**34 Derivatives and foreign exchange instruments** (continued)**34.6 Hedge accounting** (continued)

The notional amount, fair values, and changes in fair values of hedging instruments for the year ended 31st December 2021 used as the basis for recognising hedge ineffectiveness were as follows:-

	Notional amount US\$ millions	Fair value US\$ millions	Changes in fair value US\$ millions
At 31st December 2021			
Financial assets			
Interest rate contracts	1,296.7	6.0	(25.4)
Financial liabilities			
Interest rate contracts	4,510.1	(94.8)	157.3
	5,806.8	(88.8)	131.9
At 31st December 2020			
Financial assets			
Interest rate contracts	4,382.8	31.4	17.9
Financial liabilities			
Interest rate contracts	7,111.5	(252.1)	(174.7)
	11,494.3	(220.7)	(156.8)

The carrying amount, accumulative changes in fair values, and changes in fair values of hedging instruments for the years ended 31st December 2021 and 31st December 2020 used as the basis for recognising hedge ineffectiveness were as follows:

	Notional amount US\$ millions	Fair value US\$ millions	Changes in fair value US\$ millions
At 31st December 2021			
Financial assets			
Placements and securities purchased under agreement to resell	383.2	(0.2)	(3.9)
Loans and advances	211.9	3.6	(7.5)
Investment securities	3,024.7	88.2	(148.8)
	3,619.8	91.6	(160.2)
Financial liabilities			
Deposits and securities sold under agreement to repurchase	981.2	0.7	1.0
Senior term financing	1,205.8	(3.5)	27.3
	2,187.0	(2.8)	28.3
	5,806.8	88.8	(131.9)
At 31st December 2020			
Financial assets			
Placements and securities purchased under agreement to resell	2,258.0	3.7	137.2
Loans and advances	369.6	11.1	9.4
Investment securities	2,914.9	237.0	167.7
	5,542.5	251.8	314.3
Financial liabilities			
Deposits and securities sold under agreement to repurchase	4,295.6	(0.3)	(126.7)
Senior term financing	1,656.2	(30.8)	(30.8)
	5,951.8	(31.1)	(157.5)
	11,494.3	220.7	156.8

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 2021 or 31st December 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTSFor the year ended 31st December 2021**35 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:-

	31.12.21		31.12.20	
	Notional principal amount	Risk- weighted exposure	Notional principal amount	Risk- weighted exposure
	US\$ millions	US\$ millions	US\$ millions	US\$ millions
Direct credit substitutes	542.5	523.5	609.5	596.8
Transaction-related contingent items	2,637.7	1,092.8	2,263.2	869.8
Short-term self-liquidating trade-related contingent items	977.3	193.6	538.4	104.4
Commitments, including undrawn loan commitments and underwriting commitments under note issuance and revolving facilities	2,596.5	1,058.1	1,757.3	763.9
	6,754.0	2,868.0	5,168.4	2,334.9

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 2021, the Group held cash collateral, guarantees, counter-indemnities or other high quality collateral in relation to credit-related contingent items amounting to US\$426.4 million (2020: US\$378.2 million).

Direct credit substitutes at 31st December 2021 included financial guarantees amounting to US\$333.3 million (2020: US\$286.6 million). Financial guarantees may be called on demand.

Provisions in relation to credit-related financial instruments at 31st December 2021 amounted to US\$ 41.5 million (2020: US\$56.2 million). The movement in the provisions for expected credit losses during the year is as follows:-

	31st December 2021				31st December 2020			
	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 1 st January	5.3	3.0	47.9	56.2	3.2	3.4	46.5	53.1
Transfer to stage 1	-	-	-	-	0.2	(0.2)	-	-
Transfer to stage 2	(0.1)	0.1	-	-	(0.2)	0.2	-	-
Transfer to stage 3	-	(0.6)	0.6	-	-	(0.7)	0.7	-
Exchange rate movements	-	-	(0.2)	(0.2)	-	-	(0.1)	(0.1)
Net remeasurement of ECL allowance	0.9	-	(15.4)	(14.5)	2.1	0.3	0.8	3.2
At 31 st December	6.1	2.5	32.9	41.5	5.3	3.0	47.9	56.2

36 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTSFor the year ended 31st December 2021**37 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 2021 and 31st December 2020.

	31.12.21 US\$ millions	31.12.20 US\$ millions
Regulatory capital base		
CET 1	2,441.4	2,531.3
Total Tier 1 capital	2,441.4	2,531.3
Tier 2 capital	379.2	110.4
Total capital base	2,820.6	2,641.7
Risk-weighted exposure		
Credit risk-weighted exposure	16,481.9	14,372.1
Market risk-weighted exposure	292.6	292.0
Operational risk-weighted exposure	723.2	729.6
Total risk-weighted exposure	17,497.6	15,393.7
Tier 1 risk asset ratio	14.0%	16.4%
Total risk asset ratio	16.1%	17.2%

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 standardised approach with effect from 30th June 2021. 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 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.

38 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 2021 was US\$14,224.3 million (2020: US\$13,824.1 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 maximum exposure to loss is equal to the carrying amount of the investment in the funds, which at 31st December 2021 amounted to US\$68.1 million (2020: US\$82.9 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2021

39 Related party transactions

The Group enters into transactions with major shareholders, senior management and companies which are controlled, jointly controlled or significantly influenced by such parties in the ordinary course of business at arm's length. All the loans and advances to related parties are performing and are subject to ECL assessments.

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

	Shareholders	Affiliates	Senior Management	Total
	US\$ millions	US\$ millions	US\$ millions	US\$ millions
As at 31 December 2021				
Cash and other liquid assets	-	2.1	-	2.1
Placements	-	800.8	-	800.8
Investment securities	-	424.1	-	424.1
Loans and advances	-	975.4	10.0	985.4
Other assets	0.1	59.7	-	59.8
Deposits	1,859.9	2,966.6	5.5	4,832.0
Other liabilities	-	122.7	-	122.7
Senior term financing	-	1,077.9	-	1,077.9
Commitments and contingent liabilities	-	1,207.1	0.4	1,207.5

For the year ended 31 December 2021

Net interest expense	(7.3)	(5.5)	-	(12.8)
Fee and commission income	0.2	2.3	-	2.5
Trading loss	-	(1.6)	-	(1.6)
Other income	-	3.1	-	3.1
Short term employee benefits	-	-	20.9	20.9
Post-employment benefits	-	-	1.2	1.2
Directors' fees and related expenses	-	-	3.5	3.5

	Shareholders	Affiliates	Senior Management	Total
	US\$ millions	US\$ millions	US\$ millions	US\$ millions
As at 31 December 2020				
Cash and other liquid assets	-	80.1	-	80.1
Placements	-	801.1	-	801.1
Investment securities	-	398.2	-	398.2
Loans and advances	-	440.7	9.1	449.8
Other assets	0.1	65.8	-	65.9
Deposits	1,864.3	1,936.5	2.8	3,803.6
Other liabilities	0.1	41.3	-	41.4
Senior term financing	-	898.2	-	898.2
Commitments and contingent liabilities	2.9	423.0	0.5	426.4

For the year ended 31 December 2020

Net interest expense	(16.0)	(7.3)	-	(23.3)
Fee and commission income	-	1.4	-	1.4
Trading income	-	11.6	-	11.6
Other income	-	3.1	-	3.1
Short term employee benefits	-	-	18.3	18.3
Post-employment benefits	-	-	1.0	1.0
Directors' fees and related expenses	-	-	2.2	2.2

Senior 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTSFor the year ended 31st December 2021**40 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.

40.1 Trading securities

The fair values of trading securities are based on quoted prices (level 1) or valuation techniques (level 2 or 3).

40.2 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.

40.3 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.

40.4 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 2021 approximate the carrying values.

40.5 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.

40.6 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 other liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December 2021

40 Fair value of financial instruments (continued)

40.7 Valuation basis

The valuation basis for financial assets and financial liabilities carried at fair value was as follows:-

	Quoted prices (level 1) US\$ millions	Valuation based on observable market data (level 2) US\$ millions	Other valuation techniques (level 3) US\$ millions
At 31st December 2021			
Financial assets:			
Trading securities	116.7	4.4	-
Investment securities - equities	78.2	-	18.8
Derivative financial instruments	-	295.2	-
Financial liabilities:			
Derivative financial instruments	-	367.7	-
At 31st December 2020			
Financial assets:			
Trading securities	92.8	14.2	-
Investment securities - equities	130.4	-	23.4
Derivative financial instruments	-	409.1	-
Financial liabilities:			
Derivative financial instruments	-	636.9	-

Financial instruments in level 1

The fair value of financial instruments traded in active markets is based on quoted market prices at the consolidated statement of financial position date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in Level 1.

Financial instruments in level 2

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Transfers between level 1 and level 2

There were no transfers between level 1 and level 2 during the year ended 31 December 2021 (31 December 2020: same).

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.

The movements in the level 3 category is as follows:

	31.12.21 US\$ millions	31.12.20 US\$ millions
At 1st January	23.4	46.7
Purchases	0.9	-
Sales	(3.0)	(1.3)
Transfer into level 3	-	3.8
Transfer from level 3	-	(22.0)
Fair value movement	(2.5)	(3.8)
At 31st December	18.8	23.4

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTSFor the year ended 31st December 2021**41 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.

	31.12.21	31.12.20
Net income / (loss) attributable to shareholders of the Bank (US\$ millions)	37.9	(249.6)
Weighted average number of shares in issue (millions)	2,500	2,500
Basic earnings per share (US cents)	1.52	(9.98)

The diluted earnings per share is equivalent to the basic earnings per share set out above.

42 Principal subsidiaries

The principal subsidiary companies were as follows:-

	<u>Principal activities</u>	<u>Country of Incorporation</u>	<u>Ownership Interest</u>	
			31.12.21	31.12.20
Gulf International Bank - Saudi Arabia C.J.S.C.	Wholesale commercial and retail banking	Saudi Arabia	50%	50%
GIB Capital C.J.S.C.*	Asset management and investment banking	Saudi Arabia	50%	100%
Gulf International Bank (UK) Limited	Asset management and treasury	United Kingdom	100%	100%
GIB Markets Limited	Treasury-related	Cayman Islands	100%	100%
GIB KSA Markets Limited**	Treasury-related	Cayman Islands	50%	-

*GIB Capital C.J.S.C. was transferred to Gulf International Bank - Saudi Arabia C.J.S.C. effective 1st January 2021.

**GIB KSA Markets Limited was incorporated on 6th October 2021.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTSFor the year ended 31st December 2021**43 Non-controlling Interest**

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

	31.12.21	31.12.20
	US\$ millions	US\$ millions
Total assets	10,062.3	8,763.8
Total liabilities	8,167.1	6,882.3
Total equity	1,895.2	1,881.5
Equity attributable to non-controlling interest	947.6	940.7
	31.12.21	31.12.20
	US\$ millions	US\$ millions
Total income	214.1	167.3
Total operating expenses	(163.0)	(140.5)
Provision charge	(15.0)	(140.4)
Zakat charge	(6.6)	(3.1)
Net income / (loss)	29.5	(116.7)
Net income / (loss) attributable to non-controlling interest	14.8	(58.4)
Total comprehensive income	33.2	(119.4)
Total comprehensive income attributable to non-controlling interest	16.6	(59.7)

The difference between the comprehensive income attributable to the non-controlling interest in the summarised statement of comprehensive income in the table above and the non-controlling interest in the consolidated statement of comprehensive income is due to foreign exchange translation on consolidation by the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTSFor the year ended 31st December 2021**44 Average consolidated statement of financial position**

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

	31.12.21 US\$ millions	31.12.20 US\$ millions
ASSETS		
Cash and other liquid assets	7,820.8	7,100.2
Securities purchased under agreements to resell	904.7	1,357.9
Placements	5,803.2	6,563.5
Trading securities	111.5	129.7
Investment securities	5,207.3	4,172.7
Loans and advances	10,945.0	9,781.6
Other assets	742.9	890.3
Total assets	31,535.4	29,995.9
LIABILITIES		
Deposits from banks	743.6	874.2
Deposits from customers	21,395.0	19,964.0
Securities sold under agreements to repurchase	449.4	440.2
Other liabilities	964.1	1,152.0
Senior term financing	4,914.0	4,383.3
Total liabilities	28,466.1	26,813.7
Total equity	3,069.3	3,182.2
Total liabilities & equity	31,535.4	29,995.9

45 Shariah compliant assets and liabilities

The Islamic banking activities of the group are conducted in accordance with Islamic Shari'a principles, as approved by the Shari'a Supervisory Board. The consolidated financial statements extracts relating to these activities are prepared in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), IFRS and Central Bank of Bahrain regulations, as applicable. The principal accounting policies are set out below:

Investments - sukuk (Debt-type instruments at amortised cost)

Debt-type instruments which are managed on a contractual yield basis and are not held for trading and has not been designated at fair value through statement of income are classified as debt-type instruments at amortised cost. Such investments are carried at amortised cost, less provision for impairment in value. Amortised cost is calculated by taking into account any premium or discount on acquisition. Any gain or loss on such investment is recognised in the consolidated statement of income, when the investment is de-recognised or impaired.

Wakala

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

Commodity Murabaha

These are sales transaction agreements for commodities stated net of deferred profits and provision for impairment. The Group considers the promise made in the murabaha to the purchase order as obligatory.

Revenue recognition

Revenue is recognised on the above Islamic products as follows:

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

Income from investments is recognised when earned.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTSFor the year ended 31st December 2021**45 Shariah compliant assets and liabilities (continued)**

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

	31.12.21	31.12.20
	US\$ millions	US\$ millions
ASSETS		
Placements	72.9	80.0
Investment securities	1,189.7	1,236.6
Loans and advances	5,388.6	4,546.4
LIABILITIES		
Deposits from banks and customers	3,966.8	3,165.5
Senior term financing	990.9	1,072.9

The Group reviews its Sharia Compliant assets and liabilities gap on a monthly basis and ensures at all times that there sufficient sharia compliant assets that cover sharia compliant liabilities. The Group does not commingle funds relating to Islamic financial services with funds relating to conventional financial services.

Total provisions at 31st December 2021 of US\$132.3 million (2020: US\$135.8 million) included US\$21.5 million of provisions for stage 1 (2020: US\$5.4 million), US\$18.1 million of provisions for stage 2 (2020: US\$17.0 million) and total specific provisions of US\$92.7 million against non-performing loans (2020: US\$103.4 million).

Income from financing activities

Net income from Islamic financing	60.7	58.7
Fee & Commission income	4.4	3.6
Other income	0.4	0.2

46 Comparatives

The below comparatives have been reclassified in order to conform with the presentation for the current year. Such reclassifications do not affect previously reported profit for the year and total equity of the Group.

	Previously reported 31.12.20	Reclassified 31.12.20	Reclassified 1.1.20
	US\$ millions	US\$ millions	US\$ millions
Statement of financial position			
Cash and other liquid assets	6,571.9	6,368.9	7,917.2
Investment securities	4,486.8	4,689.8	3,996.3
Loans and advances	10,433.5	10,489.7	9,929.2
Total assets	29,550.1	29,606.3	30,294.8
Other liabilities	1,151.0	1,207.2	820.4
Total liabilities	26,537.6	26,593.8	26,998.5

SUPPLEMENTARY DISCLOSURES TO THE CONSOLIDATED FINANCIAL INFORMATION

The Coronavirus (COVID-19) outbreak was declared a pandemic in early March 2020 by the World Health Organization (WHO) and has evolved globally. This has resulted in uncertainties and global economic slowdown. This disruption has negatively impacted capital markets, restricted credit markets and increased liquidity concerns. Various measures have been taken by Authorities to contain the spread of COVID-19 including internal quarantine measures to restrict travel. The pandemic and the related measures had some impact on the Group. The Group has activated its business continuity plan, including enabling 75% of its workforce to work from home using the Group's agile technology infrastructure. The Group's operations has not witnessed any business interruption throughout the pandemic. The Group has also revised its risk management practices to contain the potential business disruption on its operations and financial performance.

The regulators where GIB Group operates, including the Central Bank of Bahrain (CBB), Saudi Central Bank (SAMA) and the Central Bank of UAE (CBUAE), have announced various measures to combat the effects of COVID-19 to ease liquidity conditions and stimulate the economy.

Loans and advances

The Group has implemented various loan modification programs and other forms of support to its customers, including offering loan payment deferrals. As at 31st December 2021, 4 clients have been enrolled by the Bank for deferral of payments over periods ranging from 3-15 months. Aggregate of installment amounts being deferred is US\$ 6.3 million, which amounts to around 0.1% of the gross exposure. More information on the accounting for loan modifications is available in Note 2.3 - Novel Coronavirus ("Covid-19").

Investment securities

The Group maintains a US\$5,968.5 million portfolio of investment securities, of which 98.4% are held at amortised cost. The majority (92.4%) of the debt securities portfolio are investment grade and above, with 74.8% rated A- or higher. There has been no defaults within the portfolio during the year and all repayments have been received on schedule.

Liquidity and Capital Adequacy

The Group has elevated its long-term liquidity levels to pre-empt potential liquidity stress events that could occur as a result of the COVID19. As at 31st December 2021, cash and liquid assets, placements and securities purchased under agreements to resell comprised 41.9% of total assets. The Group's LCR and NSFR ratios were 176.3% and 146.2% respectively compared to the set minimum ratio of 100% as stipulated by the CBB for both, which was revised down to 80% until 30th June 2022.

The Group continues to meet the regulatory requirement of CAR, LCR and NSFR.

The Group's total capital adequacy as of 31st December 2021 is 16.1% (31st December 2020:17.2%).The Group maintains a healthy capital adequacy compared to the set minimum ratio of 12.5% as stipulated by the CBB.

Performance

Although the Group's financial performance has been impacted by the global COVID-19 pandemic. Year-on-year increases were recorded in net interest income (2021: \$246.1 million, 2020: \$232.8 million) representing an increase of 5.7% in net interest income. This increase is attributable to higher interest margins and lower interest expense. The Group has also further augmented its provisions by booking US\$ 45.7 million during the year compared to US\$ 340.5 million in the prior year.

The Group has incurred additional an US\$ 0.3 million of exceptional expenses in support of its operation during the COVID-19 pandemic.

A summary of the financial impact of the regulatory measures at the Group is as follows:

	Net impact on the Group's consolidated income statement US\$ millions	Net impact on the Group's consolidated financial position US\$ millions	Net impact on the Group's consolidated owners' equity US\$ millions
Modification loss at GIB KSA	(4.9)	(4.9)	-
Government grants at GIB KSA	4.9	4.9	-
ECL attributable to COVID-19	17.1	17.1	-
	17.1	17.1	-

The above supplementary information is provided to comply with the CBB circular number OG/259/2020 (Reporting of Financial Impact of COVID-19), dated 14th July 2020. This information should not be considered as an indication of the annual financial performance or relied upon for any other purposes. Given the uncertainty of the COVID-19 as highlighted at the beginning of this supplementary disclosure, the above impact reflects the current situation. Change in circumstances will render the above information being out-of-date.

This information does not represent a full comprehensive assessment of COVID-19 impact on the Group and has not been subject to a formal review by the external auditors.