Accelerate.
Boost.
Capitalise.

Bank ABC Group
Annual Report 2022

Bank ABC

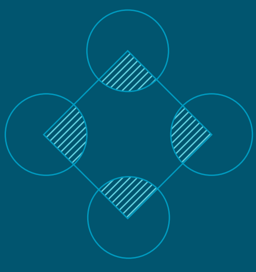
A team committed to your success.

An established name for excellence in banking, Bank ABC has innovation at its core and is guided by the mission to develop its 'bank of the future'. It proudly introduces market-leading initiatives to disrupt traditional models to create a seamless, bespoke and agile banking experience, tailored to the evolving needs of the clients and markets it serves.

Strategic themes that fuel our ambition

Accelerate growth

Boost returns



Capitalise on our journey

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Bank ABC Group Snapshot

01

\ Who we are

Bank ABC at a Glance

Renowned as one of MENA's leading international banks, Bank ABC [incorporated as Arab Banking Corporation BSC) was founded in 1980 and is headquartered in Manama, Kingdom of Bahrain. Our vast global network spans 15 countries across the Middle East, North Africa, Europe, the Americas and Asia and actively covers 25 markets.

A diverse workforce of more than 4,000 employees

A leading universal banking proposition

Wholesale Banking

- / Transaction Banking
- / Specialised Finance
- / Financial Markets
- / Capital Markets
- / Islamic Banking
- / Real Estate Finance

Retail Banking

Full suite of retail products & services offered in Bahrain, Egypt, Jordan, Algeria & Tunisia

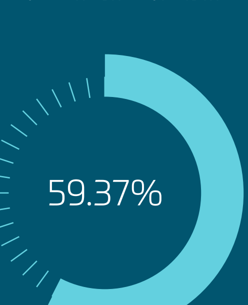
Payments

- / Processing
- / Merchant Acquiring
- / Fintech services

Ownership structure

Bank ABC (Controlling Shareholders)

مصرف ليبيا المركزي
CENTRAL BANK OF LIBYA



Others, including Free Float

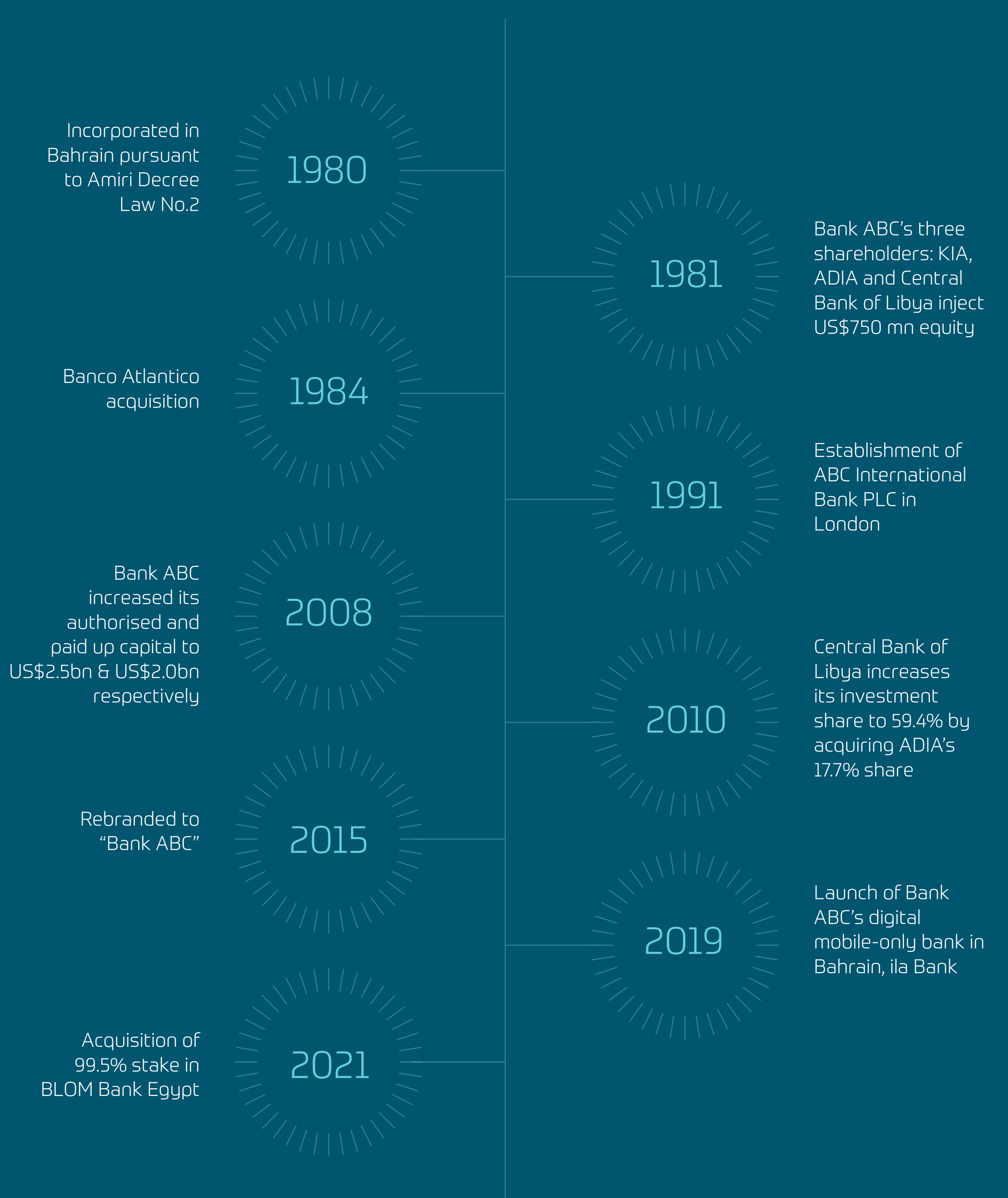
\ Who we are

Global Footprint

Your business partner across 5 continents & 15 countries

Key Milestones

Significant chapters in our 40+ year old story



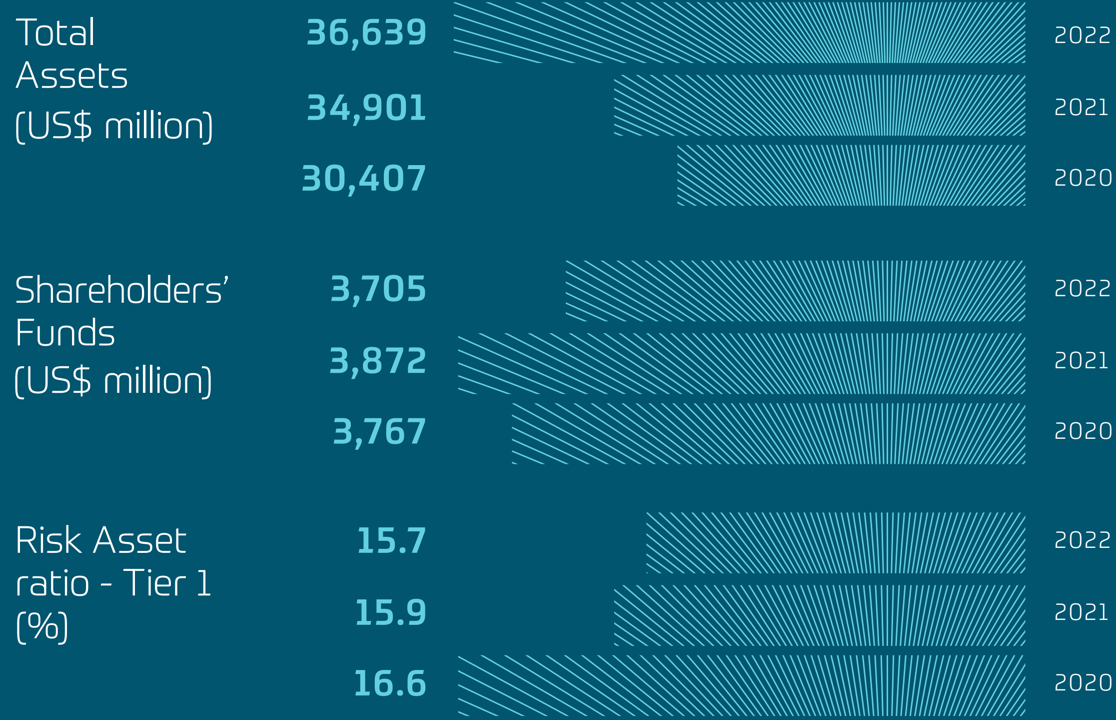
Financial Highlights

As at 31 December 2022

Shareholders' Funds
3,705
(US$ million)

Total Assets
36,639
(US$ million)

Risk Asset ratio
Tier 1
15.7
(%)



Financial Highlights

As at 31 December 2022

	2022	2021*	2020	2019	2018
Earnings (US$ Million)					
Net interest income	**786**	592	516	564	559
Other operating income	**315**	262	130	301	258
Total operating income	**1,101**	854	646	865	817
Profit before credit loss expense, taxation and non-controlling interests	**411**	285	160	341	343
Credit loss expense	**(119)**	(106)	(329)	(82)	(79)
Profit (Loss) before taxation and non-controlling interests	**292**	179	(169)	259	264
Net profit (loss) for the year from continuing operations	**154**	100	(89)	194	202
Financial Position (US$ Million)					
Total assets	**36,639**	34,901	30,407	30,068	29,549
Loans and advances	**18,190**	16,716	15,656	16,452	14,884
Placements with banks and other financial institutions	**2,226**	3,031	1,803	2,051	2,991
Trading securities	**590**	902	171	507	977
Non-trading investments	**8,080**	8,390	6,696	5,836	5,661
Shareholders' funds	**3,705**	3,872	3,767	4,031	3,862
Additional / perpetual tier-1 capital	**390**	-	-	-	-
Ratios (%)					
Profitability					
Net interest margin	**2.5**	2.0	1.9	2.0	2.1
Cost: Income ratio (costs as % of gross operating income)	**63**	67	75	61	58
Net profit (loss) as % of average shareholders' funds	**3.8**	2.6	(2.4)	4.9	5.2
Net profit as % of average assets	**0.44**	0.31	(0.30)	0.65	0.71
Dividend cover (times)	**3.30**	3.22	-	-	2.17
Capital					
Risk weighted assets (US$ million)	**27,546**	25,595	24,483	25,741	23,977
Capital base (US$ million)	**4,626**	4,324	4,285	4,609	4,352
Risk asset ratio - Tier 1	**15.7**	15.9	16.6	16.9	17.2
Risk asset ratio – Total	**16.8**	16.9	17.5	17.9	18.2
Average shareholders' funds as % of average total assets	**11.6**	11.9	12.4	13.2	13.4
Loans and advances as a multiple of shareholders' funds (times)	**4.9**	4.3	4.2	4.1	3.9
Total debt (including non-controlling interests) as a multiple of shareholders' funds (times)	**8.8**	8.0	7.1	6.5	6.7
Borrowings as multiple of shareholders' funds (times)	**0.35**	0.31	0.48	0.52	0.52
Assets					
Loans and advances as % of total assets	**49.6**	47.9	51.5	54.7	50.4
Securities as % of total assets	**23.7**	26.6	22.6	21.1	22.5
Impaired loans as % of gross loans	**3.5**	3.4	5.2	3.7	4.0
Aggregate provisions as % of impaired exposures	**101.1**	112.2	101.1	101.9	100.7
Loans provisions as % of gross loans	**3.6**	4.0	5.3	3.6	3.7
Impaired securities as a % of gross non-trading debt securities	**0.9**	1.1	1.3	1.3	1.8
Securities provisions as a % of gross non-trading debt instruments	**1.07**	1.24	1.47	1.54	2.10
Liquidity					
Liquid assets ratio	**33.3**	37.8	36.1	35.4	39.1
Deposits to loans cover (times)	**1.4**	1.5	1.4	1.3	1.4
Share Information					
Basic earnings per share - profit for the year	**$0.05**	$0.03	($0.03)	$0.06	$0.07
Dividends per share - cash	**$0.015**	$0.010	-	-	$0.030
Net asset value per share	**$1.20**	$1.25	$1.22	$1.30	$1.24
Capitalisation (US$ Million)					
Authorised	**4,500**	3,500	3,500	3,500	3,500
Issued, subscribed and fully paid-up	**3,110**	3,110	3,110	3,110	3,110
Treasury shares	**(6)**	(6)	(6)	(6)	(4)

*Comparative figures restated to conform with the presentation in the current year.

\ Timeline

Year in Review

June

Appointment of Group Head of Risk Management

Bank ABC wins two major titles at the MENA Banking Excellence Awards 2022 (Organised by MEED) - Best Digital Banking Initiative and MENA Islamic Finance Bank of the Year

April

S&P upgrades Bank ABC's outlook to 'Stable' and affirms its 'BBB-/A-3' ratings

Appointment of Jawad Sacre as Bank ABC Algeria's CEO

March

Bank ABC Tunisia announces the retirement of Chedia Bichiou and appoints Saber Ayadi as the new CEO

Bank ABC's 2022 AGM approves US$31 million dividend and capital strengthening action to support future growth

February

The Group reports a net profit of US$100 million attributable to the shareholders of the parent

January

Bank ABC wins big at the Global Finance-World's Best Treasury and Cash Management Banks 2022 awards- wins Best Overall Bank for Cash Management in Bahrain and Tunisia

2022 marked a year of milestones for the Bank, as we made major strides in our transformation strategy and ambition to become the 'bank of the future'.

July

Bank ABC Group Chief Executive announces hs retirement.

Bank ABC named 'Best Bank for Digital Solutions' by Euromoney Awards for Excellence 2022

August

Mr. Sael Al Waary appointed as Acting Group CEO

Bank ABC named as Best Bank for "Innovation in Digital Banking" in the Middle East by The Banker

September

Bank ABC emerges the Middle East winner of The Banker Transaction Banking Awards 2022

ila Bank brings home five awards at the Global Finance 'World's Best Consumer Digital Bank Awards' 2022

New strategy cycle kicks off at Global Leadership Team Meeting 2022 under the theme 'Accelerating Performance'

Bank ABC's revolutionary 'ila Bank' takes its first step towards global expansion with a successful launch in Jordan

November

Appointment of Head of Asia, Group Head of Corporates and Group Head of Retail and Digital Banking

ila Bank named the 'Leading Digital Bank' in two categories - the Middle East and Consumer Banking Segment, at the IBSi NeoChallenger Bank Awards 2022

December

BLOM- ABC legal merger completed

New leadership team appointed in Egypt

Group Performance

(US$ Million)

Bank ABC Group

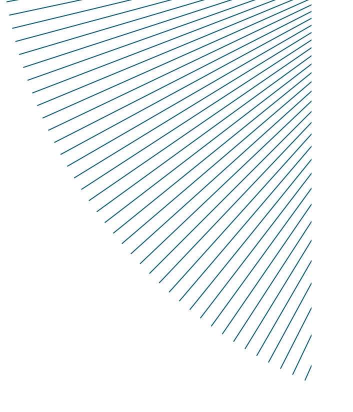
2022 Highlights	ABC Parent (ABC B.S.C.)	ABC Group
Total assets	19,602	36,639
Total non-trading investments	4,171	8,080
Total loans and advances	6,106	18,190
Total deposits	11,269	25,595
Shareholders' funds and perpetual instrument holders	4,095	4,095

MENA Subsidiaries

2022 Highlights	ABC Algeria	ABC Jordan	ABC Egypt	BLOM Bank Egypt	ABC Tunisia
Total assets	602	1,905	669	1,992	359
Total non-trading investments	132	470	176	623	54
Total loans and advances	360	1,069	197	542	225
Total deposits	388	1,517	575	1,738	283
Shareholders' funds	192	231	71	205	26
Number of branches	24	23	26	41	17

Wholesale Banking and Other Subsidiaries

2022 Highlights	ABCIB (London)	ABC SA	Banco ABC Brasil	ABC Islamic Bank	AFS
Total assets	3,791	1,117	9,613	2,423	101
Total non-trading investments	654	-	926	882	-
Total loans and advances	2,310	840	5,628	941	-
Total deposits	2,555	897	7,147	2,058	23
Shareholders' funds	652	198	1,004	332	40
Number of branches	1	2	11	-	-

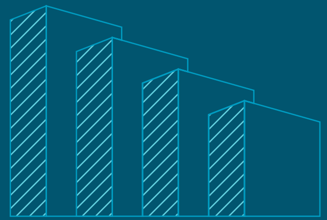


Bank ABC Group Organisational Chart

- **Board of Directors**
  - **Board Secretary** – Abdelkhalig Shaib
  - **Board Audit Committee**
    - Group Audit – Johan Hundertmark
  - **Board Compliance Committee**
    - Group Compliance – Maadian Botha
  - **Board Risk Committee**
    - Group Credit & Risk – Sedjwick Joseph
      - Head of Risk Management
      - Group Chief Credit Officer
      - Economics
      - Risk Reporting & Risk Systems
      - Group Asset Quality Review
  - **Acting Group Chief Executive Officer** – Sael Al Waary
    - **Deputy Group Chief Executive Officer** – Vacant
      - Geographies
        - Bahrain Business Units
          - Bank ABC Islamic
        - MENA Units
          - Bank ABC Algeria
          - Bank ABC Tunisia
          - Bank ABC Egypt
          - Bank ABC Jordan
        - Europe
          - Bank ABC UK
            - Bank ABC Istanbul
          - Bank ABC France
            - Bank ABC Milan
            - Bank ABC Frankfurt
        - New York Branch
        - Singapore Branch
        - DIFC Branch
        - Libya Office
      - ila Bank (Retail Branch- Bahrain) *Digital, Mobile-only Bank*
      - Group Human Resources
      - Group Legal Counsel
      - Group Innovation
      - Group Digital Banking & Retail
      - Group Corporate Communications
      - Group Chief Operating Officer – Ismail Mokhtar
        - Group Corporate Services
        - Group Information Technology
        - Group Cyber & Information Security
        - Group Operations
      - Arab Financial Services Company
    - Group Wholesale Banking – Amr ElNokaly
      - Wholesale Banking Products
      - Coverage
      - Middle Office
      - Wholesale Banking COO
    - Group Treasury & Financial Markets – Christopher Wilmot
      - Corporate Treasury
      - Financial Markets
      - Capital Market
      - Asset Management/Custody
      - Business Management
    - Group Chief Financial Officer – Brendon Hopkins
      - Group Finance
      - Group Balance Sheet Management
      - Group Strategy
      - Shareholder Relations
      - Accounts & Expenses Management
      - Business Catalyst
    - Banco ABC Brasil

A Strong Investment Proposition

An attractive investment case supported by robust fundamentals, strategic focus and momentum and a reputable legacy.



Be part of the exciting journey of one of MENA's leading international financial institutions as we deepen our footprint, deliver profitable growth, accelerate towards our strategic goals, and build a sustainable, digital-led banking powerhouse in the region.

Accelerating profitability while maintaining a strong balance sheet

- Innovative banking that is delivering results despite market headwinds - the Bank reached historic revenue levels, crossing the US$1 billion mark in 2022.
- Growth of 54% in net profits to reach US$154m, continuing the rising trend post-Covid.
- Dividend pay-out also increased by 50% year-on-year.
- A strong balance sheet with capital and liquidity ratios well above the regulatory requirements: the Group's T1 ratio is at 15.7%, comprising predominantly CET1, LCR 225% and NSFR 124%.

Comprehensive corporate strategy driving results

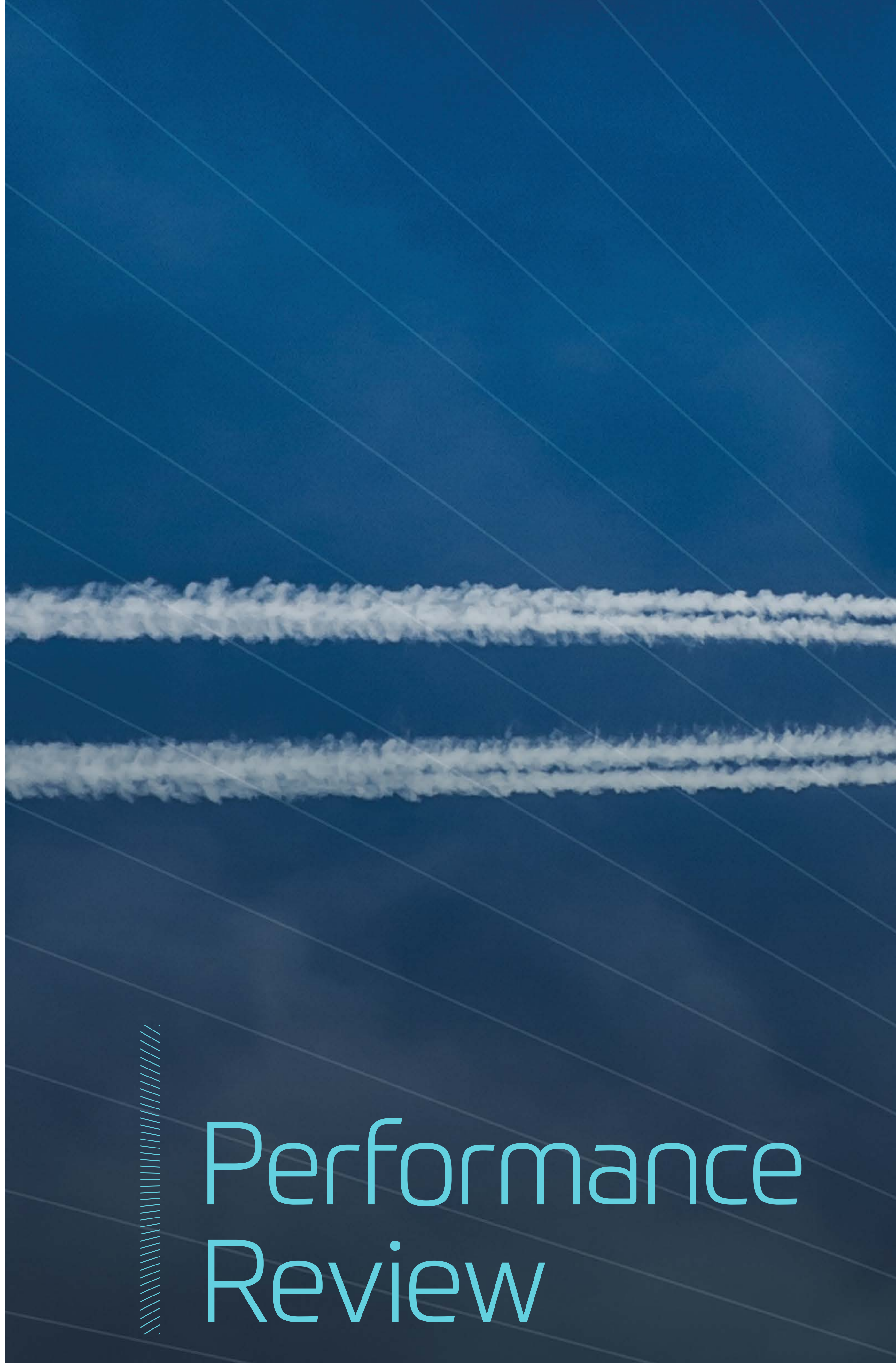
- Successful merger and ongoing integration of Bank ABC Egypt with BLOM Bank Egypt, creating a new platform to turbocharge growth in this core MENA market and nearly tripling Bank ABC's market share in Egypt.
- Significant growth in core business across the network - with multiple new clients onboarded in MENA and across our international network, who choose to bank with us due to a unique customer service value proposition and state-of-the-art digital capabilities.
- Winner of The Banker Transaction Banking Award for the Middle East, and Best Overall Bank for Cash Management in Bahrain and Tunisia' by Global Finance.
- A holistic, collaborative, and evolutionary approach to sustainability, covering governance, operations, human capital management, risk management and community development.

Digital pioneer investing in bank of the future

- Continuing fast-paced growth and gains in market share for the award-winning digital, mobile-only bank ila in Bahrain - on its way to regional rollout to major MENA markets, starting with Jordan.
- The Group's ambitious, Wholesale Banking Digital Transformation Programme gaining momentum to deliver Transaction Banking solutions across Cash Management, Documentary Trade, and Supply Chain Finance.
- Leveraging AI and data analytics and devising target operating models to maximise the adoption of digitisation and automation.
- Recognised as the Best Bank in 'Innovation in Digital Banking' in the MENA region by The Banker and the Best Bank for Digital Solutions in Bahrain by Euromoney.

Effective and experienced management, committed to robust governance and risk management

- Highly experienced C-suite team with multiple years of experience in Bank ABC and other major regional and international banks.
- Diverse and highly experienced representation across Group Boards to ensure balanced and effective governance.
- Continued focus on proactive management of risk and improving risk culture, improving credit, operational and market risk practices with the Group's cost of risk returning to pre-pandemic levels.


Performance
Review

02

Chairman's Statement

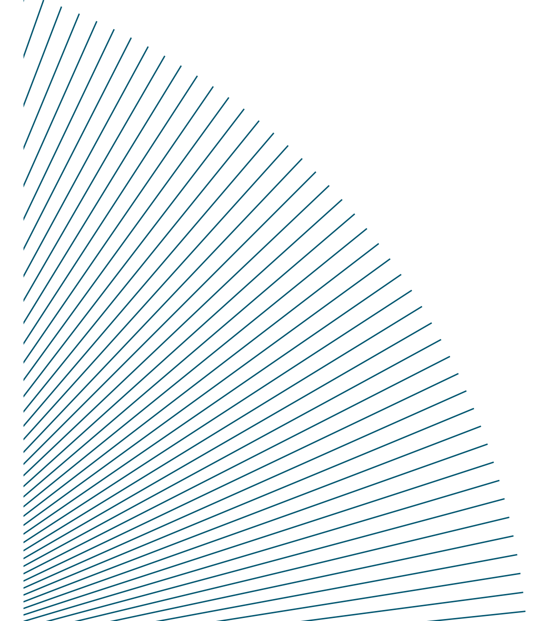
Accelerating performance while building the bank of the future.

1.1 US$ Billion

Highest total operating income in the Bank's history

On behalf of the Directors of the Bank ABC Group, it gives me great pleasure to submit the Directors' Report for 2022 to our shareholders. The report details the Bank's consolidated financial performance and outstanding achievements for the year, as well as our strategic priorities and ambitions for the future.

2022 was a record-breaking year for Bank ABC, as we exceeded US$1 billion in revenue for the first time in our history. We built on the momentum of the previous year to accelerate performance and continue our digital transformation journey while delivering outstanding results, supported by a smooth leadership transition that positions the bank for future growth and value creation moving forward.



Economic conditions

Across our core and network markets, economic activity improved considerably during 2022, with corporate profitability continuing to recover from the impact of the COVID-19 pandemic. While global growth slowed from 6% in 2021 to 3.2% in 2022, weighed by surging inflation, higher interest

rates and the impact of conflict in Europe, our operating markets bucked this trend. MENA economies grew on average by an estimated 5.5% this year, compared to 4.1% in 2021. This was driven in large part by hydrocarbon exporting countries, which enjoyed a sharp improvement due to the rise in commodity prices and increased European demand for oil and gas pivoting away from Russia.

These factors complemented the Group's strong business performance across our markets, positioning it to deliver the excellent results reported below.

Leadership transition

On 1st August, the Board of Directors appointed Mr. Sael Al Waary, as the Acting Group CEO. He is a long-time leader at Bank ABC Group and has been a major force behind its strategic digital transformation. He continues to drive the Bank's business forward, capitalising on opportunities and powering the Group's strategic progress to boost returns and accelerate profitable growth.

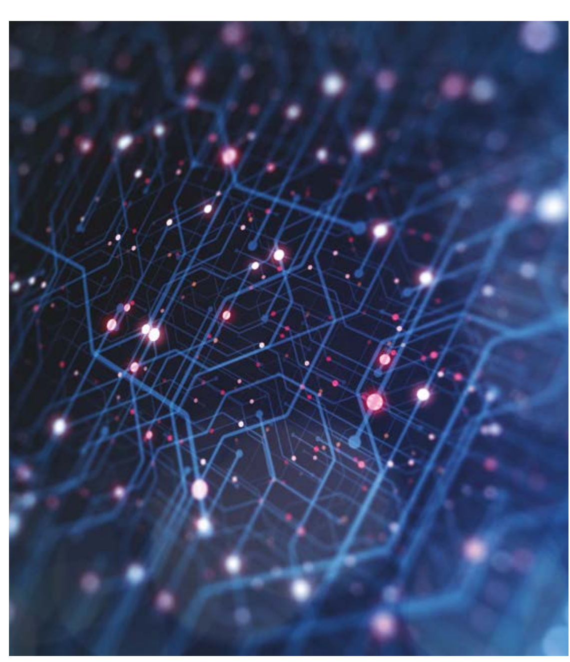
54% Net profit increase

Accelerating financial performance

Our financial performance during 2022 has been strong, with excellent growth in core business assets, supported by the increasing interest rates environment and the first full year consolidation of BLOM Bank Egypt, boosting headline revenues by 29% year-on-year to surpass the billion-dollar threshold for the first time ever.

We continued to prioritise active cost management to invest while achieving efficiencies as well as controlling the cost of risk. Our overall results reflected a robust 54% increase in net profit for the year to reach US$154 million (vs US$100 million in 2021). Return on Equity grew by almost 1% year-on-year, while capital and liquidity remained at healthy levels, supported by the completion of the Additional Tier-1 issuance earlier in 2022.

Consequently, earnings per share for 2022 stood at US$0.05.



Digital transformation & strategic progress

In 2022, we continued to make steady progress towards our strategic goals, accelerating the execution of our inorganic growth and digital transformation agendas.

BLOM Bank Egypt and Bank ABC Egypt completed their legal merger, emerging as a single larger entity on Legal Day 1 (LD1), on January 1, 2023, following our acquisition of a 99.5% stake in BLOM in August 2021. This is a major milestone towards strengthening our presence in the Egyptian market, providing the scale and footprint to fully capitalise on our growth ambitions.

ila Bank, after recording an impressive growth in customer base, deposits, and sizeable market share improvement in Bahrain, marked the beginning of its regional rollout in 2022, starting with Jordan. The country's vision to create a cashless digital economy, along with a fintech-enabling, Cloud-supportive environment, welcomed ila Bank's disruptive, digital approach to personal finance.

The Wholesale Banking digitalisation programme introduced a new digital front-end to our customers. Through our state-of-the-art supply chain finance and documentary trade platforms, clients can now

initiate transactions digitally for improved customer experience, visibility, process optimisation and operational efficiency. Next releases include a cash management suite and a dedicated Wholesale Banking portal for clients to access all our digital product platforms.

AFS, the Group's Fintech and payments subsidiary, also had multiple successes, expanding into the Egyptian market, with the establishment of the AFS Egypt hub for merchant acquiring business, and signing up new partners in Libya and UAE. AFS also achieved technological, product and service enhancements, in line with its strategic roadmap and leveraging its shareholders' decision to inject capital to propel further revenue growth and strategic expansion.

Outstanding business performance

Wholesale Banking (WB) achieved an excellent expansion of its customer base across the Bank's network of presence and non-presence coverage markets during the year. Capitalising on the sector and segment outlooks, the WB business closed the year with a strong profitability position. Growth in assets and earnings was seen in our MENA markets as well as in the Bank's Asian, European, and North American businesses in line with the Group's overall strategy to leverage the global franchise.

In Capital Markets, we solidified our standing and momentum, securing numerous high-profile primary market mandates for sovereign borrowers, government-related entities, and financial institutions. Underwriting and distribution formed the foundation of Bank ABC's activity in the syndicated market space; we underwrote over US$2 billion during the year to achieve record revenues. The Financial Markets business also continued to expand and create value, with growth in revenues, client base and product offerings across market, credit, and liquidity risk management.

The Retail business in MENA reviewed its strategy with the addition of BLOM retail business and branches in Egypt and the ila launch in Jordan. The heavy focus on digitisation continues the transformation towards a hybrid model, integrating the ila Bank technology and operating platform to align with our Bank-wide digital-first strategy, while leveraging existing branches and product capabilities.

In 2022, we continued to make steady **progress towards our strategic goals.**

An enhanced ESG framework

During 2022, we reinforced our strong commitment to robust governance, social diversity and sustainability, as a foundation for continued strategic growth and value creation. To this end, we maintained focus on developing and promoting a culture of operational efficiency and resilience through business continuity, workforce planning and effective risk management. We revamped our Operational Risk Framework, completed our data protection project and finalised our Group outsourcing framework and policy.

Our environmental, social and governance (ESG) journey continued to pick up pace, as we extended our ESG approach across all business units in the

Group and committed resources to develop an advanced ESG framework and strategy, which will integrate our sustainability commitments with strategic priorities.

Bank ABC's performance and strategic progress was recognised by major awards platforms throughout the year. The Bank was awarded by The Banker as the Best Bank in 'Transaction Banking' and 'Innovation in Digital Banking' in the MENA region. MEED recognised us for 'Best Digital Banking Initiative' and named us the 'MENA Islamic Finance Bank of the Year.' Global Finance named us the 'Best Overall Bank for Cash Management in Bahrain and Tunisia' and we won the 'Best Bank for Digital Solutions in Bahrain' award by Euromoney. The IBSi Global Fintech Innovation Awards recognised us for 'Best Treasury Implementation', and the Bonds Loans and Sukuk Awards named Bank ABC's Kuveyt Türk transaction the 'Islamic Capital Markets Deal of the Year.'

ila Bank, took home the title of 'Best Consumer Digital Bank in Bahrain,' along with five subcategories, from the Global Finance Digital Banking Awards. It also won 'Leading Digital Bank in the Consumer Banking Segment in the Middle East' from the IBSi NeoChallenger Bank Awards and 'Best User Experience' from the Red Dot Design Awards.

Setting bold aspirations for 2023

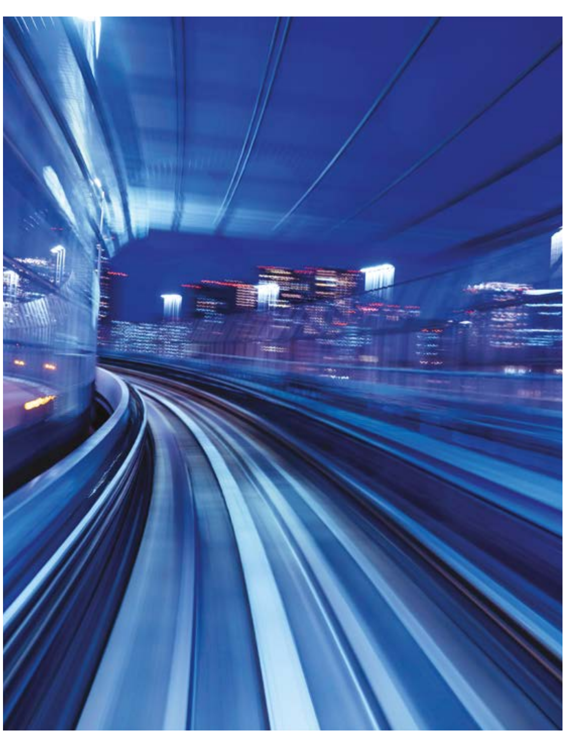
In 2023, global growth is expected to weaken to 2.9%, hindered by the fading post-pandemic economic rebound, tighter financial conditions, and the ongoing war in Europe. A decline in inflation is expected to provide scope for central banks to lower policy interest rates towards year-end.

Despite the expected economic headwinds, the Bank is confident it can capitalise on its strengths, and continues investments to fuel its performance going forward. During the coming year, the Group will renew its strategic plans for the next cycle from 2023 to 2026, focussed on accelerating growth, boosting returns and capitalising on its investments. The Bank also looks forward to continuing to deliver on its digital transformation journey, which is well underway, and making significant progress on the ABC - BLOM Integration in Egypt. Bank ABC's record results, diverse achievements and clear strategic direction will provide a robust foundation to continue to set bold aspirations to accelerate performance and build the bank of the future, in 2023 and beyond.

On behalf of the Board, I would like to thank our home regulator, the Central Bank of Bahrain, and share our appreciation for the continued support of our principal shareholders, the Central Bank of Libya and the Kuwait Investment Authority.

Finally, I would like to thank my colleagues on the Board for their astute direction during 2022, and all our talented and dedicated employees across the Group, who are the driving force behind our ability to achieve these goals today and for the future.

During 2022, we reinforced our **strong commitment to robust governance, social diversity and sustainability,** as a foundation for continued strategic growth and value creation.



Board of Directors' remuneration details

The aggregate remuneration paid to Board members in 2022 amounted to US$1,760,511 (2021: US$1,382,000), which is paid in accordance with the Directors' Remuneration Policy adopted at the Annual General Meeting on 21 March 2021 as follows:

	Fixed remunerations					Variable remunerations							
Name	Remunerations of the Chairman and BOD	Total allowance for attending Board and committee meetings	Salaries	Others*	Total	Remunerations of the Chairman and BOD	Bonus	Incentive plans	Others	Total	**End-of-service award**	**Aggregate amount** (Does not include expense allowance)	**Expenses Allowance**
First: Independent Directors:													
Dr. Anwar Al Mudhaf	36,250	6,000	-	-	42,250	-	-	-	-	-	-	-	-
Mr. Bashir Omer	35,000	4,500	-	-	39,500	-	-	-	-	-	-	-	-
Dr. Farouk El Okdah	127,500	12,000	-	18,103	157,603	-	-	-	-	-	-	-	-
Dr. Yousef Al Awadi	38,750	6,000	-	-	44,750	-	-	-	-	-	-	-	-
Dr. Ibrahim El Danfour	101,250	21,000	-	69,868	192,118	-	-	-	-	-	-	-	-
Mr. Abdallah Al Humaidhi	97,500	13,500	-	29,777	140,777	-	-	-	-	-	-	-	-
Mr. Khalil Nooruddin	111,667	34,500	-	19,325	165,492	-	-	-	-	-	-	-	-
Second: Non-Executive Directors:													
Mr. Saddek Omar El Kaber	142,500	12,000	-	34,213	188,713	-	-	-	-	-	-	-	-
Mr. Mohammad Saleem	136,250	19,500	-	50,940	206,690	-	-	-	-	-	-	-	-
Mr. Ali Al Ashhab	28,750	6,000	-	-	34,750	-	-	-	-	-	-	-	-
Mr. Ashraf Mukhtar	82,500	10,500	-	43,127	136,127	-	-	-	-	-	-	-	-
Dr. Tarik Yousef	137,083	37,500	-	43,127	217,710	-	-	-	-	-	-	-	-
Ms. Huda Al Mousa	124,167	34,500	-	35,364	194,031	-	-	-	-	-	-	-	-
Third: Executive Directors:													
-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	**1,199,167**	**217,500**	**-**	**343,844**	**1,760,511**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

*Travel and accommodation costs.

Note: The aggregate remuneration paid to the members of the Board Remuneration Committee with respect to their membership of such committee for the year 2022 was US$20,000, which sum is included in the Retainer fee (2021: US$20,000).

No Director owned or traded Bank ABC shares in 2022.

Executive management remuneration details:

Executive management	Total paid salaries and allowances	Total paid remuneration (Bonus)	Any other cash/ in kind remuneration for 2022	Aggregate Amount
Remunerations of top 6 executives, including CEO and Head of Finance & Administration	6,463,548	3,608,582	-	10,072,130

Note: All amounts stated are in US Dollars.

Saddek Omar El Kaber
Chairman
12 Feb 2023

Mohammad Abdulredha Saleem
Deputy Chairman

Acting Group CEO's Statement

2022 was a remarkable year for Bank ABC, as we continued our strong post-pandemic recovery to achieve over US$1 billion in revenue.

Sael Al Waary
Acting Group CEO

As a global banking franchise, we **strengthened our platform for sustainable growth** in 2022.

Our strong financial results in 2022 reflected excellent performance across our core businesses, supported by growth in our markets, an increasing interest rate environment and the first full year of consolidation of BLOM Bank Egypt.

Despite significant challenges to the global economy throughout the year, Bank ABC met its strategic objectives and reported record-breaking growth, boosting revenues by 29% compared to the previous year. We continued our journey to build the bank of the future, offering customers a new kind of banking with agility, efficiency and digital innovation at the core of our services.

Bank ABC's resilience is a result of its core values, integrity, innovative outlook, and the commitment and hard work of thousands of employees across our network. With several prevailing challenges across our markets, we continued to progress towards greater growth and profitability. Our digital transformation agenda has accelerated our business growth. We move ahead with confidence, turning challenges into opportunities and tackling them with innovation. Bank ABC is performing while transforming.

A year of exceptional progress

As a global banking franchise, we strengthened our platform for sustainable growth in 2022, increasing our capacity to innovate and expanding our network to support our existing and new customers.

We closed the year with excellent financial results, boosting headline revenues and crossing the billion-dollar threshold for the first time in the Bank's history. Net profit to shareholders stood at US$154 million, against US$100 million in 2021. Total operating income for 2022 was US$1,101 million, representing an improvement of 29% on a headline basis compared to 2021.

The Wholesale Bank refocused its post-pandemic strategy on corporate customers, securing new clients and closing the year with high returns. The Bank had the tenacity and resilience to continue originating business across its client segments and suite of products focusing on opportunities within our unique value proposition to our clients.

We successfully finalised the merger of our Egyptian subsidiaries to reach Legal Day 1, following the Group's acquisition of a 99.5% stake in BLOM Bank Egypt in 2021. With a comprehensive integration programme underway, and a new local leadership team appointed, we remain steadfast on our journey to be the bank of choice for Egypt, while significantly expanding our footprint and acquiring a much larger customer base.

Our digital agenda continues in full force with clear direction. The Group's award-winning digital, mobile-only bank ila, is establishing new industry benchmarks, delivering superior customer experience with maximum agility. Our numbers speak for themselves; in 2022 ila's customer base in Bahrain grew 42% compared to 2021, while customer deposits grew 48% and total transaction volumes were 2.4 times the previous year. Following its remarkable success in Bahrain, we launched ila in Jordan, taking a solid first step towards its planned regional expansion.

We made substantial progress in our Wholesale Banking Digital Transformation Programme, focusing mainly on Transaction Banking solutions across Cash Management, Documentary Trade, and Supply Chain Finance. We are soon launching an easy-to-use, consolidated digital portal that gives clients access to the Bank's services, starting with Transaction Banking, through an intuitive, flexible and completely customisable platform. We have also completed phase-1 of the Trade Operations Hubbing Project and Proof of Concepts for AI-adoption in our Trade Finance operations; as well as devised target operating-models that maximise the adoption of digitisation and automation.

The Group's digital payments subsidiary, Arab Financial Services (AFS), entered the Egyptian market while amping up in-house capabilities to support the Bank to better serve its customers. Along with securing several key partnerships in the region, it focused on providing comprehensive digital onboarding solutions to customers and launched a digital wallet super app, BPay.

We endeavor to integrate **sustainability in every aspect of our business** across our global footprint.

International recognition

A testament of the strength of our strategy, is the string of prestigious international awards the Bank received during the year. This included being recognised as Best Bank in 'Transaction Banking' and 'Innovation in Digital Banking' in the MENA region by The Banker, 'Best Bank for Digital Solutions in Bahrain' by Euromoney, and 'Best Overall Bank for Cash Management in Bahrain and Tunisia' by Global Finance.

A holistic view on sustainability

At Bank ABC, our commitment to building our bank of the future goes together with our promise to enhance returns to our shareholders, supported by our sustainability strategy. We endeavour to integrate sustainability in every aspect of our business across our global footprint, as we contribute towards managing a comprehensive transition to a greener, low carbon economy. With a dedicated team in place, we aim to fully capture the opportunities this area provides.

The Group's sustainability strategy encompasses governance, strategy, operations, risk management,

corporate culture, business generation and stakeholder engagement. We continue to drive improvements across our operations, supporting regional and international objectives to combat global climate change with a targeted approach. Additionally, several initiatives are already underway under governance, carbon footprint reduction, Diversity, Equity and Inclusion (DEI), and Corporate Social Responsibility (CSR). Soon equipped with a comprehensive strategy, the Bank will gain greater momentum and deliver more impact and value for stakeholders.

As an organisation, we go above and beyond to support our clients and endeavour to create long-term value for them. We leveraged our trade products to minimise the risk to our customers to expand their businesses in existing and new markets.

The Bank's progress is not removed from that of our employees. Early in the year, we focused on a safe return to work post-COVID, organising wellness interventions such as medical check-ups and workshops on mental health and stress management. Additionally, as part of our DEI agenda we strive to promote a just and meritocratic work environment, while providing career development opportunities to our female staff.

Last but not the least, our commitment to the success and welfare of the communities we serve remains resolute, as we lead and facilitate several initiatives across our geographies. In addition to the Bank's various CSR initiatives, this is also demonstrated though our conscious effort to finance sustainability linked initiatives. In 2022, Bank ABC provided US$775 million in green and sustainability-linked finance across its network.

Key priorities for 2023 and beyond

At Bank ABC, as we build our bank for the future, we have a clear strategy and plan for growth; we will continue to be more efficient, resilient, innovative, agile and data-driven. Bank ABC continues to be the employer of choice, while being relevant to and creating value for our clients.

All our efforts are focused on performance acceleration and to achieve this vision, we have set high performance targets and KPIs across all areas of our businesses and geographic units. In 2023, we will continue to push ahead with the clear objective of accelerating growth, improving our current business, and operating model, and diversifying our portfolio. We also look forward to deepening our corporate penetration and continuing to roll out digital-first expertise to our customer through ila.

The Bank is working to further boost returns by generating more capital-efficient business, higher margins and returns on products, and raising liabilities to reduce the cost of funds. We are focusing to deliver a step change level to our profitability and a better ROE to our shareholders. And we will continue to capitalise on our journey so far, reaping the rewards of our investments and setting new and higher benchmarks for growth, productivity, empowerment, and accountability - this also means taking advantage of our strong business franchise including in Brazil and the rest of our network.

Expressing my gratitude

I take this opportunity to thank our shareholders for their support and inspiration throughout 2022. We remain committed to rewarding their trust as Bank ABC continues its journey to become the leading international bank in the MENA region.

My gratitude goes out to our home regulator, the Central Bank of Bahrain, and other regulators across our markets, for their guidance and partnership, with Bank ABC demonstrating exemplary standards of governance and regulatory compliance.

As our Bank ABC family grows stronger, I thank all our employees across the Group's global footprint for their consistent hard work, innovation, focus and commitment. They have demonstrated outstanding progress and capabilities as we move towards our shared vision for the future.

Sael Al Waary
Acting Group Chief Executive Officer

The Bank had the **tenacity and resilience to continue originating business across its client segments and suite of products** focusing on opportunities within our unique value proposition to our clients.

Board of Directors

Mr. Saddek Omar El Kaber
Chairman
‡ >|<

MBA and MS in Public Accounting, University of Hartford, Connecticut, USA.

Governor of the Central Bank of Libya, Member of the Board of Trustees of the Libyan Investment Authority, Chairman of the Libyan National AML/CFT Committee, Chairman of the Libyan National Payments Council, and Chairman of Arab Banking Corporation – Egypt S.A.E, Previously, Mr. El Kaber was Chairman of ABC International Bank plc, U.K., and Chairman and General Manager of UMMA Bank, Libya. Mr. El Kaber has held past key positions in a number of banks and financial institutions including being the Deputy Chief Executive Officer of ABC International Bank plc, U.K., the Deputy Chairman of the Board of Arab Banking Corporation-Algeria, Country Manager and CEO of Arab Banking Corporation-Tunisia and a Director of Arab Financial Services Company B.S.C.(c). He joined the Board of Arab Banking Corporation (B.S.C.) in December 2011. He has more than 35 years of experience in international finance and banking.

Mr. Mohammad Abdulredha Saleem
Deputy Chairman
RC ‡ >|<

Bachelor of Business Administration in Finance from Kuwait University.

Mr. Saleem has gained professional experience from his service over 33 years at Kuwait Investment Authority since 1986 where he held various positions including the Treasury Department Manager from 2006 to date. He has been a member of Warba Bank's Board of Directors since March 2016 to date. He currently holds the position of Deputy Chairman on the Board of Bank ABC. He served previously in the State of Kuwait as Chairman and Board Member of audit and investment committees. He has been a Chairman or a member of the board of directors in a number of companies such as Generations Fund Holding Company, Kuwait Investment Company, the Egyptian Kuwaiti Real Estate Development Company, Gulf Custody Company, Kuwait Real Estate Holding Company, Kuwait Flour Mill & Bakeries Company.
He also participated in many theoretical and practical courses at leading banks and global financial institutions in areas of portfolios management, investment, and capital markets.

Dr. Farouk El Okdah
Director
GC RemCo ‡ §

PhD in Business and Applied Economics, Wharton School, University of Pennsylvania; MBA in Finance, Wharton School, University of Pennsylvania; Master of Accounting with Honors, Cairo University; BA in Accounting, Ain Shams University, Egypt.

Former Governor and Chairman of the Central Bank of Egypt and former Chairman and CEO of the National Bank of Egypt. Dr. El Okdah was also former Vice President of Bank of New York (US). He is the Non-Executive Chairman of the National Bank of Egypt (UK) Limited, former Non-Executive Chairman of the Union de Banques Arabe et Francaises (UBAF) and former Member of the Board of Directors of Egypt Air, Egypt. Dr. El Okdah joined the Board of Arab Banking Corporation (B.S.C.) in 2014. He has more than 35 years of experience in banking and finance.

Dr. Tarik Yousef
Director
AC GC CC ‡ >|<

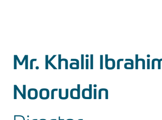
PhD in Economics, Harvard University, USA.

Director of the Middle East Council on Global Affairs since 2022. Member of the Board of Directors of the Central Bank of Libya since 2012. Former Senior Fellow in the Global Economy & Development Program at the Brookings Institution between 2006 and 2020. Dr. Yousef worked at Georgetown University in Washington DC between 1998 and 2006 as Professor of Economics in the Edmund Walsh School of Foreign Service and Sheikh Al-Sabah Chair of Arab Studies at the Centre for Contemporary Arab Studies. His policy experience includes working as Economist in the Middle East and African Departments of the International Monetary Fund, Visiting Senior Economist in the Office of the Chief Economist of the Middle East and North Africa Region of the World Bank between 2002 and 2005 and Senior Advisor for the Millennium Project at the UN between 2004- 2005. Dr. Yousef joined the Board of Arab Banking Corporation (B.S.C.) in 2015. He has 20 years of experience in the finance and business fields.

Ms. Huda Al Mousa
Director
AC CC ‡ >|<

MBA in Business Management, Georgetown University.

Director of General Reserve Asset Department at the Kuwait Investment Authority (KIA), which she joined in 2018. Ms. Huda Al Mousa also serves on the Board of Directors at Kuwait Credit Bank since 2019. She previously was on the Board of Directors at Kuwait Airways (2018-2020). She also serves as a Committee Member in the State of Kuwait Debt Management Committee and various other State level committees, and on the Board of Directors of Kuwait Credit Bank. Ms. Al Mousa joined the Board of Bank ABC in 2021 and has more than 15 years of experience in banking, asset management, and finance.



Mr. Abdallah Al Humaidhi
Director
RC RemCo GC ‡ §

MS, American University of Beirut.

Vice Chairman and Chief Executive Officer, Commercial Facilities Company, Kuwait; a Director of the Board of First National Bank S.A.L., Lebanon. Mr. Al Humaidhi is also a Member of the Board and Honorary Treasurer of the Kuwait Chamber of Commerce & Industry and a Director of the Board of ABC International Bank plc, UK and a Member of the Board of Directors of Investcorp and Chairman of the Audit and Risk Committee. Member of the Board of Directors of the Kuwait Red Crescent and Honorary Treasurer. Previously he served as Member of the Board and the Executive Committee of Kuwait Investment Authority. He has been a Director of Arab Banking Corporation B.S.C. since 2001 and has more than 30 years of experience in the banking and investment sectors.

Mr. Khalil Ibrahim Nooruddin
Director
AC RC CC ‡ §

Bachelor of Science in Systems Engineering from King Fahad University of Petroleum and Minerals, Dhahran, Kingdom of Saudi Arabia; Master of Science in Quantitative Methods and Finance from Leonard N. Stern School of Business, New York University, New York, U.S.A; Chartered Financial Analyst from CFA Institute, Charlottesville, Virginia, U.S.A.

Mr. Nooruddin is a senior banker, with over 40 years' experience gained through serving local and international financial firms both at executive and board levels. Currently, he is the Managing Partner of Capital Knowledge, a management and financial consulting firm. Over the past twelve years, Mr. Nooruddin concluded several consulting and restructuring assignments for financial institutions, working on strategy formulation and implementation. Prior to this, Mr. Nooruddin was a member of the Management Committee of Investcorp Bank, Bahrain; Vice President UBS Asset Management in London and Zurich; Vice President Chase Manhattan Bank in Bahrain; and Operations Research Analyst, Bahrain Petroleum Company, Bahrain. He currently serves on the board of RA Holdings, formed under authorisation of a US bankruptcy court to oversee the liquidation of Arcapita Investment Bank, Bahrain. Previously he served on the boards of Gulf International Bank, Bank Al Khair, Ithmaar Investment Bank, Bahrain Islamic Bank, Takaful Insurance Company and Bahrain Financing Company.

Dr. Ibrahim El Danfour
Director
AC RC RemCo CC ‡ §

PhD in Accounting, Glasgow Caledonian University, Glasgow, United Kingdom.

Chief Executive Officer of the Libyan African Investment Company (LAICO), Chairman of BSIC Gambian Bank, Gambia, Director of Libya for Investment Company, Egypt, Member of European Accounting Association (No. 95844), founding member of the Libyan Accountants Association, collaborator at Academic of Postgraduate Studies, Misurata, Libya. Previously Dr. El Danfour was the Chairman of Ensemble Hotel Holdings, South Africa, Chairman of LAICO Hotels & Resorts Management Company, Switzerland, Director of Waha Bank, Libya. Dr. El Danfour held various key positions in academia as well as the public and private sectors, mainly in accounting, financial management, corporate transformation and ERP systems, giving him more than 20 years of hands on experience in these domains, for which he has a number of publications and is an active participant in related high profile events and conferences. He has 13 years of banking experience.

Mr. Ashraf Mukhtar
Director
‡ >|<

Master of International Accounting from Malaysia.

Director of banking operations department, previously deputy of director of banking operations department, worked as a member of inspection team at the department of banking and monetary supervision, appointed in a managing position for Alrahila petroleum company, previous member of LCs foreign currency payment committee and deputy head of documents for collection committee, has 13 years of banking experience.

AC	Member of the Board Audit Committee
GC	Member of the Board Corporate Governance Committee
RemCo	Member of the Board Remuneration Committee
RC	Member of the Board Risk Committee
CC	Member of the Board Compliance Committee
‡	Non-Executive
§	Independent
>|<	Non-independent

Executive Management

Mr. Sael Al Waary
Acting Group Chief Executive Officer

B.Sc. (Hons) degree in Computer Sciences, University of Reading, United Kingdom.

Mr. Al Waary is the Acting Group Chief Executive Officer of Bank ABC Group, with over 30 years of banking, leadership and management experience garnered from the many senior positions he has held in both London and Bahrain. Mr. Al Waary represents the Bank as Chairman of Bank ABC Jordan, Chairman of the Arab Financial Services Company, and Deputy Chairman of Bank ABC in Egypt. He is also the Chairman of ila Bank Advisory Board.

Mr. Brendon Hopkins
Group Chief Financial Officer

Chartered Accountant, (ICAEW), Chartered Tax Advisor (CIOT), MBA, Henley Management College, BSc (hons) Industrial Mathematics, University of Birmingham.

Mr. Hopkins joined Bank ABC in 2014 as the Group Chief Financial Officer, responsible for overseeing Finance, Strategy, Change Management, Mergers & Acquisitions, Balance Sheet Management, Taxation and Investor Relations. He has more than 30 years' previous experience in the financial services sector, including periods with Standard Chartered Bank, Deloitte and Guardian Royal Exchange. His previous senior roles at Standard Chartered Bank included Chief Executive Officer, Europe and Group Head of Strategy, Western Hemisphere. He is also a Director on the Board of Banco ABC Brasil and on the Board of Governors of St Christopher's School, Bahrain.

Mr. Ismail Mokhtar
Group Chief Operating Officer

Master's degree in Management - Economics, Sciences and Management University - Tunisia.

Mr. Mokhtar has had a number of senior roles with Bank ABC for over two decades. He served Bank ABC in Tunisia as the Deputy General Manager and Chief Operating Officer before moving to the Head Office in Bahrain as Business Catalyst, Project Coordinator at the Group Chief Operating Officer's Office in 2015. He was appointed Regional MENA COO in May 2018. Subsequently, Mr. Mokhtar was appointed Group Chief Operating Officer in August 2019 to support the delivery of key support areas across the Group, and oversee the functional and country COOs across the Group. Before joining Bank ABC, Mr. Mokhtar held a number of roles at the Treasury Department of Banque Nationale Agricole (Tunisia) from which he moved on to Bank ABC in Tunisia in 2001. Mr. Mokhtar represents the Bank ABC Group as a Director on the Boards of Bank ABC in Jordan and Bank ABC in Algeria.

Mr. Christopher Wilmot
Group Head of Treasury and Financial Markets

MBA, University of Strathclyde Business School.

Mr. Wilmot joined Bank ABC in June 2016 with responsibility for the Bank's Corporate Treasury, Financial Markets and Capital Markets businesses. He is a senior banker with over 30 years of treasury, investment and financial markets experience, covering both conventional and Islamic banking disciplines, of which the last 25 years have been within the MENA region. He joined the Bank ABC Group from First Gulf Bank, Abu Dhabi, where he was a member of the executive management team responsible for managing the bank's overall liquidity, wholesale funding strategy, proprietary investment and global markets businesses. Prior to joining FGB, Mr. Wilmot held Group Treasurer positions with Ahli United Bank, Bahrain, and Saudi Hollandi Bank, Riyadh (ABN Amro Group). His many career achievements include the opening of the Saudi Arabian domestic debt capital markets with the inaugural Lower Tier II subordinated debt issuance in 2005, overseeing the conversion of Bank of Kuwait and Middle East to a Shari'a compliant bank in 2010 and achieving industry recognition for developing FGB's debt raising platform through receiving Global Capital's Award for "Most Impressive Borrower-Middle East" in 2015.

Mr. Amr ElNokaly
Group Head of Wholesale Banking

B.A & Commerce Degree from Helwan University and completed the Investment Appraisal, Risk Analysis & Project Finance Programme, Harvard Business School.

Mr. ElNokaly joined Bank ABC in 2018 as the Global Head of Corporates and is currently serving as the Group Head of Wholesale Banking. He leads the delivery of Bank ABC's wholesale banking capabilities through a single platform to clients across the Bank's global network. His role entails formulating and executing business strategies, driving performance, developing customer relationships, and building franchise values for the Group. He is currently Chairman of the Board of Bank ABC Islamic. Prior to joining Bank ABC, he served as the Division Head of Corporate Banking at Mashreq Bank, U.A.E and the Chairman of the Wholesale Banking Committee at Union of Banks Federation of the U.A.E. Previously, he was with Citigroup Egypt as Resident Vice President between 1994 to 2003. Mr. ElNokaly's extensive corporate and investment banking expertise includes product management and client coverage positions in North Africa, Middle East, Asia, Europe, and the U.S.A. Throughout his 25 year career, he led the origination and structuring of multi-billion dollar and award-winning transactions as well as strategic client centricity and employee engagement initiatives.

Mr. Sedjwick Joseph
Group Chief Credit & Risk Officer

MBA, Cochin University of Science and Technology B. Tech (Engineering) – National Institute of Technology, Calicut.

Mr. Joseph joined ABC International Bank plc in Dec 2015 as the Chief Risk Officer. He was subsequently appointed the Group Chief Credit and Risk Officer in July 2020. He has over 25 years of banking experience across credit, risk management, portfolio management and analytics. His experience spans across wholesale, retail, private and business (SME) banking products. Previously, he was the Chief Risk Officer for Habib Bank AG Zurich (HBZ). Prior to HBZ, Mr. Joseph was with Barclays and Standard Chartered Bank holding both country and regional roles across multiple geographies in Europe, US, Asia, Middle East and Africa.

Mr. Mohamed Almaraj
Group Head of Retail Banking & ila Bank CEO

B.S., Finance and Accounting, Wharton School of Business

Mr. Almaraj is the Group Head of Retail Banking and the Chief Executive Officer of the digital mobile-only 'ila Bank' in Bahrain, having joined Bank ABC in 2015. Prior to his current roles, Mohamed served as the COO of ila Bank. Previously, he played a key role in several Group level initiatives including the establishment of Bank ABC's DIFC office, launch of the Debt Capital Markets practice, and the overall fintech strategy for Bank ABC.
Prior to joining Bank ABC, Mr. Almaraj was a Senior Associate with the investment bank, Perella Weinberg Partners, in New York with a focus on mergers & acquisitions transactions and corporate restructurings in the technology, media, telecom and financial services sectors. He has 14 years' experience in corporate finance, investments, restructurings, and digital transformations across the GCC and the US.

Mr. Johan Hundertmark
Group Chief Auditor

Chartered Accountant (Royal NBA), Chartered Financial Controller (VRC), MSc (hons) Business Economics, University of Tilburg, Certified Internal Auditor.

Mr. Hundertmark is a Chartered Accountant and member of the Royal Netherlands Institute of Chartered Accountants, a Chartered member of the Dutch Institute of Financial Controllers and he holds a Master's Degree in Business Economics from the University of Tilburg. He was trained at Ernst & Young and KPMG in the Netherlands before joining ABN Amro Bank N.V. where he was appointed Senior Vice President for the bank before accepting the Chief Audit Executive role at its subsidiary, Saudi Hollandi Bank in Riyadh, Saudi Arabia. He joined Deutsche Bank AG in Sydney, Australia, in 2008 as the Head of Audit for Australia and New Zealand and transferred to Singapore as the Head of Audit for Singapore and ASEAN in August 2012, where he was also responsible for the audit of Corporate and Investment Banking for the Asia-Pacific region. Mr. Hundertmark joined the Bank ABC Group in July 2016 as Group Chief Auditor. He has 27 years' experience in the finance field.

Mr. Maadian Botha
Group Head of Compliance

Compliance Professional (CISA), Admitted Attorney (RSA), LLM and MBA, University of Pretoria.

Mr. Botha is a Compliance Professional and member of the Compliance Institute of Southern Africa. He holds Master's degrees in Law and Business Administration from the University of Pretoria. He has more than 25 years' previous experience in the financial services sector, including periods with the Financial Services Board (RSA), Barclays (Absa), PWC and Nedbank. His previous senior roles include the Group Chief Compliance Officer at Barclays (Absa) and leading the Compliance Practice at PWC for Southern Africa. At Nedbank, he was a member of the Compliance Executive team responsible for managing the bank's overall regulatory relationships, Privacy, Health and Safety and compliance monitoring. He previously held the position as Chairman of the Compliance Institute of Southern Africa. Mr. Botha joined the Bank ABC Group in April 2020 as Group Head of Compliance, and he oversees the functional and country Compliance Officers and MLRO's across the Group.

Financial excellence, led by digital innovation

Bank ABC has a future-proof Digital Transformation Strategy, that has not just delivered tangible results for the Bank but is also defining a new era of banking in the region. The Bank's objective is to:

01

Enhance our existing infrastructure, products, services and processes continually

02

Establish a leading position in the market by offering cutting-edge digital solutions

03

Disrupt legacy wholesale and retail banking models and systems

An established digital leader in the region

2017

Kicked-off MEA Fintech Forum to embrace digital disruption

2019

Launched region's first fully digital, mobile-only bank, ila

Introduced region's first emotionally intelligent, AI-powered Digital Assistant 'Fatema'

2021

Started digital onboarding service for Financial Institutions and Corporates

2022

Launched digital trade finance services for Corporates

Wholesale Banking digital transformation gains momentum

Kicked-off new initiatives to deploy next-gen frontline platform to digitally empower frontliners; Cloud-based data and analytics platform to provide data-driven insights and intelligent automation to increase agility and efficiencies.

Soon to launch a new corporate portal, which will provide a new digital gateway to the Bank's services and offer clients better means to manage their financial affairs.

A pilot digital-currency based cross-border payment executed in collaboration with Central Bank of Bahrain and JP Morgan.

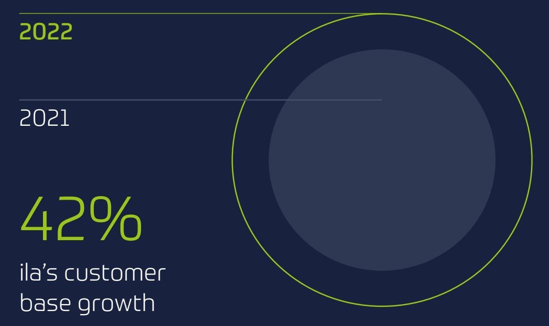
Steady progress being made on Transaction Banking Transformation Programme, focused on delivering enhanced digital capabilities across Cash Management, Documentary Trade, and Supply Chain Finance.

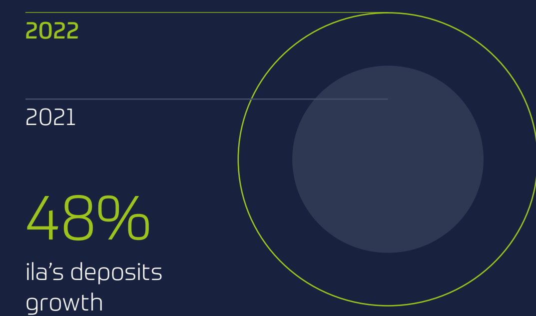
Completed phase-1 of the Trade Operations Hubbing Project and PoCs for AI adoption in Trade Finance operations; developing models that maximise digitisation and automation.

Partnered with Temenos and NdcTech to consolidate core banking systems across 15 countries on Temenos' Cloud-native platform, for a more robust platform to accelerate growth and create value.

ila – the fastest growing digital bank in the region

- Group's digital mobile-only offering is the fastest-growing such bank in the region
- In 2022 ila's customer base grew 42% compared to 2021, and deposits grew 48%
- Maintained outstanding app ratings of 4.4/5 in the App Store and 4.5/5 in Google Play and won seven prestigious awards in 2022
- Started its regional expansion with a successful launch in Jordan





AFS – digital payments redefined in the MENA region

- Group's leading digital payments company is implementing a robust growth strategy to develop next-generation payments infrastructure in the region and beyond
- Launched its merchant acquiring business in Egypt, a significant strategic step forward for the Company in 2022
- Signed its first processing client in Libya, and its first client, under a new "Issuance-as-a-Service" product, targeting FinTechs
- Launched its proprietary digital wallet and upcoming payments super app, BPay, which was developed entirely in-house

Vision for Bank ABC's digital bank of the future

Client Relevant

Best Employer

Data Driven

Agile

Innovative

Efficient & Resillient

Group Financial Review

Bank ABC delivered record-breaking results in 2022, steering through volatile financial markets to achieve over US$1 billion in top-line revenue for the first time in its history.

54%
Increase in annual net profit

The recovery that started in 2021 gained further strength with accelerated performance and solid core growth across all businesses increasing revenues by 29% and net profit by 54% year-on-year.

Key drivers of profitability included improved margins and targeted credit growth, which helped to maintain the cost of credit, combined with increasing interest rates throughout the year.

In a strategic milestone for the Bank, we successfully completed the merger of BLOM Bank Egypt S.A.E., a leading bank in Egypt, with a national presence through 41 branches. Its consolidation with our existing Bank ABC franchise boosted 2022 profitability and will unlock the potential of this critical regional market to support future growth for the Group.

Achieving historical profits

In 2022, the Group built on momentum from the previous year to earn a net profit of US$154 million. This is a significant 54% improvement compared to 2021, when the Group earned US$100 million in net profit. Growth in profit in 2022 resulted in earnings per share for the year of US$0.05, compared to US$0.03 for 2021.

The Group's record-breaking revenues this year demonstrates our established strength in core MENA markets and ambitious growth of our footprint globally. We continued our investments into strategic digital initiatives and enhanced our digital proposition through a range of key partnerships and initiatives to build our 'bank of the future'. Digital KPIs demonstrated significant progress, while our digital, mobile-only bank, ila and our fintech payments provider Arab Financial Services exceeded our aspirational targets. Global growth was bolstered by the legal completion of the merger between Bank ABC Egypt and BLOM Bank Egypt (BBE), following the strategic acquisition of a 99.5% stake in BBE in 2021.

Net interest income for the year was US$786 million, an increase of 33% compared to US$592 million in 2021, after absorbing the impact of declining interest rates and FX depreciation. Non-interest income jumped by 20% to US$315 million from US$262 million the previous year, mainly due to last

year's income being affected by significantly higher hedging in Banco ABC Brasil.

Meanwhile, the Group's Total Operating Income was US$1,101 million for the full year, a rise of 29% from US$854 million in 2021. This result reflected the strong recovery across most of our markets and business lines, and to some extent consolidation of BBE recently.

Operating expenses totalled US$690 million for 2022, rising by 21% from US$569 million as a result of the integration of BBE, which contributed to the full-year results in 2022 as opposed to only five months in the previous year, together with related acquisition expenses and with our businesses returning to normal level of activity. 2022 saw the Group's cost trajectory return to normal levels, through an unrelenting focus on cost discipline and continued investments in the Group's digital transformation and strategic initiatives.

Credit loss expenses for the year stood at US$119 million, compared with the previous year's US$106 million. Taxation on operations outside Bahrain was a charge of US$83 million (2021: US$51 million), resulting in the full year net profit attributable to the shareholders of the parent of US$154 million (2021: US$100 million).

Sources and uses of funds

Notwithstanding the challenging conditions of the year, the Group's overall asset portfolio quality remains solid, and our underwriting standards are sound. Equity attributable to the shareholders of the parent and perpetual instrument holders at the end of the period was US$4,095 million, an increase of 5.8% from the US$3,872 million reported at end of 2021, primarily resulting from the issue of AT1 perpetual instrument this year.

The Group's asset profile is predominantly made up of loans, securities, and placements. The loans and advances portfolio stood at US$18,190 million, 8.8% higher than the US$16,716 million posted at year-end 2021. Non-trading investments decreased by US$310 million to US$8,080 million, money market placements by US$805 million to US$2,226 million, while liquid funds and securities bought under repurchase agreements increased by US$948 million to US$4,272 million.

Deposits from customers increased by US$662 million to US$21,396 million. Deposits from banks, certificates of deposit and repos totalled US$7,077 million (2021: US$7,124 million), while borrowings totalled US$1,297 million (2021: US$1,211 million).

Total assets of the Group at the end of the year stood at US$36,639 million, 5% higher than at US$34,901 million as at year-end 2021. Average assets for the year were US$35,081 million (2021: US$32,165 million) and average liabilities, including non-controlling interests, were US$31,003 million (2021: US$28,336 million).

The Group's record-breaking revenues this year demonstrate our established **strength in core MENA markets and significant growth of our footprint globally.**

Credit commitments, contingent items and derivatives

The notional value of the Group's consolidated off-balance sheet items stood at US$42,461 million (2021: US$55,374 million), comprising credit commitments and contingencies of US$7,981 million (2021: US$7,735 million) and derivatives of US$34,480 million (2021: US$47,639 million). The credit risk-weighted asset equivalent of these off-balance sheet items was US$3,062 million (2021: US$3,009 million).

The Group uses a range of derivative products for the purposes of hedging and servicing customer-related requirements, as well as for short-term trading purposes. The total market risk-weighted equivalent of the exposures under these categories at the end of 2022 was US$827 million (2021: US$929 million). No significant credit derivative trading activities were undertaken during the year.

Geographical and maturity distribution of the balance sheet

Bank ABC Group's has well diversified assets, primarily across the Arab world, the Americas and Western Europe. The Group's liabilities and equity are predominantly in the Arab world (63%; vs. 70% in 2021), followed by Latin America (19%; vs. 16% in 2021), chiefly in our Brazilian subsidiary, Banco ABC Brasil.

	Financial assets		Liabilities & equity		Loans & advances	
(%)	**2022**	2021	**2022**	2021	**2022**	2021
Arab world	**41**	48	**63**	70	**41**	43
Western Europe	**11**	10	**8**	6	**11**	12
Asia	**2**	3	**2**	1	**1**	2
North America	**15**	11	**7**	3	**9**	7
Latin America	**26**	23	**18**	16	**31**	29
Others	**5**	5	**2**	4	**7**	7
	100	100	**100**	100	**100**	100

An analysis of the maturity profile of financial assets according to when they are expected to be recovered or settled, or when they could be realised, shows that at the end of 2022, 64% (2021: 57%) had a maturity of one year or less. Loans and advances maturing within one year amounted to 65% (2021: 62%). The proportion of liabilities maturing within one year was 56% (2021: 53%).

	Financial assets		Liabilities & equity	
(%)	**2022**	2021	**2022**	2021
Within 1 month	**32**	24	**24**	23
1-3 months	**13**	15	**11**	12
3-6 months	**9**	8	**5**	7
6-12 months	**10**	10	**16**	11
Over 1 year	**27**	36	**25**	30
Undated	**9**	7	**19**	17
	100	100	**100**	100

Distribution of credit exposure

Bank ABC Group's credit exposure (defined as the gross credit risk to which the Group is potentially exposed) as of 31 December 2022 is given below:

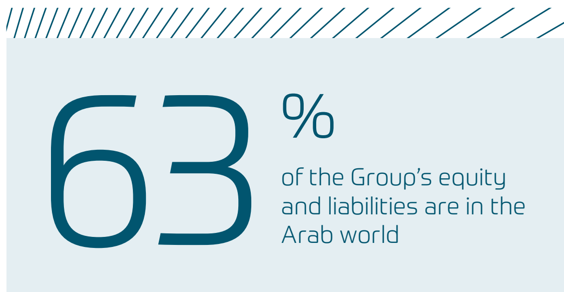
(US$ millions)	Funded exposure		Credit commitments & contingent items		Derivatives*	
	2022	2021	**2022**	2021	**2022**	2021
Customer type						
Banks	**6,503**	5,497	**2,058**	1,974	**341**	341
Non-banks	**16,640**	16,496	**5,305**	5,367	**296**	193
Sovereign	**10,426**	10,360	**618**	395	**9**	9
	33,569	32,353	**7,981**	7,736	**646**	543
Risk rating						
1 = Exceptional	**2,162**	976	**908**	980	**-**	-
2 = Excellent	**3,607**	4,580	**291**	172	**61**	26
3 = Superior	**3,512**	3,179	**434**	250	**249**	380
4 = Good	**2,562**	3,165	**1,033**	872	**14**	66
5 = Satisfactory	**10,241**	8,841	**3,323**	3,161	**257**	45
6 = Adequate	**9,936**	10,941	**1,620**	2,073	**61**	26
7 = Marginal	**1,017**	388	**150**	90	**3**	-
8 = Special Mention	**340**	175	**134**	61	**1**	-
9 = Substandard	**166**	61	**54**	44	**-**	-
10 = Doubtful	**22**	47	**27**	33	**-**	-
11 = Loss	**4**	-	**7**	-	**-**	-
	33,569	32,353	**7,981**	7,736	**646**	543

* Derivative exposures are computed as the cost of replacing derivative contracts represented by mark-to-market values where they are positive, and an estimate of the potential change in market values reflecting the volatilities that affect them.

Classified exposures and impairment provisions

The total of all impaired loans as at the end of 2022 was US$655 million (2021: US$599 million). ECL allowances including stage 3 provisions at the end of 2022 stood at US$673 million (2021: US$691 million).

The total of all impaired securities as at the end of 2022 was US$74 million (2021: US$89 million). ECL allowances, including stage 3 provisions, at the end of 2022 stood at US$87 million (2021: US$105 million).



Classified exposures and impairment provisions (continued)

The ageing analysis of impaired loans and securities is as follows:

Impaired loans

(US$ millions)	Principal	Provisions	Net book value
Less than 3 months	68	43	25
3 months to 1 year	123	61	62
1 to 3 years	322	218	104
Over 3 years	142	141	1
Total	655	463	192

Impaired securities

(US$ millions)	Principal	Provisions	Net book value
Less than 3 months	-	-	-
3 months to 1 year	-	-	-
1 to 3 years	-	-	-
Over 3 years	74	74	-
Total	74	74	-

Note: Impaired loans and off-balance sheet credits are formally defined as those in default on contractual repayments of principal or on payment of interest in excess of 90 days. In practice, however, all credits that give rise to reasonable doubt as to timely collection, whether or not they are in default as so defined, are treated as non-performing and specific provisions made, if required. Such credits are immediately placed on non-accrual status and related interest income reversed. Any release of the accumulated unpaid interest thereafter is made only as permitted by International Financial Reporting Standards.

Bank ABC's balance sheet remains strong, with capital and liquidity ratios well above the regulatory requirements.

Group capital structure and capital adequacy ratios

Bank ABC's balance sheet remains strong with capital and liquidity ratios well above the regulatory requirements. LCR and NSFR stood at 225% and 124% respectively as at year-end 2022, while liquid assets to deposits ratio maintained a healthy level at 48.1%.

The Group's capital base of US$4,626 million comprises Tier 1 capital of US$4,336 million (2021: US$4,059 million) and Tier 2 capital of US$290 million (2021: US$265 million).

The consolidated capital adequacy ratio (CAR) as at 31 December 2022, calculated in accordance with the prevailing Basel III rules, was 16.8% (2021: 16.9%), well above the 12.5% minimum set by the Central Bank of Bahrain. The CAR comprised predominantly Tier 1 ratio of 15.7% (2021: 15.9%), well above the 10.5% minimum set by the Central Bank of Bahrain.

All ABC Group subsidiaries meet the capital adequacy requirements of their respective regulatory authorities.

A year of recovery in the MENA region

The outlook improved considerably in core and network markets in 2022 as the world economy continued to recover from the impact of the COVID-19 pandemic and corporate profitability rose. While the Russo-Ukrainian conflict, sporadic COVID-19 lockdowns in China, and base effects led

to global growth slowing to 3.2% in 2022, down from 6% in 2021, our operating markets bucked this trend. MENA economies grew an estimated 5.5%, compared to 4.1% in 2021, led by hydrocarbon exporting countries which enjoyed a sharp improvement in their terms of trade due to the rise in commodity prices and which saw rising European demand for oil and gas pivoting away from Russia.

Interest rates rise to address inflation

In 2022, major central banks moved to counter global inflation with aggressive monetary tightening. This was led by the US Federal Reserve which hiked the policy rate by a cumulative 425bp to 4.5%. Operating conditions in the United States were favourable due to the post-pandemic recovery with higher net interest income. In Europe, the European Central Bank was slower to act and raised their policy rate by a cumulative 250bp to 2.5%. Although this led to an improvement in earnings on equity, operating conditions were more challenging due to higher inflation, spill over from the Russia-Ukraine conflict, and Italy's debt sustainability concerns. Meanwhile in the UK, although the Bank of England was the first major central bank to start their hiking cycle and lifted their policy rate by 325bp to 3.5% last year, the country struggled with double-digit inflation, energy supply concerns, and political instability.

The regional impact of rising commodity prices

Considerably higher commodity prices proved to be a windfall for our hydrocarbon exporting countries last year, as the GCC enjoyed a boom in economic activity and operating conditions improved significantly supported by higher net interest income due to Federal Reserve rate hikes. Algeria saw similar gains in their operating environment. In Libya, higher oil production and prices led to overall favourable conditions, although political uncertainty capped prospects. Despite a contentious election, Brazil saw an improvement in the operating environment and net interest income as the Central Bank of Brazil raised their policy rate by 425bp to 13.75%.

On the other hand, net hydrocarbon importing countries were especially challenged. Despite this, Jordan saw an improvement in its operating environment with a post-pandemic recovery, rising net interest income, and reduced loan loss provisions which supported an increase in return on equity. Conditions were more challenging in Egypt due to the sharp devaluation of the Egyptian Pound and concerns about asset quality due to tighter financial conditions. However, the International Monetary Fund (IMF) came to the assistance of Egypt and the new reform programme has anchored confidence. Tunisia also signed a staff-level agreement with the IMF and the authorities are working on the passage of legislation to secure external assistance. Türkiye demonstrated stability towards the end of 2022 despite a series of challenges from heterodox monetary policy, which saw the policy rate reduced by 500bp to 9%, rising inflation, and commodity price shock.

Looking ahead to 2023

In the year ahead, global growth is expected to weaken to 2.4% due to the fading rebound from the post-pandemic recovery, tighter financial conditions and the ongoing Russia-Ukraine conflict. With slower global growth and a reduction in the geopolitical risk premium, global commodity markets are expected to remain under pressure. Energy and food prices have already returned to levels seen prior to the start of the conflict. Barring a further supply shock, inflationary pressures are expected to recede further. A decline in price pressures, in turn, is expected to allow major central banks, which are focused on tackling forty-year high inflation, to reduce the pace of their rate hikes, with policy rates peaking in the first half of 2023.

Looking further ahead, an eventual decline in inflation is expected to provide scope for central banks to lower policy interest rates, perhaps within two to three quarters following the peak in policy rates. Lower inflation and less hawkish central banks are expected to improve risk appetite and prospects for emerging markets, including for commodity importers in Middle East and North Africa, which have been buffeted by rising rates, a commodity price shock, and a strong dollar.

Bank ABC is setting bold aspirations for 2023, cautious of the expected economic headwinds such as tighter financial conditions, ongoing war in Europe and persistent inflationary conditions. With our strong track record of resilience and overcoming market volatility, we are confident of capitalising our strengths and leveraging our investments to continue to accelerate profitable growth during 2023.

Business & Operations Review

Bank ABC Group demonstrated exceptional resilience this year, overcoming a volatile macroeconomic environment to earn its highest revenues in history, with a remarkable 54% increase in net profit.

This accelerated performance story was driven by broad based asset growth across the Group's franchise, with opportunities in GCC and Brazil created by rising oil and commodity prices, counterbalancing economic pressures in other MENA markets.

Driving its strategy to 'build the bank of the future', Bank ABC continued to strengthen its customer value proposition and its digital retail, wholesale and payments capabilities, winning multiple awards, securing mandates on landmark deals, onboarding multiple new-to-bank client relationships and entering 2023 stronger than ever.

FINANCIAL PERFORMANCE

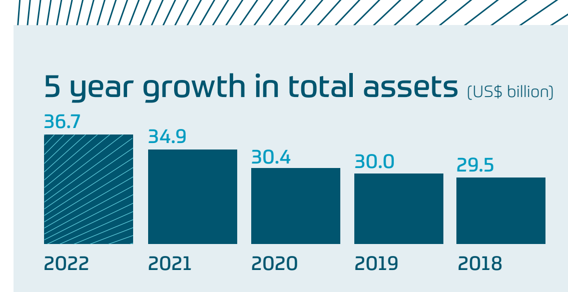
Bank ABC Group celebrated remarkable growth this year, as it achieved a 54% increase in profit and a 29% improvement in revenues compared to 2021. It overcame volatile financial markets and emerged triumphant from the COVID-19 pandemic to achieve US$1.1 billion in revenue, crossing the billion dollar mark for the first time in its history. The Group earned a net profit of US$154 million in 2022, compared to US$100 million the previous year. Total Operating Income reached US$1.10 billion, compared to US$854 million in 2021. Net interest income for the year increased by 33%, from US$592 million in 2021 to US$786 million in 2022, supported by strong growth in loan volumes, higher interest rates, and improving margins. Income composition remained broad based and diversified across various business units.

The integration of BLOM Bank Egypt S.A.E. and related expenses, along with strategic investments in digitalisation, were primary factors in the increase in operating expenses, from US$569 million to US$690 million (21% YOY, giving a positive 'jaws' of 8% against the revenue growth of 29%). The Group's cost income ratio consequently improved to 63% (from 67% in 2021) and was 57%, after adjusting for the continuing investments to drive shareholder value in our digital businesses of ila and AFS.

The Group's total assets stood at US$36.7 billion at the end of 2022, 5% higher than US$34.9 billion at the end of 2021. Loans comprised 50% of total assets and grew by 9% in 2022. Net loans to customer deposits ratio remained broadly stable at 85%, similar to 2021 levels.

Strong Performance built on:

- Core business growth
- Strength in interest rates and BRL
- Full year consolidation of BLOM Bank Egypt (BBE)



GLOBAL BUSINESS LINES

Global Wholesale Banking (WB)

Bank ABC's Global Wholesale Banking (WB) demonstrated tenacity and resilience, overcoming inflation, rising interest rates and currency volatilities across strategic markets. While WB had constrained its risk appetite for corporate client risk during the COVID-19 pandemic, this year it reignited the corporate banking business as the opportunity to meet customers face to face returned. Thanks to deepening wallet share by cross-sell of its expanding product set to existing clients and onboarding many more new-to-bank (NTB) customers throughout 2022, the business grew revenues, improved its core KPIs and closed the year in a position of strong profitability.

WB also continued to pursue its ambitious digital transformation programme launched in 2021. Driven primarily by the customer journey, the initiative aims to build a seamless transaction banking experience for the Bank's customers across state-of-the-art cash management, documentary trade, and supply chain finance solutions.

Global Corporate Banking (GCB)

Following the removal of most pandemic-related travel restrictions, long overdue face-to-face meetings opened new opportunities in Bank ABC's core markets and across its global network. This resulted in Global Corporate Banking (GCB) increasing its bookings of NTB customers across all 15 presence markets.

GCB's 'relationship banking' ethos helped it overcome mixed market challenges, working actively with clients to support their financing needs in difficult conditions. GCC markets benefited from excess liquidity and Bank ABC focused on optimising its client portfolio and underwriting standards. Other MENA markets experienced considerable credit stress and currency volatility as socioeconomic factors weakened.

GCB therefore focused heavily on trade corridors between its markets, and supporting major infrastructure and improvement projects, principally in water, telecom, and power sectors. It helped global and regional trading companies as they leveraged their networks to bring food security and energy certainty to their customers during a difficult year. It also leveraged its trade products to help customers do more business in their existing markets and to expand into new markets in a risk-friendly manner.

Global Financial Institutions & Sovereigns

In the Financial Institutions (FI) and Sovereign clients' segment, the Bank achieved its annual targets with lending activity of MENA sovereigns creating a constructive liquidity environment in the region, allowing for the lengthening of debt maturities and bridging of capital market dues.

Another avenue for growth was the non-bank FI segment, where the Bank continued its journey to build capacity in capital call facilities and other blue chip transactions within its core and network markets, which reflected favourably on the divisions risk adjusted returns.

Global Transaction Banking (GTB)

The Global Transaction Banking (GTB) business performed admirably well in 2022, increasing headline revenues despite a macro backdrop characterised by supply chain bottlenecks, increased inflation, and a recessionary outlook for several major economies. Key metrics such as digital penetration showed significant improvement, with over half of WB clients onboarded onto the digital platform. The business showed noticeable progress in supply chain finance globally by winning several deals, including a large receivables finance mandate with a marquee oil and gas player in GCC.

The GTB's digitalisation programme delivered several key solutions this year and is well on track for its 2023 plans. Since the launch of the programme, seven releases have gone live across its various modules. The next phase will focus on scaling the solutions both in terms of functional capabilities as well as propagating the solutions to other Bank ABC units across the globe.

Finally, the team's dedication and efforts gained external recognition as the Bank won the coveted 'The Banker's Transaction Banking Award 2022 for Middle East' from the Financial Times.

Specialised Finance (SF)

Economies recovering from the pandemic combined with growing inflation and high oil prices generated ample GCC regional liquidity in 2022, which put pressure on loan margins given the reduced number of deals in the market. Nonetheless, the Specialised Finance (SF) team took advantage of the number of borrowers seeking to refinance their original project finance loans and built on the success of the capital call financing initiative. It continued to maintain a balanced portfolio approach with a focus on primary origination and lead arranging mandates, specifically in industrials, metals, oil and gas, shipping, and fund financing.

SF closed several deals successfully during the year, including a US$415 million joint underwriting for a client in the metals sector, which was then successfully syndicated. Other notable deals include a US$50 million refinancing for a new client in Jordan, complemented by US$230 million of fund finance. Towards the end of the year, the Bank won its first project finance arranging mandate in the renewables sector, for a commercial and industrial solar power developer in the MENA region. Meanwhile, the Bank's SF portfolio remains diversified in terms of sectors and sub-products, offering considerable resilience to potential volatility.

Islamic Finance

Bank ABC Islamic posted outstanding results this year, based on stable performance of client businesses, better churn of assets, improved management of credit costs, and lower provisioning, along with increased market profit rates. Profits rose by 31.6% in 2022 with net profitability of US$39.3 million, compared to US$29.9 million in 2021.

Investments in digitalisation paid off with the 'alburaq' Islamic banking proposition in Algeria onboarding new corporate and retail clients throughout the year. The Bank seized this momentum to prepare for the launch of ila alburaq in Bahrain.

Bank ABC Islamic participated in several headline deals. This included a US$750 million senior unsecured Sukuk for Dubai Islamic Bank (DIB), as well as a second for DIB later in the year and a US$500 million senior unsecured Sukuk for Boubyan Bank. Notably, the Bank also acted as Coordinator, Bookrunner and Underwriter for Aluminium Bahrain's US$1.6 billion dual tranche syndicated facility and served as Mandated Lead Manager for nogaholding's dual tranche syndicated facility valued at US$1.075 billion.

Real Estate Finance

The Group's global real estate business in Bank ABC in Europe (ABCIB) grew steadily, despite disruptions by currency volatility and higher interest rates in the UK market. ABCIB's niche business continued to identify and successfully conclude landmark transactions focusing on class A modern real estate, which is witnessing a surge in demand coupled with falling back supply.

In Bank ABC's New York branch, the US real estate business witnessed another record year in 2022 exceeding expectations on its return metrics and

leveraging opportunistic loan margins on the backdrop of the pandemic.

The consolidation of the Bank's traditional European real estate business with North America has now formed a solid and diversified asset and income base for the Group.

Group Treasury and Financial Markets (GTFM)

Interest rate volatility in 2022 directly impacted capital markets, with volumes in MENA dramatically decreasing by 65% from US$110 billion to US$40 billion. While international banks experienced an increase in the cost of funding and reduced liquidity, MENA banks were insulated thanks to buoyant oil prices. This positioned MENA loan markets favourably to benefit from volatility and Bank ABC successfully won numerous high-profile primary market mandates for sovereign borrowers, government-related entities and financial institutions.

These included a USD 750 million 5-year Inaugural Sustainable Sukuk for Dubai Islamic bank as a JLMs/Bookrunner along with 7 other banks; a 7-year US$ 3.5bn facility for The Sultanate of Oman, where Bank ABC and six regional banks, as Initial Mandated Lead Arrange and Bookrunners, underwrote US$ 500mn each; and a US$ 1,247mn 8-year debut sustainability-linked dual tranche Islamic and conventional term facility for ALBA, with Bank ABC and two other regional banks mandated as Joint Coordinators, IMLABs and Underwriters.

Bank ABC's Financial Markets businesses also grew revenues, client base, and product offerings across market, credit, and liquidity risk management. The team enhanced their FX digital offering to clients including through integration into the new WB platforms and plans to expand into the international units. The Bank was well positioned to take advantage of capital markets' dynamics during the year.

In addition, Bank ABC played an active role in the secondary loans market to capture attractive trading opportunities. Underwriting and distribution formed the foundation of the Bank's ability to remain active in the syndicated market space, having underwritten over US$2 billion during 2022 and achieving its highest revenues to date in this space.

Group Retail and Digital Banking

In 2022, Retail showed increasing revenues and loan volumes leading to a net profit improvement of 13% more than the previous year.

Retail teams worked closely with existing and new customers to accelerate enrolment in the Bank's online banking platform, ABC Digital, which significantly increased the number of subscribers and digitally processed transactions. This was supported by enhancements and new functionalities for MENA geographies and requirements, as well as for diversified customer segments.

Throughout 2022, the Group continued to invest in technology and strategic digital initiatives across its businesses, achieving milestones that allow for improved customer experience and engagement, operational efficiency, and scalability - and more details on Bank ABC's ila and AFS business lines is outlined below.

GEOGRAPHIC UNITS AND SUBSIDIARIES

Algeria

Bank ABC Algeria contributed approximately 8% of Bank ABC Group's bottom line in 2022, with a total operating income of US$33 million. Despite economic stagnation in the local market and the change to regulations that reduces the size of banks assets portfolio, Bank ABC Algeria remained resilient and maintained its assets portfolio worth US$359 million. Following the launch of alburaq in the main branch in 2021, this year the Bank began offering the Islamic service in three additional branches in the country.

Bank ABC Algeria is expected to achieve double-digit growth in net profit in 2023. It will continue to focus on the Islamic window, whilst managing credit risk and liquidity to maintain its high-quality portfolio.

Egypt

The completion of the legal merger to combine Bank ABC Egypt (Bank ABCE) and BLOM Bank Egypt has created a much larger banking franchise in Egypt, providing a solid platform for new growth and improved customer experience, leveraging the market-leading digital services of the Bank ABC Group. Despite local and global economic pressures, Bank ABC Egypt delivered – on a combined basis – an outstanding result, earning net profit of US$20mn, after taking into account currency depreciation. The balance sheet footing grew by 7% in EGP terms, showing good underlying growth in difficult market conditions.

In 2023, the priority will be to progress the integration as efficiently as possible so that stakeholders can quickly experience the benefits of the merger (targeting completion in Q4 2023/Q1 2024). Bank ABC Egypt is also progressing plans to introduce innovative digital services. It will also optimise its larger combined network to reach more customers and expand support to businesses across a wider range of sectors.

BLOM Bank Acquisition by the numbers

65+	New branches
120+	New ATMs
3x	Market share

Jordan

In 2022, the Bank celebrated the launch of ila Jordan, coinciding with the inauguration of Bank ABC's new 20,000 square-metre headquarters in Amman. From a retail business standpoint, the Bank achieved excellent growth in assets and credit card sales as well as driving current and savings accounts to higher levels improving the cost of funds.

WB achieved significant growth in the portfolio by onboarding new-to-bank (NTB) clients with most of the new deals being through medium-sized loans. WB also experienced substantial growth in CASA balances during 2022, increasing by over 90%. Additionally, WB introduced a new receivable financing product and are actively working towards introducing a payable financing product to the portfolio. The Group's efforts to enhance its digital capabilities also saw the launch and roll-out of the digital onboarding portal for WB clients in Jordan, streamlining the process and making it more efficient.

In 2023, Bank ABC in Jordan will continue to diversify its portfolio, increase cross-selling activities, and scale ila customer acquisition and services. The aim is to roll out the Group cash management solution and to expand the international and regional client base for the online trading platform. It will also tap into new markets such as Iraq to gain a higher share of export letters of credit.

Tunisia

Bank ABC Tunisia improved profitability during the year, despite a challenging political and economic context, global disruption of trade finance flows, and a price-competitive local market. WB revenues exceeded targets with an intense client coverage approach to onboard new-to-bank (NTB) customers and cross-sell export letters of credit confirmation and deposit volume. Retail Banking also drove its business to exceed targets in an environment challenged by the local competition.

Bank ABC Tunisia is becoming an active player in the emerging digital finance ecosystem in Tunisia, partnering with payment service providers and payment facilitators. This year, it enhanced its digital onboarding platform for WB, achieving a digital penetration rate of 62%.

Bank ABC Tunisia also welcomed its new CEO, Saber Ayadi, along with a clear strategy for accelerating business growth and boosting the Bank's returns.

Arab Financial Services (AFS)

AFS delivered a remarkable financial performance in 2022, with its revenue increasing almost 80% on 2021. This result reflects the significant underlying growth in recurring revenues and demonstrates solid performance across all main business lines.

Its acquiring businesses in Bahrain and Oman had a strong year. AFS's launch of merchant acquiring business in Egypt was also a significant strategic step forward and is to become a hub for the latest payments solutions and innovations to Egypt's businesses and financial institutions, enabling them to tap into faster, more cost-effective, and data-enriched solutions.

Issuer processing, another core business, delivered a very strong year, with recurring revenues increasing by more than 30%. A key highlight was the inward migration of one of the largest retail banks in Bahrain, a complex project delivered flawlessly and at pace. AFS also signed its first processing client in Libya, under a new "Issuance-as-a-Service" product, and connected with another prestigious financial institution as part of its Regional Partner Programme, both moves as part of its platform for FinTechs to launch, expand and scale their products across the region. In Bahrain, AFS also successfully completed a leading Islamic bank's merger related information migration activities.

AFS launched its proprietary digital wallet and upcoming payments super app, BPay. Developed entirely in-house, BPay is a secure, easy-to-use, and fully featured payments platform in line with the Kingdom of Bahrain's strategy to drive digital transformation. The product will continue to be developed and will increasingly focus on business-to-business cases such as supply chain payments.

This performance throughout the year was recognised across the sector and also saw AFS take home a prestigious award at the MEA Finance Awards 2022. As the leading digital payment solutions provider and fintech enabler in the Middle East and Africa, AFS was named 'Best Payments Solutions Provider – Bahrain'

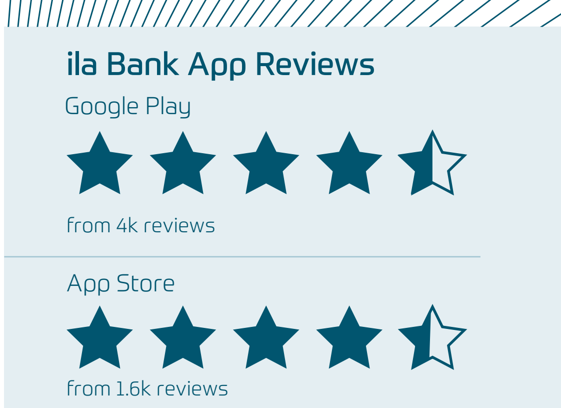
AFS

Since 2018, the focus has been on three key areas:

- CORE CARD PROCESSING
- MERCHANT ACQUIRING
- FINTECH

ila Bank

In 2022, Bank ABC's digital bank, ila, continued its impressive growth. The customer base grew by 73%, while deposits grew by 91% and total transaction volumes were 2.4 times greater compared to the previous year. It maintained top-ranking positions in the app stores and took home a Red Dot Award for Brands & Communication Design, an IBSi Neochallenger Bank Award, and five titles at the Global Finance Digital Banking Awards.



The launch of ila Bank in Jordan this year was a first step towards the Group's geographical expansion of ila across its MENA footprint.

The platform continued to diversify its products offerings and improve the overall ila customer experience. Examples include the release of competitive fixed deposits accounts, as well as prize-linked customer accounts, known as 'Al Kanz.' It also enhanced its credit card offerings with new features such as cash advances and the issuance of supplementary cards.

In 2023, ila will continue this momentum, diversifying the Bank's suite of product offerings, for example, incorporating a new loyalty and rewards programme, and continuing its geographical expansion in Bank ABC Group's core MENA markets.

Bank ABC Europe (ABCIB)

Bank ABC Europe (ABCIB and its EU subsidiary ABC SA) performed well across its business lines in 2022 despite the economic headwinds caused by currency volatility, rising interest rates and inflation and supply chain disruptions. It maintained a continuing focus on core products and key markets in a volatile economic environment on one hand with deepening of transformational change in the digital and Wholesale and Transaction Banking spaces on the other. This was key to success, manifesting in diversification of revenue streams, cross selling, and on-boarding of new customers. These efforts resulted in revenues and profits exceeding targets on an underlying basis, adjusting for FX volatility.

Supply Chain Finance (SCF) capabilities were successfully leveraged across the branch and representative offices, adding new partners in the UK and Turkey and expanding existing clients seeking support in non-MENA markets. Global Trade Debt Distribution sold a record levels of trade finance assets to 43 Financial Institution and Non-Bank Financial Institution investors in 17 countries. Trade Lending, primarily to Turkey and other FI clients, had another strong year despite margin compression in many core markets. Real Estate also yielded notable results by sourcing new business and underwriting significant new financings.

Bank ABC Europe performed strongly in the latter part of 2022 with a pipeline of significant transactions to be executed and drawn in early 2023. This together with increasing interest rates, growth initiatives across the Bank (including the WB digital transaction banking roll-out), creates a positive 2023 outlook for the business.

Banco ABC Brasil

Banco ABC Brasil (BAB) continued to expand its structural profitability level, reaching a return on average equity of 16.2% in 2022, completing its most significant investment cycle, and paving the way for continued growth in the following years. Net income was US$155 million, the highest in history and a 47% increase compared to 2021. This performance was a strong contributor to the earnings and diversification of Bank ABC Group.

BAB grew its active client base by 29%, reaching almost 4,500 corporate clients by the end of 2022, an addition for the first time of more than 1,000 new companies in a fiscal year. BAB also continued with client diversification, with the middle market segment accounting for approximately 10% of the expanded credit portfolio. BAB was again voted among the top five in the APIMEC/IBRI awards for 'Best Investor Relations Practice – Small/Mid Cap,' earning the recognition for the third year in a row. It was also ranked #2 among companies with 1,001 to 1,500 employees in the Valor Carreira survey, which recognises the best people management practices.

SUPPORTING BUSINESS EXCELLENCE

Bank ABC's profitability this year relied heavily on its robust organisational infrastructure, which provides dynamic, seamless, and efficient support services across the Group.

Group Finance continued to play its critical role in managing the Group's statutory and regulatory reporting, as well as ensuring international tax compliance covering transfer pricing and other planning activities. It was also instrumental in driving forward the Group's performance management through budgeting and forecasting, and setting and monitoring of targets for KPIs and key metrics, and with the involvement of the **Accounts and Expense Management / Business Catalyst** teams, ensured effective cost management and resource allocation.

Alongside this, **Group Balance Sheet Management** led the further development and embedding of the Group's Risk Adjusted Return on Capital (RAROC) approach and facilitated effective planning with the Group's Asset and Liability Committee (GALCO) to maintain capital and liquidity ratios at high levels, these being key factors in S&P's decision to reaffirm the Group's BBB- rating and to move Bank ABC's outlook to stable.

Group Strategy has also worked closely with the Group's Management Committee in a thorough review of the Group's strategic positioning, and has been facilitating development of the 'Accelerate, Boost, Capitalise' framework for a detailed business line and market based strategic roadmap. This is leading to finalization of a comprehensive set of implementation plans and new financial aspirations for enhanced shareholder returns to be agreed with the Group's Board for the coming strategic cycle.

In 2022, **Group Operations** continued its drive to digitise, simplify and hub operational processes using Lean Six Sigma and the Group ideas portal, 'Fikra.' The centralisation of Trade Finance processing received very positive feedback and the hubbing strategy will be developed and reinforced further in 2023.

Group Business Continuity Management (Group BCM) Bank ABC continues to enhance its business continuity and disaster recovery capabilities across the Group to ensure arrangements in place remain valid to accommodate growing business needs. This is achieved through rigorous testing of business continuity and disaster recovery plans and training activities for employees.

Aligned to the Group's strategy of building our 'bank of the future' the Bank recognises the importance of resiliency and its ability to withstand extreme disruptions and thus to align with leading industrial bodies, Group BCM initiated the implementation of Operational Resilience which will be the focus and priority for 2023.

Group Information Technology (GIT) The information technology and technical infrastructure continue supporting successful customer experiences and strong resiliency. GIT continue investing on Group-wide technology platforms to deliver better products and services and have partnered with global technology leaders, Temenos and NdcTech, to implement a next-generation core banking system for the Bank's digital, retail, corporate and wholesale businesses.

As the evolving threat landscape, pandemics, climate events, and geopolitical events continue creating uncertainty, GIT works together with Business Continuity Management to implement technology-enabled resilience plans to support the Bank's wide Operational Resilience programme.

GIT also continues to adapt the technology service model by moving to cloud technology and upgrading core infrastructure and systems.

As the function operates in accordance with data privacy and cybersecurity laws and regulations to protect the personal data that has been entrusted to us and the Bank's sensitive information, a refreshed and holistic cybersecurity strategy has been approved by the Board and is being implemented by GIT alongside the independent Cyber & Information Security department. GIT and **Group Cyber &**

Information Security continue to comply with the mandatory SWIFT CSP and PCI-DSS security requirements.

In 2022, **Group Innovation** and the Bank's Corporate Innovation and Digitisation Centre (ABC Labs) implemented several new capabilities for the Bank including rolling out an innovative digital onboarding service for FIs and corporates across 11 ABC units, as well as collaborating with different functions to deploy Robotic Process Automation (RPA) which automated several tasks and processes. In addition, a cloud-based data and analytics platform which can utilise Artificial Intelligence and machine learning to provide insights was established, to be scaled in 2023 with specific use cases. Furthermore, a Frontline Platform initiative to digitally empower frontliners was also initiated. In parallel, several activities and initiatives were organised to foster digital innovation such as talks and design thinking workshops.

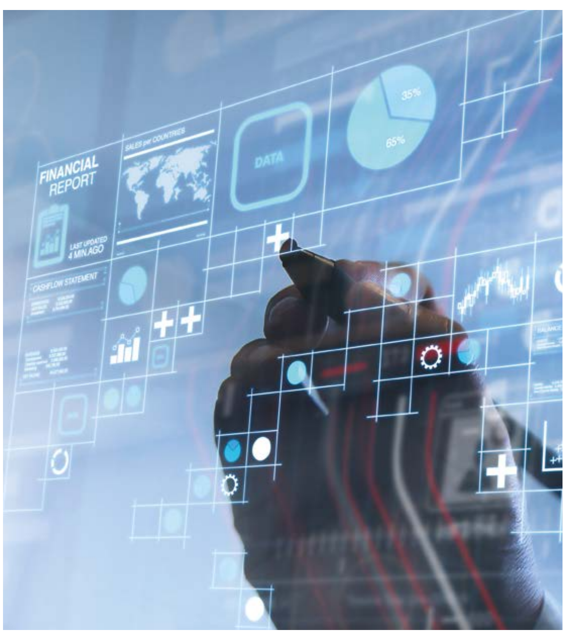
As part of its 2nd line of defence responsibilities, **Group Credit and Risk** continues supporting Bank's activity in managing, assessing, mitigating and monitoring risks and credit losses. This was achieved by a number of initiatives, measures & controls, such as: Revamping the entire suite of Credit Policies, Standards and Procedures to be in compliance with the CBB Rulebook, issuance of Risk Acceptance Criteria for a number of products and markets, implementing Moody's Strategic Solution for IFRS 9 expected credit loss calculations, adopting new rating models for emerging markets and Real Estate, enhancing the ESG framework, supporting key strategic initiatives by enhancing Units and Group delegated authorities, setting SLAs for Credit Application process, establishing the Portfolio Forum and disseminating Lessons Learnt to further improve risk culture.

Group Compliance continued to support the business throughout 2022 with managing it's compliance risk. A new comprehensive Anti-Bribery and Corruption Risk Assessment Methodology was rolled out Group-wide during 2022, reflecting international best practices. The function also supported the BBE integration project in Egypt, including ensuring key compliance risks were identified and escalated where appropriate.

Group Human Resources (GHR) adeptly managed the BLOM Bank Egypt merger this year, enacting thorough and independent processes for top team selection and implementing reward harmonisation plans. It focused on wellness and a safe return to work following the COVID-19 pandemic, as well as programmes to support women in the workplace. GHR excelled at managing recruitment this year, saving significant amounts in headhunting fees.

Group Corporate Communications (GCC) continued to support the delivery of the Bank's strategic objectives in 2022, highlighting the Bank's continued performance while it evolves as a robust, scalable and sustainable bank of the future. It steered the communications workstream throughout the BLOM and Bank ABC Egypt merger, continuing into the ongoing Integration of the two banks in Egypt. Additionally, GCC organised strategic events including the Annual General Meeting, Head Office Town Hall and the Global Leadership Team Meeting that convened over 70 top executives from across the Group, to discuss and debate its strategic roadmap ahead. GCC also oversaw the launch of the ila Bank in Jordan, successfully establishing the award-winning brand in a core market. Additionally, the function continues to provide strategic communication support to the Bank's Wholesale Banking Digital Transformation programme, Diversity, Equity & Inclusion agenda and driving the Bank's Environmental, Social and Governance impact and initiatives.

Group Corporate Services provided comprehensive facilities, procurement, and operational safety services to the group. Key strategic facilities projects included the delivery of the new head office and on-going refurbishment of the old head office in Jordan, rebranding, and fitouts of integrated BLOM Bank branches in Egypt, upgrades across ABC geographies and the addition of Dubai DIFC office and Bahrain Business Continuity office. Strategic sourcing successes delivered encompassed group-wide optimisation of insurance and other contract negotiation. Other initiatives included operational safety and environmental efficiency improvements in office energy, recycling, and water: underpinned by updated group safety, procurement, and vendor management procedures.



Industry awards and recognition

2022 saw Bank ABC win a number of prestigious accolades, a testament to its ambitious agenda, effective strategy implementation and consistent excellence in banking.

A word from the industry's leading commentators

Liz Lumley
Deputy Editor, The Banker

"Bank ABC impressed with its comprehensive transformation of both the retail and wholesale bank to take advantage of cloud-native technologies, Artificial Intelligence (AI), data analytics and open APIs, while the goals of ABC Labs presented a clear and mature innovation strategy."

Aylin Junga
Euromoney Researcher

"Bank ABC has been at the forefront in deploying cutting edge, customer centric digital innovations across the full scope of its portfolio. The Bank also collaborated with various stakeholders and Central Bank of Bahrain to pilot a flagship digital currency payment product."

Joseph D. Giarraputo
Founder and Editorial Director, Global Finance.

"Bank ABC has long supported the flow of trade and investment between MENA and the rest of the world, and the recent merger of BLOM Bank Egypt with Bank ABC Egypt is set to bring significant trade finance transformation to this important MENA market. Strengths in Open Account financing, Documentary Trade, Standby Letter of Credit (SBLC) and Guarantees have helped Bank ABC to become a Trade and Supply Chain Finance powerhouse in the region,"

Bank ABC Awards:

Middle East Winner - Innovation in Digital Banking Awards by The Banker

Best Bank for Cash Management in Bahrain & Tunisia by Global Finance

Best Digital Banking Initiative in Middle East at MENA Banking Excellence Awards by MEED

Best Bank for Digital Solutions in Bahrain by Euromoney

Middle East Winner - Transaction Banking Awards by The Banker

Best Treasury Implementation award by IBSi Global Fintech Innovation Awards

MENA Islamic Finance Bank of the Year award for Bank ABC Islamic by MEED

Best Islamic Capital Markets Deal of the Year at the Bonds, Loans & Sukuk Turkey Awards

ila Bank Awards

Best Consumer Digital Bank in Bahrain Global Finance- World's Best Consumer Digital Bank Awards

Also the country winner for:
Best User Experience (UX) Design
Best Mobile Banking App
Best in Social Media Marketing & Services
Most Innovative Digital Bank

MENA Best User Experience by Red Dot Design Awards

Leading Digital Bank in the Middle East Leading Digital Bank in the Consumer Banking Segment by IBSi Neo Challenger Bank Awards

Risk Management

31 December 2022 (All figures in US$ Million)

Executive summary

This document comprises of the Group's (as defined below) capital and risk management disclosures as at 31 December 2022.

The disclosures in this section are in addition to the disclosures set out in the consolidated financial statements presented in accordance with International Financial Reporting Standards (IFRS).

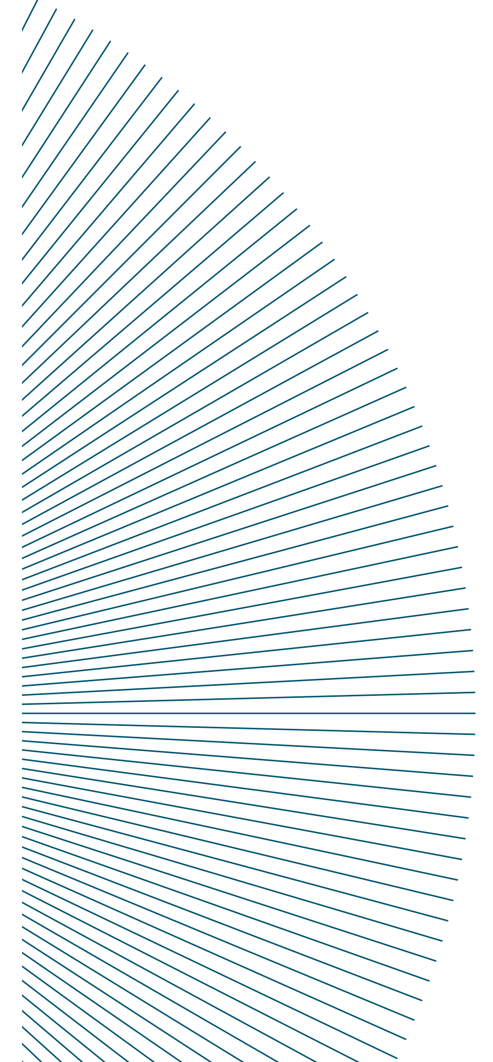
The principal purpose of these disclosures is to meet the disclosure requirements of the Central Bank of Bahrain (CBB) through their directives on public disclosures under the Basel III framework. This document describes the Group's risk management and capital adequacy policies and practices – including detailed information on the capital adequacy process and incorporates all the elements of the disclosures required under Pillar III. It is organised as follows:

- An overview of the approach taken by Bank ABC (Arab Banking Corporation (B.S.C.)) ["the Bank"] and its subsidiaries [together "the Group"] to Pillar I, including the profile of the risk-weighted assets (RWAs) according to the standard portfolio, as defined by the CBB.
- An overview of risk management practices and framework at the Bank with specific emphasis on credit, market, and operational risk. Also covered are the related monitoring processes and credit mitigation initiatives.
- Other disclosures required under the Public Disclosure Module of the CBB Rulebook Volume 1.

The CBB supervises the Bank on a consolidated basis. Individual banking subsidiaries are supervised by the respective local regulator. The Group's regulatory capital disclosures have been prepared based on the Basel III framework and Capital Adequacy Module of the CBB Rulebook Volume 1.

For regulatory reporting purposes under Pillar I, the Group has adopted the standardised approach for credit risk, market risk and operational risk.

The Group's total risk-weighted assets as at 31 December 2022 amounted to US$ 27,546 million (2021: US$ 25,595 million), comprising 91% (2021: 90%) credit risk, 3% (2021: 4%) market risk and 6% (2021: 7%) operational risk. The total capital adequacy ratio was 16.8% (2021: 16.9%), compared to the minimum regulatory requirement of 12.5%.



The Bank's total Capital Adequacy Ratio (CAR) was 16.8%, compared to the minimum regulatory requirement of 12.5%.

1. The Basel III framework

The CBB implemented the Basel III framework from 1 January 2015.

The Basel Accord is built on three pillars:

- **Pillar I** defines the regulatory minimum capital requirements by providing rules and regulations for measurement of credit risk, market risk and operational risk. The requirement of capital must be covered by a bank's eligible capital funds.
- **Pillar II** addresses a bank's internal processes for assessing overall capital adequacy in relation to material sources of risks, namely the Internal Capital Adequacy Assessment Process (ICAAP). Pillar II also introduces the Supervisory Review and Evaluation Process (SREP), which assesses the internal capital adequacy.
- **Pillar III** complements Pillar I and Pillar II by focusing on enhanced transparency in information disclosure, covering risk and capital management, including capital adequacy.

a. Pillar I

Banks incorporated in the Kingdom of Bahrain are required to maintain a minimum capital adequacy ratio (CAR) of 12.5% and a Tier 1 ratio of 10.5%. Tier 1 capital comprises of share capital, treasury shares, reserves, retained earnings, non-controlling interests, profit for the period and cumulative changes in fair value.

In case the CAR of the Group falls below 12.5%, additional prudential reporting requirements apply and a formal action plan setting out the measures to be taken to restore the ratio above the target should be submitted to the CBB. The Group has defined its risk appetite above the CBB thresholds. The Group will recourse to its recovery planning measures prior to the breach of its Board approved risk thresholds.

The CBB allows the following approaches to calculate the RWAs (and hence the CAR).

Credit risk	Standardised approach.
Market risk	Standardised, Internal models approach.
Operational risk	Standardised, Basic indicator approach.

The Group applies the following approaches to calculate its RWAs:

- **Credit risk – Standardised approach:** the RWAs are determined by multiplying the credit exposure by a risk-weight factor dependent on the type of counterparty and the counterparty's external rating, where available.
- **Market risk – Standardised approach.**
- **Operational risk – Standardised approach:** regulatory capital is calculated by applying a range of beta coefficients from 12% - 18% on

the average gross income for the preceding three years – applied on the relevant eight Basel defined business lines.

b. Pillar II

Pillar II comprises of two processes, namely:

- an Internal Capital Adequacy Assessment Process (ICAAP); and
- a Supervisory Review and Evaluation Process (SREP).

The Group continues to closely monitor the global economic situation to **ensure operational resilience and continuity of its operations.**

The ICAAP incorporates a review and evaluation of all material risks to which the Bank is exposed to and an assessment of capital required relative to those risks. The ICAAP compares this against available capital resources to assess adequacy of capital to support the business plan and withstand extreme but plausible stress events. The ICAAP and the internal processes that support it should be proportionate to the nature, scale, and complexity of the activities of a bank.

The CBB's Pillar II guidelines require each bank to be individually assessed by the CBB in order to determine an individual minimum capital adequacy ratio. Pending finalisation of the assessment process, all the banks incorporated in the Kingdom of Bahrain are required to maintain a 12.5% minimum capital adequacy ratio and a Tier 1 ratio of 10.5% for the consolidated group. This already includes a 2.5% capital conservation buffer as part of Pillar I capital requirements.

The SREP is designed to review the arrangements, strategies, processes and mechanisms implemented by a bank to comply with the requirements laid down by the CBB and evaluates the risks to which the bank is/could be exposed. It also assesses risks that the bank poses to the financial system.

The SREP also encourages institutions to develop and apply enhanced risk management techniques for the measurement and monitoring of risks, in addition to the credit, market and operational risks addressed in the core Pillar I framework. Other risk types, which are not covered by the minimum capital requirements in Pillar I, include concentration risk, liquidity risk, interest rate risk in the banking book, climate change risk, pension obligation risk, strategic risk and reputational risk. These are covered either by capital, or risk mitigation processes under Pillar II.

The Group's ICAAP meets the CBB's ICAAP regulatory requirements and has also been benchmarked to international practice, and adapted as appropriate, relevant and proportionate to Bank ABC's business model. The Pillar II Capital assessment is based on Group Capital Management Framework (GCMF) and the CBB's ICAAP and IST (Integrated Stress Testing) regulatory requirements.

c. Pillar III

Pillar III prescribes how, when and at what level information should be disclosed about an institution's risk management and capital adequacy assessment practices.

Pillar III complements the minimum risk-based capital requirements and other quantitative requirements (Pillar I) and the supervisory review process (Pillar II) and aims to promote market discipline by providing meaningful regulatory information to investors and other interested parties on a consistent basis. The disclosures comprise detailed qualitative and quantitative information.

The disclosures are designed to enable stakeholders and market participants to assess an institution's risk appetite and risk exposures, and to encourage all banks, via market pressures, to move towards more advanced forms of risk management.

The Group's disclosures meet the minimum regulatory requirements and provide disclosure of the risks to which it is exposed, both on and off-balance sheet.

2. Group structure and overall risk

a. Group structure

The parent bank, Arab Banking Corporation (B.S.C.) (known as Bank ABC), was incorporated in 1980 in the Kingdom of Bahrain and operates under a conventional wholesale banking license issued by the CBB.

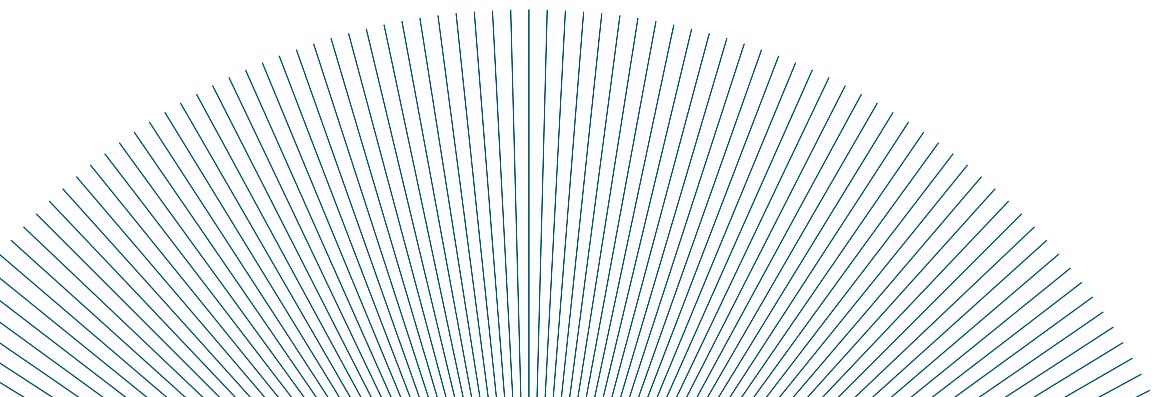
The consolidated financial statements and capital adequacy regulatory reports of the Bank and its subsidiaries have been prepared on a consistent basis.

On 15 January 2021, the Bank entered into a sale and purchase agreement with BLOM Bank SAL, Lebanon, to acquire its 99.5% (including stake bought through mandatory tender offer) stake of BLOM Bank Egypt [S.A.E] (BLOM Bank Egypt). All the regulatory approvals and relevant completion conditions for the acquisition were fulfilled and the Group completed the acquisition transaction during 2021.

Refer note 35 to the annual consolidated financial statements for the year 2022 for further details on the acquisition.

The principal subsidiaries as at 31 December 2022, all of which have 31 December as their year-end, are as follows:

	Country of Incorporation	Shareholding % of Arab Banking Corporation (B.S.C.)
ABC International Bank plc	United Kingdom	100.0
ABC SA	France	100.0
ABC Algeria	Algeria	88.9
ABC Islamic Bank (E.C.)	Bahrain	100.0
Arab Financial Services Company B.S.C. (c)	Bahrain	90.4
Banco ABC Brasil S.A.	Brazil	63.7
Arab Banking Corporation - Egypt [S.A.E.]	Egypt	99.8
Arab Banking Corporation (ABC) — Jordan	Jordan	87.0
ABC Tunisie	Tunisia	100.0
BLOM Bank - Egypt [S.A.E]	Egypt	99.5



b. Risk and capital management

Governance

The Governance framework within the Bank is driven by the Board with clearly defined roles and responsibilities for Board level committees, Management committees and Executive Management within the Bank.

Board Level

The Board has five committees, amongst which the Board Risk Committee (BRC) is tasked with oversight of all key risk matters in the Bank. The Board of Directors, under advice from the Board Risk Committee (BRC), sets the Group's Risk Strategy/Appetite and Policy Guidelines. Executive management is responsible for their implementation.

Within the broader governance infrastructure, the Board Committees carry the main responsibility for best practice management and risk oversight. At this level, the BRC oversees the definition of risk/reward guidelines, risk appetite, risk tolerance standards, and risk policies and standards.

Management Committees

The current committee structure provides for the Group Risk Committee (GRC) and Group Asset Liability Committee (GALCO) reporting to the Board Risk Committee and the Group Compliance Oversight Committee (GCOC) to the Board Compliance Committee.

The Board Risk Committee (BRC) sets the Group's Risk Strategy/Appetite and Policy Guidelines. **Executive management is responsible for their implementation.**

The primary objective of the **GRC** is to define, develop and monitor the Group's overarching risk management framework considering the Group's strategy and business plans. The **GALCO** is responsible for overseeing the implementation of the Group's Asset / Liability Management Framework which includes capital, liquidity & funding, and market risk in line with the Risk Appetite Framework. The **GCOC** is responsible for strengthening the focus on compliance within the Group's risk management framework.

The Group's subsidiaries are responsible for managing their risks through local equivalents of the head office committees described above with appropriate Group oversight.

Three lines model

The Bank employs the three lines model to protect value of the Group. Some of the key responsibilities split by each line are presented below:

1st Line: (Ownership & Management)

- Day to day management and control of relevant risk related to their area of responsibility;
- Designing and implementing controls to respond to any changes in the risk profile;
- Identification, evaluation and reporting their key risk exposure;
- Root cause analysis of risk events and action planning to prevent recurrence;
- Tracking of action plans and performance assurance/testing to ensure that completed actions are proved effective;
- Maintaining appropriate and adequate documentation to evidence compliance with their risk accountabilities and responsibilities.

2nd Line: (Assisting with Managing Risks)

- Development and maintenance of the Risk Policy and Framework;
- Oversight of 1st line's compliance with the Risk Policy & Framework
- Review and challenge of actions being undertaken by the 1st Line in respect of relevant risks;

- Reporting to relevant committees on significant risks and control weaknesses and progress undertaken by the 1st Line in mitigating risks outside of the risk appetite.

3rd Line: (Assurance)

- Independent assurance of the effectiveness of Controls;
- Risk based programme of audit activity; and
- Reporting to the Board Audit Committee.

The **Credit & Risk Group (CRG)** is the second line risk function responsible for assisting, identifying, and managing credit, market and operational risks arising from the Group's activities. It makes recommendations to the relevant central committees about the appropriateness of the 1st line's compliance with policies and procedures for managing these risks. All areas of risk are overseen by the Group Chief Credit & Risk Officer, who reports into the Group CEO and the Chair of the BRC.

The **Group Balance Sheet Management (GBSM)** function is a second line function responsible for capital planning and management, coordinating Internal Capital Adequacy and Assessment Process (ICAAP), efficient capital allocation through administering risk adjusted return on capital (RAROC), liquidity planning and analysis, structural funding assessment, developing Internal Liquidity Adequacy Assessment Process (ILAAP), dynamic Balance Sheet modeling to assess potential emerging impact on capital and liquidity metrics and facilitating Balance Sheet optimisation.

Group Audit functions as a third line of defense and has a reporting line, independent of management, directly to the Board Audit Committee. The primary objective of Group Audit is to provide an independent opinion and risk-based review on the design and operating effectiveness of the control environment across the group on all aspects of risk management, including Bank's policies and procedures.

c. Risk in Pillar I

Pillar I addresses three specific types of risks, namely credit, market and operational risk. The Pillar I process describes the basis for the calculation of regulatory capital.

CREDIT RISK

Credit risk is the risk that a customer or counterparty to a financial asset, fails to meet its contractual obligations, and causes the Bank to incur a financial loss.

Credit Risk Management ensures that the 1st line complies with the Bank's policies, standards and procedures designed to manage risk.

In particular it ensures that the obligor risk rating is accurate and reviewed on a timely basis.

The Group's portfolio and credit exposures are managed in accordance with the Group Credit Policy, which applies Group-wide qualitative and quantitative guidelines, with particular emphasis on avoiding undue concentrations or aggregations of risk.

The Group's banking subsidiaries are governed by policies and standards aligned with the Group Credit Policy and its associated standards but may be adapted to suit local regulatory and legal requirements as well as individual units' product and sectoral needs.

The Group's retail lending is managed under a framework that considers the entire credit cycle. Retail obligor facilities are offered under product programs. The product programs are governed by a set of policies and standards describing the product program approval, monitoring, reporting and recovery processes.

Additionally, Credit Risk ensures that where obligors default, losses are kept to a minimum through timely remedial actions.

Refer note 25.4 to the 31 December 2022 audited consolidated financial statement for definition and policies for management of credit risk.

MARKET RISK

Refer note 25.6 to the 31 December 2022 audited consolidated financial statement for definition and policies for management of Market risk.

The Group is exposed to the following types of market risk:

Currency rate risk

The Group's trading book has exposures to foreign exchange risk arising from cash and derivatives trading. Additionally, structural balance sheet positions relating to net investment in foreign subsidiaries expose the Group to foreign exchange risk. These positions are reviewed regularly and an appropriate strategy for managing structural foreign exchange risk is established by the GALCO. Group Treasury is responsible for executing the agreed strategy.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. The Group is exposed to interest rate risk because of client trades & positional trading strategies which is managed by setting appropriate market risk limits.

Equity price risk

Equity position risk arises from the possibility that changes in the prices of equities, or equity indices, will affect the future profitability, or the fair value of financial instruments. The Group is exposed to equity risk in its trading position and investment portfolio, primarily in its core international and GCC markets.

Equity positions in the banking book	
Quoted Equities	7
Unquoted Equities	8
	15
Realised gain during the year	-
Unrealised gain (loss) at 31 December 2022	-

There were no sales with respect to equity positions in the banking book for the year ended 31 December 2022.

OPERATIONAL RISK

Refer note 25.10 to the 31 December 2022 audited consolidated financial statement for definition and policies for management of Operational Risk

Legal risk

Examples of legal risk include inadequate documentation, loss of power and/or authority arising from legal or regulatory action, insufficient authority of a counterparty and contract invalidity/ unenforceability. Group Head of Legal bears responsibility for identification and management of this risk. Legal department consults with internal and external legal counsels. All major Group subsidiaries have their own in-house legal departments, acting under the guidance of the Group Head of Legal, which aims to facilitate the business of the Group, by providing proactive, business-oriented, and sound advice.

The Group is currently engaged in various legal and/ or regulatory matters which arise in the ordinary course of business. Bank ABC does not currently expect to incur any liability with respect to any actual or pending legal and/or regulatory matter which would be material to the financial condition or operations of the Group.

ii. Risk in Pillar II

LIQUIDITY RISK

Liquidity risk is the risk that maturing and cashable assets may not cover cash flow obligations (liabilities) as they fall due, without incurring unacceptable costs or losses. The Group's Liquidity Management Framework (GLMF) ensures that the Group proactively manages liquidity and structural funding risks to support prudent business growth while having the ability to withstand a range of liquidity stress events. The Group has carried out a detailed assessment to identify all material sources of liquidity and funding risks and have assessed appropriate levels of required Liquid Asset Buffers and contingency funding actions. The Group's liquidity risk appetite sets appropriate liquidity metrics to monitor all sources of material liquidity risks and the liquidity risk appetite framework extends to all entities within the Group.

The Group maintains high quality liquid assets (HQLA) at prudent levels to ensure that cash can quickly be made available to honour all its obligations, even under adverse conditions. The Group is generally in a position of surplus liquidity, its principal sources of liquidity being its high-quality liquid assets and marketable securities.

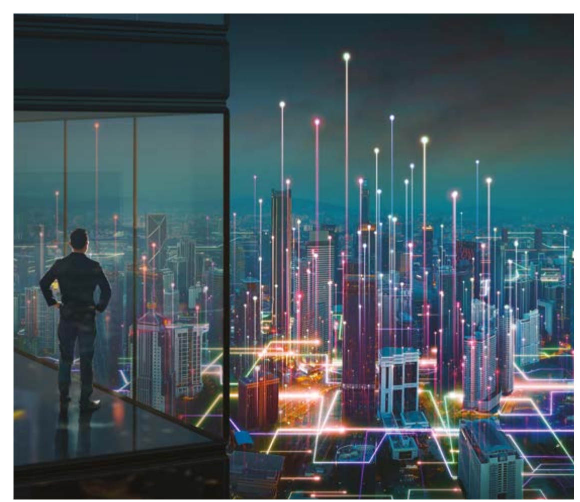
A maturity gap report, which reviews mismatches, is used to monitor medium and long-term liquidity.

All offshore subsidiaries of the Group manage principally on a self-funded basis to meet their liquidity and funding requirements.

The GLMF ensures that the key risk indicators are monitored proactively, including daily monitoring of Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) amongst a range of other liquidity risk indicators, and these are regularly reported to the senior management. The Bank conducts daily liquidity stress testing to ensure that the Liquidity Survival Horizon (LSH) is always maintained above the established risk appetite threshold.

The Group also carries out a comprehensive Integrated Stress Testing and ILAAP (Internal Liquidity Adequacy Assessment Process) process that includes, amongst other things, scenario-based liquidity stress tests to evaluate the robustness of the liquidity management framework and the effectiveness of the contingency funding plan. The Group's Liquid Assets Buffer (LAB) and the Group's Contingency Funding Plan (GCFP) ensure that the Group can withstand potential liquidity shocks and market disruptions.

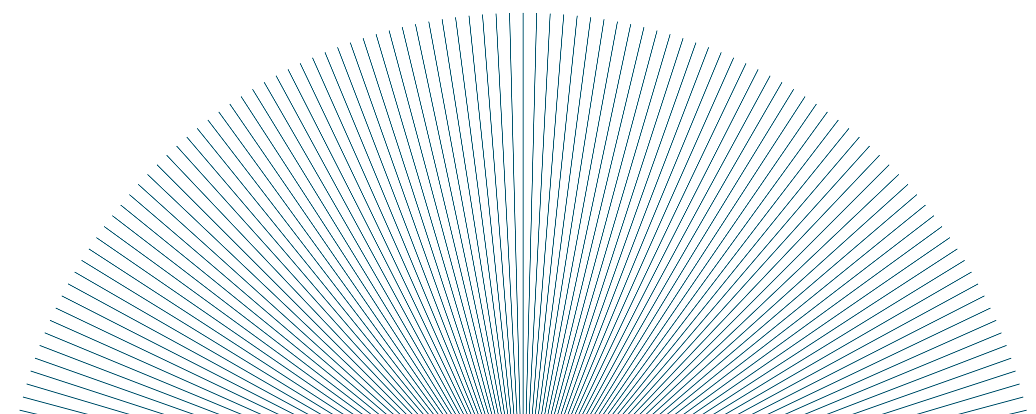
INTEREST RATE RISK IN BANKING BOOK (IRRBB)



Interest rate risk in the banking book refers to current or prospective risk to the Bank's capital and earnings arising from adverse movements in interest rates that affect the Bank's banking book positions. The Group is exposed to interest rate risk as a result of mismatches of interest rate repricing of assets and liabilities. This risk is minimised as the Group's rate sensitive assets and liabilities are mostly floating rate, where the duration risk is lower. The Group has set risk limits for both earnings at risk (EAR) and economic value of equity (EVE) for interest rate risk in the banking book (IRRBB). In general, the Group uses matched currency funding and translates fixed rate instruments to floating rate to better manage the duration in the asset book.

Quantitative measures employed include limits, interest rate sensitive gap analysis and stress testing to measure and control the impact of interest rate volatility on the Bank's earnings and economic value of equity. These measures are applied separately for each currency and consolidated at the Group's level.

As at 31 December 2022, the impact on earnings over 12 months and on economic value of equity for a 200 basis points (2%) parallel shift in interest rates (floored to zero% for down scenario) is provided below. In summary, the negative impact on Group's earnings is estimated at US$ 26.6 million (representing ~3% of Net Interest Income) and negative impact on economic value of equity is estimated at US$ 77 million (< 5% of Tier 1 capital). The impact on both metrics were well below the Group's risk appetite thresholds for IRRBB.



Currency-wise details of the impact from a parallel shift of 200bps are as follows:

All amounts in US$ million

Currency	Impact on Group's Earnings		Economic Value of Equity Impact	
	Parallel Up	Parallel Down	Parallel Up	Parallel Down
United States Dollar (USD)	(1.5)	1.5	(27.7)	26.4
Pound Sterling (GBP)	0.6	(0.6)	3.0	(3.1)
Euro (EUR)	9.5	(9.4)	4.0	(4.7)
Brazilian Real (BRL)	12.5	(12.5)	(12.3)	12.9
Algerian Dinar (DZD)	0.6	(0.6)	(8.0)	9.1
Egyptian Pound (EGP)	2.8	(2.8)	(6.5)	7.2
Jordanian Dinar (JOD)	2.4	(2.4)	(10.6)	11.1
Tunisian Dinar (TND)	(1.8)	1.8	(5.3)	5.9
Other	1.6	(1.6)	(6.3)	6.6
Total	**26.7**	**(26.6)**	**(76.6)***	**(7.8)***

* For aggregation of EVE across currencies only negative values are considered as per Basel

Repricing profile as below:

US$ million	Less than 1 Month	1-3 Months	3-6 Months	6-12 Months	Over 1 Year	Non-Interest Bearing	TOTAL
ASSETS							
Liquid funds	2,886	-	-	-	-	-	2,886
Trading securities	261	272	-	-	3	54	590
Placements with banks and other financial institutions	1,886	310	20	6	4	-	2,226
Securities bought under repurchase agreements	1,069	283	34	-	-	-	1,386
Non-trading investments	1,607	1,056	625	884	3,878	30	8,080
Loans and advances	8,041	5,530	2,345	1,064	1,210	-	18,190
Other assets	-	-	-	-	-	3,281	3,281
TOTAL ASSETS	**15,750**	**7,451**	**3,024**	**1,954**	**5,095**	**3,365**	**36,639**
LIABILITIES & EQUITY							
Deposits from customers	11,557	6,502	1,176	1,050	581	530	21,396
Deposits from banks	2,301	766	380	269	42	6	3,764
Certificates of deposit	91	105	16	53	170	-	435
Securities sold under repurchase agreements	1,317	503	215	160	683	-	2,878
Taxation, other liabilities & non-controlling interest	-	-	-	-	-	2,774	2,774
Borrowings	940	175	53	-	37	92	1,297
Equity (Parent)	-	-	-	-	390	3,705	4,095
TOTAL LIABILITIES & EQUITY	**16,206**	**8,051**	**1,840**	**1,532**	**1,903**	**7,107**	**36,639**
OFF B/S ITEMS							
Foreign Exchange Contracts	-	-	-	-	-	-	-
Interest rate contracts	560	1,213	32	3	(1,808)	-	-
TOTAL OFF B/S ITEMS	560	1,213	32	3	(1,808)	**-**	**-**
Interest rate sensitivity gap	**104**	**613**	**1,216**	**425**	**1,384**	**(3,742)**	**-**
Cumulative interest rate sensitivity gap	**104**	**717**	**1,933**	**2,358**	**3,742**	**-**	**-**

The interest rate gap analysis set out in the table above assumes that all positions run to maturity, i.e., no assumptions on loan prepayments. Deposits without a fixed maturity have been considered in the 'less than one month' bucket.

CONCENTRATION RISK

Refer note 25.3.2 to the 31 December 2022 audited consolidated financial statements for the definition and policies for management of concentration risk.

Under the single obligor regulations of the CBB and other host regulators, the Bank must obtain approval for any planned exposures above specific thresholds to single counterparties, or groups of connected counterparties.

As at 31 December 2022 the Group's exposures in excess of the 15% obligor limit to individual counterparties were as shown below:

US$ million	On Balance Sheet Exposure	Off Balance Sheet Exposure	Total Exposure
Counterparty A	1,879	-	1,879
Counterparty B	1,485	-	1,485
Counterparty C	1,311	-	1,311
Counterparty D	1,064	-	1,064

COMPLIANCE RISK

Compliance risk is the risk of legal or regulatory sanctions, material financial loss, or loss to reputation the Bank may suffer as a result of its failure to comply with the statutory, regulatory and supervisory requirements including industry codes with which the Bank must by law comply with, or which it voluntarily adheres to.

Front-line functions within the units are responsible for the management of their specific compliance risks and control environment. The compliance function is responsible for assuring, on an ongoing basis, that key compliance related control processes within the first line of defense are in place and operating effectively.

REPUTATIONAL RISK

Reputational risk is multidimensional and reflects the perception of market participants. It exists throughout the organisation and exposure to reputational risk is essentially a function of the adequacy of the entity's internal risk management processes, as well as the manner and efficiency with which management responds to external influences.

The Bank implements a robust governance and management framework, which has a significant involvement of senior management to proactively address any risk(s) to the Bank's reputation.

Furthermore, the management believes that reputation risk requires active administration and involvement of senior members of the Bank in contrast to setting aside capital for its management. The Group Reputational Risk Committee, reporting to the GCOC, oversees the reputational risk framework.

CLIMATE CHANGE RISK

Climate change risk is the financial risk that arises from the impact of adverse changes in climate and specifically global warming. The risks are of two types, (i) the speed and cost of the required transition of the global economy to a low-carbon economy (ii) the impact of physical climate events on countries' economies, infrastructure and security.

Climate change presents significant risks to the Banking Sector. In relation to climate change, Bank ABC has in alignment with best practice, established a 4-pillars approach in its identification, assessment and management of climate change risk. These four pillars are strategy, risk management (including stress testing), governance and disclosures. Strategically, the Bank as part of its Risk Appetite, is targeting net zero on emissions from own operations in the near future. In relation to emissions from its financing activities, Bank ABC codified all its counterparties to reflect their climate change risk profile using an external methodology. In addition, the Bank has initiated idiosyncratic climate change risk assessments to overlay and arrive at the

final classification for its exposures. Using these classifications, the Bank has undertaken stress testing to assess the impact of climate change scenarios on its capital, earnings and asset quality both over the 3 year ICAAP horizon and under the Network of Central Banks and Supervisors for Greening the Financial System (NGFS) 2050 scenarios. The Bank has established a climate change standard to define roles and responsibilities in terms of the 3 lines of defence and approaches for different types of risks. Finally, the Bank has established a senior management working group to drive its Environment Social and Governance (ESG) activities including climate change risk and included climate change risk in its annual disclosures for 2022.

Looking further ahead, an eventual decline in inflation is expected **to provide scope for central banks to lower policy interest rates**

3. Regulatory capital requirements and the capital base

The Group manages its capital structure and maintains capital based on its strategic business plans considering anticipated economic conditions and the risk characteristics of its activities. The objective is to maintain a strong capital base to support the risks inherent in the Group's businesses and markets, meeting both local and consolidated regulatory capital requirements at all times.

The Group manages the capital position through various measures that include administering a dividend policy that balances financial stability and growth objectives with shareholders returns; raising capital via equity, additional tier 1 capital (AT1) and subordinated debt instruments based on a set of defined capital triggers; risk distribution or risk participation to reduce capital demand; and deleveraging to create capital capacity.

The determination of dividend payout will depend upon, amongst other things, the Group's earnings, its dividend policy, the requirement to set aside minimum statutory reserves, capital requirements to support growth (organic and inorganic), regulatory capital requirements, approval from the CBB and applicable requirements under Bahrain Commercial Companies Law, as well as other factors that the Board of Directors and the shareholders may deem relevant.

While the capital management objectives remain unchanged, the policies are reviewed regularly to ensure that they support the principal objective of maintaining financial strength and stability.

The Group's total capital adequacy ratio as at 31 December 2022 was 16.8% compared with the minimum regulatory requirement of 12.5%. The Tier 1 ratio was 15.7% for the Group. The composition of the total regulatory capital requirement was as follows:

Risk-Weighted Assets (RWA)	
Credit risk	25,003
Market risk	866
Operational risk	1,677
Total	**27,546**
CET 1 Ratio	**14.0%**
Tier 1 Ratio	**15.7%**
Capital Adequacy Ratio	**16.8%**

The Group ensures adherence to the CBB's requirements by monitoring its capital adequacy against higher internal limits detailed in the Bank's Board-approved risk appetite statement under the strategic risk objective "Solvency".

Each banking subsidiary in the Group is directly regulated by its local banking supervisor, which sets and monitors local capital adequacy requirements. The Group ensures that each subsidiary maintains sufficient levels of capital.

The Tier 1 and total capital adequacy ratio of the significant banking subsidiaries (those whose regulatory capital amounts to over 5% of the Group's consolidated regulatory capital) under the local regulations were as follows:

Subsidiaries (over 5% of Group's regulatory capital)	Tier 1 Ratio	CAR (Total)
ABC Islamic Bank (E.C.)	39.9%	40.9%
ABC International Bank Plc*	15.9%	16.8%
Banco ABC Brasil S.A.*	13.2%	15.3%

* CAR has been computed after mandatory deductions from the total of Tier 1 and Tier 2 capital.

a. Capital requirement for credit risk

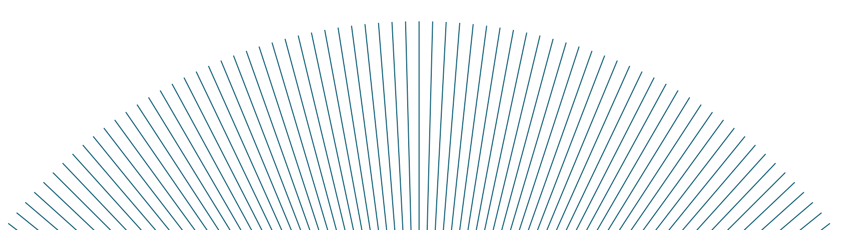
For regulatory reporting purposes, the Group calculates the capital requirements for credit risk based on the standardised approach. Under the standardised approach, on- and off-balance sheet credit exposures are assigned to exposure categories based on the type of counterparty or underlying exposure. The exposure categories are referred to in the CBB's Basel III capital adequacy framework as standard portfolios. The primary standard portfolios are claims on sovereigns, claims on banks and claims on corporates. Following the assignment of exposures to the relevant standard portfolios, the RWAs are derived based on prescribed risk weightings. Under the standardised approach, the risk weightings are provided by the CBB and are determined based on the counterparty's external credit rating. The external credit ratings are derived from eligible external credit rating agencies approved by the CBB. The Group uses ratings assigned by Standard & Poor's, Moody's, Fitch Ratings and Capital Intelligence.

Provided below is a counterparty asset class-wise breakdown of the Credit RWA and associated capital charge. The definition of these asset classes (as per the standard portfolio approach under the CBB's Basel III Capital Adequacy Framework) is set out in section 5.

Credit exposure and risk-weighted assets

US$ million	Gross Credit Exposure [1+2]	Funded Exposure [1]	Unfunded Exposure [2]	Cash Collateral	Eligible Guarantees	Risk-weighted Assets	Capital Charge
Cash	16	16	-	-	-	-	-
Claims on sovereigns	9,344	9,253	91	71	20	735	92
Claims on public sector entities	1,883	1,686	197	13	10	1,418	177
Claims on multilateral development banks	529	508	21	-	-	138	17
Claims on banks	9,860	8,957	903	3,196	120	3,952	494
Claims on corporate portfolio	16,215	13,728	2,487	202	234	15,334	1,917
Regulatory retail exposures	1,566	1,300	266	6	-	1,169	146
Past due loans	192	192	-	-	-	192	24
Residential retail portfolio	29	29	-	1	-	14	2
Commercial mortgage	134	134	-	42	-	92	12
Equity portfolios	48	48	-	-	-	101	13
Other exposures	1,544	1,433	111	-	-	1,858	232
	41,360	**37,284**	**4,076**	**3,531**	**384**	**25,003**	**3,126**

Monthly average gross credit exposures and the risk-weighted assets for 12-month ended 31 December 2022 were US$ 34,658 million and US$ 20,561 million respectively.



b. Capital requirement for market risk

In line with the standardised approach to calculating market risk, the capital charge for market risk is as follows:

US$ million	RWA	Year-end Capital Charge	Capital Charge - Minimum*	Capital Charge - Maximum*
Interest rate risk	672	84	55	123
- Specific interest rate risk	11	1	1	9
- General interest rate risk	661	83	54	114
Equity position risk	28	4	4	5
Foreign exchange risk	166	21	19	34
Options risk	-	-	-	-
Total	**866**	**109**	**78**	**162**

* The information in these columns shows the minimum and maximum capital charge for each of the market risk categories during the year ended 31 December 2022.

c. Capital requirement for operational risk

The Group applies the "Standardised Approach" for calculating its Pillar I operational risk capital. As at 31 December 2022, the total capital charge in respect of operational risk was US$ 209 million. A breakdown of the operational risk capital charge is provided below:

US$ million Basel Business Line	Average 3 Years Gross Income	Beta Factors	Capital charge	RWA
Corporate finance	35	18%	10	79
Trading and sales	157	18%	44	352
Payment and settlement	44	18%	12	98
Commercial banking	543	15%	127	1,019
Agency services	-	15%	-	-
Retail banking	69	12%	13	104
Asset management	11	12%	2	17
Retail brokerage	5	12%	1	8
Total	**864**		**209**	**1,677**

d. Capital base

The Group's capital base primarily comprises of:

i) **Tier 1 capital:** Share capital, treasury shares, reserves, retained earnings, non-controlling interests, profit for the year and cumulative changes in fair value;

ii) **Additional Tier 1 capital:** Eligible portion of a perpetual financial instrument issued by the Bank or any subsidiary of the Bank;

iii) **Tier 2 capital:** eligible subordinated term debt and expected credit losses.

The portion of Tier 1 and Tier 2 instruments attributable to non-controlling interests are added to the respective capital tiers in accordance with the regulatory definitions.

The issued and paid-up share capital of the Bank is US$ 3,110 million at 31 December 2022, comprising 3,110 million shares of US$ 1 each.

The Tier 2 capital includes subordinated term debt of US$ 97 million (eligible portion) at 31 December 2022. This has been raised at a subsidiary of the Bank. The details of these issues are described in appendix PD 3 of this document.

3,110 US$ Million

Issued and paid-up share capital of the Bank

The Additional Tier 1 (AT1) capital includes the eligible portion of a perpetual financial instrument issued by the Bank or any subsidiary of the Bank. The outstanding of total AT1 issue amounted to US$ 481 million at 31 December 2022. This includes $390 million issued by the Bank and $91 million issued by the Bank's subsidiary in Brazil. These instruments meet all the threshold conditions for inclusion in AT1 as per the CBB requirements. The details of these issues are described in appendix PD 3 of this document.

- The AT1 instrument issued by the Bank has a conversion feature into equity with the trigger being a non-viability event as determined by the CBB.

AT 1 instrument issued by the subsidiary has a trigger of 5.125% of CET 1 ratio (of the subsidiary) for permanent extinction in compliance with the local regulations and Basel Standards.

Both instruments have features that enable coupon suspension (without cumulating) upon insufficiency of profits.

AT1 issuance by the subsidiary has been approved by its local regulator for inclusion in AT1 capital of the Group. The impact on the Group's capital is immaterial.

The details of the AT1 issuances are described in appendix Public Disclosure (PD) 3.

Tier 2 capital represent the surplus over the regulatory minimum capital stipulated by the CBB.

The Group's capital base and risk-weighted assets is summarised below:

Capital Base and Risk-Weighted Assets (RWA)	**US$ million**
Capital base	
CET 1	3,866
AT 1	470
Total Tier 1 capital	4,336
Tier 2	290
Total capital base	**4,626**
Risk-weighted assets	
Credit risk	25,003
Market risk	866
Operational risk	1,677
Total Risk-weighted assets	**27,546**
CET 1 ratio	14.0%
Tier 1 ratio	15.7%
Capital adequacy ratio	**16.8%**

The details about the composition of capital are provided in appendices PD 2 and PD 4.

4. Credit risk - Pillar III disclosures

a. Definition of exposure classes

The Group has a diversified funded and unfunded credit portfolio. The exposures are classified as per the standard portfolio approach under the CBB's Basel III Capital Adequacy Framework, covering the standardised approach for credit risk.

b. External credit rating agencies

The Group uses external credit ratings from Standard & Poor's, Moody's, Fitch Ratings and Capital Intelligence (accredited external credit assessment institutions). The breakdown of the Group's exposure into rated and unrated categories is as follows:

US$ million	Net Credit Exposure (after credit risk mitigation)	Rated Exposure	Unrated Exposure
Cash	16	-	16
Claims on sovereigns	9,273	7,804	1,469
Claims on public sector entities	1,870	710	1,160
Claims on multilateral development banks	529	529	-
Claims on banks	6,664	5,662	1,002
Claims on corporate portfolio	16,013	2,068	13,945
Regulatory retail exposure	1,560	-	1,560
Past due loans	192	-	192
Residential retail portfolio	28	-	28
Commercial mortgage	92	-	92
Equity portfolios	48	-	48
Other exposures	1,544	159	1,385
	37,829	**16,932**	**20,897**

The Group has a policy of maintaining accurate and consistent risk methodologies. It uses a variety of financial analytics, combined with market information, to support risk ratings that form the main inputs for the measurement of counterparty credit risk. All internal ratings are tailored to the various categories and are derived in accordance with the Group's credit policy. They are assessed and updated regularly. Each risk rating class is mapped to grades equivalent to Standard & Poor's, Moody's, Fitch, and Capital Intelligence rating agencies. The Credit Risk Management framework ensures that the credit portfolio is managed in line with the Group Risk Appetite Standards.

The Group's credit risk distribution (based on internal risk ratings) at 31 December 2022 is shown below:

Other grades are insignificant.

c. Credit risk presentation under Basel III

The credit risk exposures detailed here differ from the credit risk exposures reported in the consolidated financial statements, due to different methodologies applied respectively under Basel III and IFRS. These differences are as follows:

- As per the CBB Basel III framework, off balance sheet exposures are converted into on balance sheet equivalents by applying a credit conversion factor (CCF). The CCF varies between 20%, 50% or 100% depending on the type of contingent item.
- The consolidated financial statements categorise financial assets based on asset class (i.e. securities, loans and advances, etc.). This document categorises financial assets into credit exposures as per the "Standard Portfolio" approach set out in the CBB's Basel III Capital Adequacy Framework. In the case of exposures with eligible guarantees, it is reported based on the category of guarantor.
- Eligible collateral is taken into consideration in arriving at the net exposure under the Basel III framework, whereas collateral is not netted in the consolidated financial statements.
- Under the Basel III framework, certain items are considered as a part of the regulatory capital base, whereas these items are netted off against assets in the consolidated financial statements.

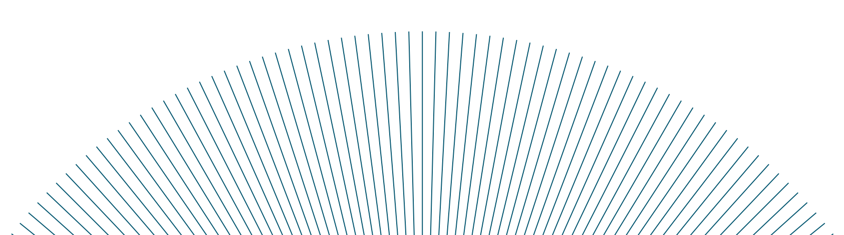
d. Credit exposure

Geographical distribution of exposures

The geographical distribution of exposures, impaired loans and the related specific provisions (Stage 3) can be analysed as follows:

US$ million	Gross Credit Exposure	Cash Collateral	Impaired Loans	Specific/ Stage 3 ECL Impaired Loans	Impaired Debt Securities	Specific/ Stage 3 ECL Impaired Debt Securities
North America	6,581	799	-	-	63	63
Western Europe	5,725	250	-	-	-	-
Other Europe	1,704	278	11	11	-	-
Arab World	16,121	1,339	463	362	11	11
Other Africa	54	31	-	-	-	-
Asia	978	55	-	-	-	-
Australia/New Zealand	172	44	-	-	-	-
Latin America	10,025	735	181	90	-	-
	41,360	**3,531**	**655**	**463**	**74**	**74**

In addition to the above specific provisions the Group has collective impairment provisions (ECL allowances under Stages 1 and 2) amounting to US$ 242 million.



The geographical distribution of gross credit exposures, by major type of credit exposure, can be analysed as follows:

US$ million	North America	Western Europe	Other Europe	Arab World	Other Africa	Asia	Australia/ New Zealand	Latin America	Total
Cash	-	-	-	16	-	-	-	-	**16**
Claims on sovereigns	3,147	423	15	4,609	-	188	3	959	**9,344**
Claims on public sector entities	83	18	112	1,489	-	129	2	50	**1,883**
Claims on multilateral development banks	145	50	34	239	46	15	-	-	**529**
Claims on banks	1,335	2,814	1,320	2,835	1	259	54	1,242	**9,860**
Claims on corporate portfolio	1,801	2,062	194	5,019	7	383	113	6,636	**16,215**
Regulatory retail exposures	-	-	-	820	-	-	-	746	**1,566**
Past due loans	-	-	-	101	-	-	-	91	**192**
Residential retail portfolio	-	1	-	28	-	-	-	-	**29**
Commercial mortgage	-	92	-	42	-	-	-	-	**134**
Equity portfolios	-	1	-	47	-	-	-	-	**48**
Other exposures	70	264	29	876	-	4	-	301	**1,544**
Gross credit exposure	**6,581**	**5,725**	**1,704**	**16,121**	**54**	**978**	**172**	**10,025**	**41,360**

The Bank uses different credit mitigation techniques such as collaterals, guarantees and netting agreements to reduce credit risk. The recognised credit risk mitigation activities are undertaken with various counterparties to ensure no additional credit or market risk concentrations occur. The Bank holds collateral against its credit facilities in the form of physical assets, cash deposits, securities and guarantees. Only guarantees provided by eligible Corporate and Financial Institutions of acceptable credit quality are accepted by the Bank.

The ageing analysis of past due loans by geographical distribution can be analysed as follows:

US$ million	Less than 3 Months	3 Months to 1 Year	1 to 3 Years	Over 3 Years	Total
North America	-	-	-	-	-
Western Europe	-	-	-	-	-
Other Europe	-	-	-	-	-
Arab World	17	53	30	1	101
Latin America	8	9	74	-	91
Asia	-	-	-	-	-
	25	**62**	**104**	**1**	**192**

Industrial sector analysis of exposures

The industrial sector analysis of exposures, impaired assets and the related specific provisions (Stage 3) can be analysed as follows:

US$ million	Gross Exposure [1+2]	Funded Exposure [1]	Unfunded Exposure [2]	Cash Collateral	Impaired Loans	Specific/ Stage 3 ECL Impaired Loans	Impaired Debt Securities	Specific/ Stage 3 ECL Impaired Debt Securities
Manufacturing	3,197	2,752	445	24	99	82	-	-
Mining and quarrying	136	80	56	-	16	11	-	-
Agriculture, fishing and forestry	1,640	1,551	89	11	12	8	-	-
Construction	2,294	1,762	532	52	79	65	-	-
Financial services	15,697	14,240	1,457	3,351	2	2	74	74
Trade	342	309	33	16	89	36	-	-
Personal / Consumer finance	1,720	1,425	295	6	46	40	-	-
Commercial real estate financing	339	331	8	-	-	-	-	-
Government	7,335	7,258	77	36	2	2	-	-
Technology, media and telecommunications	616	546	70	1	25	21	-	-
Transport	820	617	203	12	33	24	-	-
Energy	1,197	1,098	99	4	-	-	-	-
Utilities	1,303	899	404	1	-	-	-	-
Distribution	1,098	1,037	61	2	-	-	-	-
Retailers	289	256	33	-	-	-	-	-
Other services	3,337	3,123	214	15	252	172	-	-
	41,360	**37,284**	**4,076**	**3,531**	**655**	**463**	**74**	**74**

The industrial sector analysis of gross credit exposures, by major types of credit exposure, can be analysed as follows:

US$ million	Manufacturing	Mining and Quarrying	Agriculture, Fishing and Forestry	Construction	Financial Services	Trade	Personal / Consumer Finance	Commercial Real Estate Financing	Government	Technology, Media and Telecommunications	Transport	Energy	Utilities	Distribution	Retailers	Other Services	Total
Cash	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	16	**16**
Claims on sovereigns	15	-	-	-	2,671	-	-	-	6,658	-	-	-	-	-	-	-	**9,344**
Claims on public sector entities	142	5	-	19	576	-	-	-	515	59	95	362	106	-	-	4	**1,883**
Claims on multilateral development banks	-	-	-	-	529	-	-	-	-	-	-	-	-	-	-	-	**529**
Claims on banks	-	-	-	-	9,822	-	-	-	38	-	-	-	-	-	-	-	**9,860**
Claims on corporate portfolio	3,018	121	1,631	2,223	1,941	289	61	257	124	553	712	833	1,188	1,097	289	1,878	**16,215**
Regulatory retail exposures	-	-	-	-	-	-	1,566	-	-	-	-	-	-	-	-	-	**1,566**
Past due loans	17	5	4	14	-	53	6	-	-	4	9	-	-	-	-	80	**192**
Residential retail portfolio	-	-	-	28	-	-	-	-	-	-	-	-	-	-	-	1	**29**
Commercial mortgage	-	-	-	10	42	-	-	82	-	-	-	-	-	-	-	-	**134**
Equity portfolios	1	-	-	-	29	-	7	-	-	-	-	-	-	-	-	11	**48**
Other exposures	4	5	5	-	87	-	80	-	-	-	4	2	9	1	-	1,347	**1,544**
	3,197	**136**	**1,640**	**2,294**	**15,697**	**342**	**1,720**	**339**	**7,335**	**616**	**820**	**1,197**	**1,303**	**1,098**	**289**	**3,337**	**41,360**

The ageing analysis of past due loans, by industrial sector can be analysed as follows:

US$ million	Less Than 3 Months	3 months to 1 Year	1 to 3 Years	Over 3 Years	Total
Manufacturing	2	2	13	-	**17**
Mining and quarrying	2	-	3	-	**5**
Agriculture, fishing and forestry	4	-	-	-	**4**
Construction	1	1	12	-	**14**
Financial services	-	-	-	-	**-**
Trade	6	47	-	-	**53**
Personal / Consumer finance	2	2	1	1	**6**
Commercial Real Estate Financing	-	-	-	-	**-**
Technology, media & telecommunications	2	2	-	-	**4**
Transport	1	2	6	-	**9**
Other sectors	5	6	69	-	**80**
	25	**62**	**104**	**1**	**192**

Maturity analysis of funded exposures

Residual contractual maturity of the Group's major types of funded credit exposures is as follows:

US$ million	Within 1 Month	1 - 3 Months	3 - 6 Months	6 - 12 Months	Total within 12 Months	1 - 5 Years	5 - 10 Years	10 - 20 Years	Over 20 Years	Undated	Total over 12 Months	Total
Cash	16	-	-	-	**16**	-	-	-	-	-	**-**	**16**
Claims on sovereigns	3,857	997	573	544	**5,971**	2,359	851	58	-	14	**3,282**	**9,253**
Claims on public sector entities	154	614	60	43	**871**	512	198	98	-	7	**815**	**1,686**
Claims on multilateral development banks	46	60	94	46	**246**	250	12	-	-	-	**262**	**508**
Claims on banks	3,669	1,276	813	882	**6,640**	2,022	244	50	-	1	**2,317**	**8,957**
Claims on corporate portfolio	1,673	2,642	1,960	2,034	**8,309**	4,282	659	3	-	475	**5,419**	**13,728**
Regulatory retail exposures	45	68	42	123	**278**	398	223	380	15	6	**1,022**	**1,300**
Past due loans	18	7	28	34	**87**	104	1	-	-	-	**105**	**192**
Residential retail portfolio	-	-	-	-	**-**	2	4	22	1	-	**29**	**29**
Commercial mortgage	7	98	-	15	**120**	14	-	-	-	-	**14**	**134**
Equity portfolios	-	-	-	-	**-**	-	-	-	-	48	**48**	**48**
Other exposures	1	1	3	10	**15**	12	-	-	-	1,406	**1,418**	**1,433**
	9,486	**5,763**	**3,573**	**3,731**	**22,553**	**9,955**	**2,192**	**611**	**16**	**1,957**	**14,731**	**37,284**

Maturity analysis of unfunded exposures

In accordance with the calculation of credit risk-weighted assets in the CBB's Basel III Capital Adequacy Framework, unfunded exposures are divided into the following exposure types:

(i) **Credit-related contingent items** comprising letters of credit, acceptances, guarantees and commitments.

(ii) **Derivatives** including futures, forwards, swaps and options in the interest rate, foreign exchange, equity and credit markets.

In addition to counterparty credit risk, derivatives are also exposed to market risk, which requires a separate capital charge as prescribed under the Basel III guidelines.

The residual contractual maturity analysis of unfunded exposures is as follows:

US$ million	Within 1 Month	1 - 3 Months	3 - 6 Months	6 - 12 Months	Total within 12 Months	1 - 5 Years	5 - 10 Years	10 - 20 Years	Over 20 Years	Undated	Total over 12 Months	Total
Claims on sovereigns	14	18	41	4	**77**	14	-	-	-	-	**14**	**91**
Claims on public sector entities	55	41	10	46	**152**	35	-	10	-	-	**45**	**197**
Claims on multilateral development banks	-	-	-	21	**21**	-	-	-	-	-	**-**	**21**
Claims on banks	220	352	74	76	**722**	161	18	1	1	-	**181**	**903**
Claims on corporate portfolio	238	421	263	626	**1,548**	888	42	7	2	-	**939**	**2,487**
Regulatory retail exposures	8	48	42	43	**141**	125	-	-	-	-	**125**	**266**
Other exposures	-	2	-	-	**2**	-	-	-	-	109	**109**	**111**
	535	**882**	**430**	**816**	**2,663**	**1,223**	**60**	**18**	**3**	**109**	**1,413**	**4,076**

e. Impaired assets and provisions for impairment

The Group manages the risk rating of obligors in accordance with the obligor risk rating standard. Changes in risk ratings are used to identify credit migration and significant increase in credit risk since origination of obligor facility to assess the staging of obligors in accordance with the IFRS9 impairment standard of the Group. The amount of ECL charged per obligor facility is subject of calculations executed in line with the IFRS 9 impairment policy.

Industry sector analysis of the specific and ECL provisions charges and write-offs

US$ million	Provision (Write-back/recovery)	Write-offs
Financial services	1.0	-
Retailers	1.0	-
Manufacturing	12.0	45
Construction	(2.0)	9
Mining and quarrying	1.0	-
Personal / consumer finance	4.0	1
Trade	9.0	1
Agriculture, fishing & forestry	2.0	10
Technology, media and telecommunications	(7.0)	-
Other Services	65.0	104
ECL	33.0	-
	119	**170**

Restructured facilities

The carrying amount of restructured facilities amounted to US$ 351 million as at 31 December 2022. Out of the total restructured facilities 46% relate to performing customers (including short term restructuring carried out due to current Covid-19 situation) on which an ECL of US$ 19 million is being held. These restructuring did not have any impact on carrying values thereby no modification loss was recorded on these. The Group continues to record interest on performing customers as normal and interest on non-performing customers is recorded on receipt basis.

Ageing analysis of impaired loans and securities

In accordance with the guidelines issued by the CBB, credit facilities are placed on non-accrual status and interest suspended when either principal or interest is overdue by 90 days, whereupon interest credited to income is reversed. Following an assessment of impairment, specific provision is established if there is objective evidence that a credit facility is impaired, as mentioned above.

An ageing analysis of all impaired loans, POCI and securities on non-accrual basis, together with their related provisions is as follows:

US$ million	Principal	Provisions	Net Book Value
Loans			
Less than 3 months	68	43	25
3 months to 1 year	122	60	62
1 to 3 years	322	218	104
Over 3 years	143	142	1
	655	**463**	**192**

US$ million	Principal	Provisions	Net Book Value
Securities			
Less than 3 months	-	-	-
3 months to 1 year	-	-	-
1 to 3 years	-	-	-
Over 3 years	74	74	-
	74	**74**	**-**

Movement in expected credit losses

US$ million	Expected Credit Losses Stage 1	Stage 2	Stage 3
Loans			
At beginning of the year	109	89	493
Changes due to financial assets recognised in opening balance that have:			
Transfer to stage 1	7	(7)	-
Transfer to stage 2	(2)	2	-
Transfer to stage 3	-	(23)	23
Net remeasurement of loss allowance	27	10	121
Write-backs / recoveries	-	-	(39)
Amounts written-off	-	(2)	(153)
Exchange adjustments and other movements	(2)	2	18
Balance at reporting date	**139**	**71**	**463**

US$ million	Expected Credit Losses Stage 1	Stage 2	Stage 3
Investments			
At beginning of the year	19	-	86
Changes due to financial assets recognised in opening balance that have:			
Transfer to stage 1	-	-	-
Transfer to stage 2	-	-	-
Transfer to stage 3	-	-	-
Net remeasurement of loss allowance	(5)	-	-
Write-backs / recoveries	-	-	(2)
Amounts written-off	-	-	(10)
Exchange adjustments and other movements	(1)	-	-
Balance at reporting date	**13**	**-**	**74**

US$ million	Expected Credit Losses		
	Stage 1	Stage 2	Stage 3
Other financial assets and off-balance sheet items			
At beginning of the year	12	9	49
Changes due to financial assets recognised in opening balance that have:			
Transfer to stage 1	1	(1)	-
Transfer to stage 2	(3)	3	-
Transfer to stage 3	-	(1)	1
Net remeasurement of loss allowance	1	-	10
Write-backs / recoveries	-	-	(4)
Amounts written-off	-	-	(6)
Exchange adjustments and other movements	(1)	(1)	(16)
Balance at reporting date	**10**	**9**	**34**

5. Off balance sheet exposure and securitisations

a. Credit related contingent items

As mentioned previously, for credit-related contingent items the nominal value is converted to an exposure through the application of a credit conversion factor (CCF). The CCF is set at 20%, 50% or 100% depending on the type of contingent item and is used to convert off-balance sheet notional amounts into an equivalent on-balance sheet exposure.

Undrawn loans and other commitments represent commitments that have not been drawn down or utilised at the reporting date. The nominal amount is the base upon which a CCF is applied for calculating the exposure. The CCF ranges between 20% and 50% for commitments with original maturities of up to one year and over one year respectively. The CCF is 0% for commitments that can be unconditionally cancelled at any time.

The table below summarises the notional principal amounts and the relative exposure before the application of credit risk mitigation:

US$ million	Notional Principal	Credit Exposure*
Short-term self-liquidating trade and transaction-related contingent items	2,892	859
Direct credit substitutes, guarantees and acceptances	2,970	1,700
Undrawn loans and other commitments	2,119	780
	7,981	**3,339**
RWA		**2,657**

* Credit exposure is after applying CCF.

At 31 December 2022, the Group held eligible guarantees as collateral in relation to credit-related contingent items amounting to US$ 244 million.

b. Derivatives

Most of the Group's derivative trading activities relate to sales, positioning and arbitrage. Sales activities involve offering products to customers. Positioning involves managing market risk positions with the expectation of profiting from favourable movements in prices, rates or indices. Arbitrage involves identifying and profiting from price differentials between markets or products. Appropriate limits are approved by the Board. After approval, these limits are monitored and reported along with the Group Risk Appetite Statement.

The Group uses forward foreign exchange contracts, currency options and currency swaps to hedge against specifically identified currency risks. Additionally, the Group uses interest rate swaps and interest rate futures to hedge against the interest rate risk arising from specifically identified loans and securities bearing fixed interest rates. The Group participates in both exchange-traded and over-the-counter derivative markets.

Credit risk in respect of derivative financial instruments arises from the potential for a counterparty to default on its contractual obligations and is limited to the positive fair value of instruments that are favourable to the Group. The majority of the Group's derivative contracts are entered into with other financial institutions, and there was no significant concentration of credit risk in respect of contracts with positive fair value with any individual counterparty as at 31 December 2022.

The aggregate notional amounts for interest rate and foreign exchange contracts as at 31 December 2022 were as follows:

	Derivatives		
US$ million	**Interest Rate Contracts**	**Foreign Exchange Contracts**	**Total**
Notional – Trading book	12,467	18,561	31,028
Notional – Banking book	3,248	204	3,452
	15,715	**18,765**	**34,480**
Credit RWA (replacement cost plus potential future exposure)	151	254	405
Market RWA	661	166	827

c. Counterparty Credit Risk

Counterparty Credit Risk (CCR) is the risk that a counterparty to a contract in the interest rate, foreign exchange, equity or credit markets defaults prior to the maturity of the contract.

The counterparty credit risk for derivative and foreign exchange instruments is subject to credit limits on the same basis as other credit exposures. Counterparty credit risk arises in both the trading book and the banking book.

In accordance with the credit risk framework in the CBB's Basel III Capital Adequacy Framework, the Group uses the current exposure method to calculate counterparty credit risk exposure of derivatives. Counterparty credit exposure is defined as the sum of replacement cost and potential future exposure. The potential future exposure is an estimate that reflects possible changes in the market value of the individual contract and is measured as the notional principal amount multiplied by an add-on factor.

In addition to the default risk capital charge for CCR, the Group also holds capital to cover the risk of mark-to-market losses on the expected counterparty risk arising out of over-the-counter derivative transactions, namely a Credit Valuation Adjustment (CVA). The Standardised CVA Risk Capital Charge, as prescribed under CBB's Basel III guidelines, is employed for the purpose As of 31 December 2022, the CVA Portfolio Risk weighted assets was US$ 151 million.

Our approach to capital management is driven by our strategic objectives, considering the regulatory, economic and business environment in our major markets.

6. Capital management

Our strategy and business objectives underpin our capital management framework which is designed to maintain sufficient levels of capital to support our organic and inorganic strategy, and to withstand extreme but plausible stress conditions. The capital management objective aims to maintain an optimal capital structure to enhance shareholders' returns while operating within the Group's risk appetite limits and comply with regulatory requirements at all times.

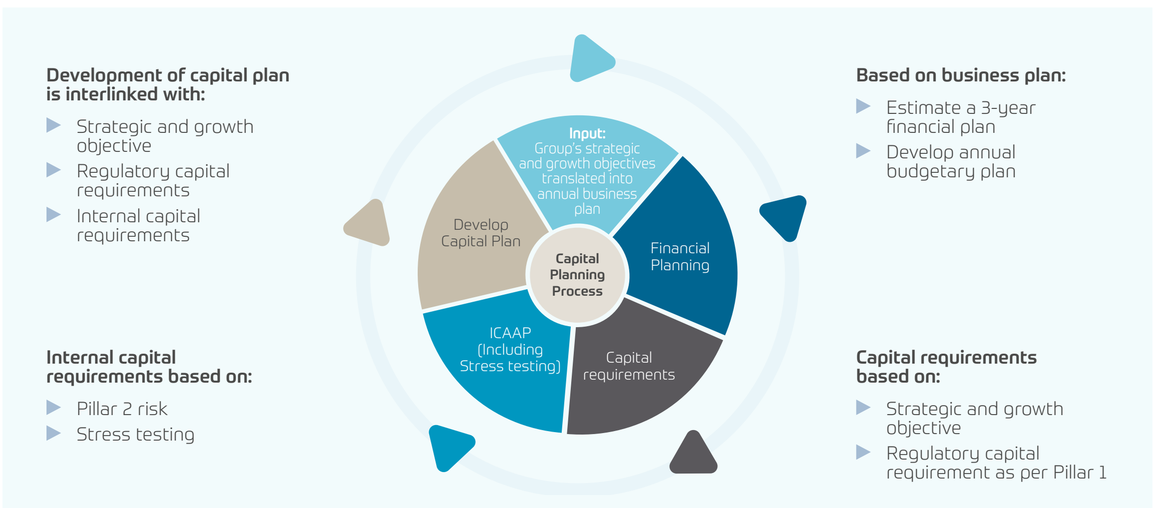
Our approach to capital management is driven by our strategic objectives, considering the regulatory, economic and business environment in our major markets. It is our objective to maintain a strong capital base to support the risks inherent in our businesses and markets, meeting both local and consolidated regulatory and internal capital requirements at all times.

Internal Capital Adequacy Assessment Process (ICAAP)

Our capital management approach is supported by a Capital Management Framework that includes an ICAAP framework, which enables us to manage our capital in a proactive and consistent manner. The framework incorporates a variety of approaches to assess capital requirements for different material sources of risks and is evaluated on an economic and regulatory capital basis. The Group's ICAAP is designed to:

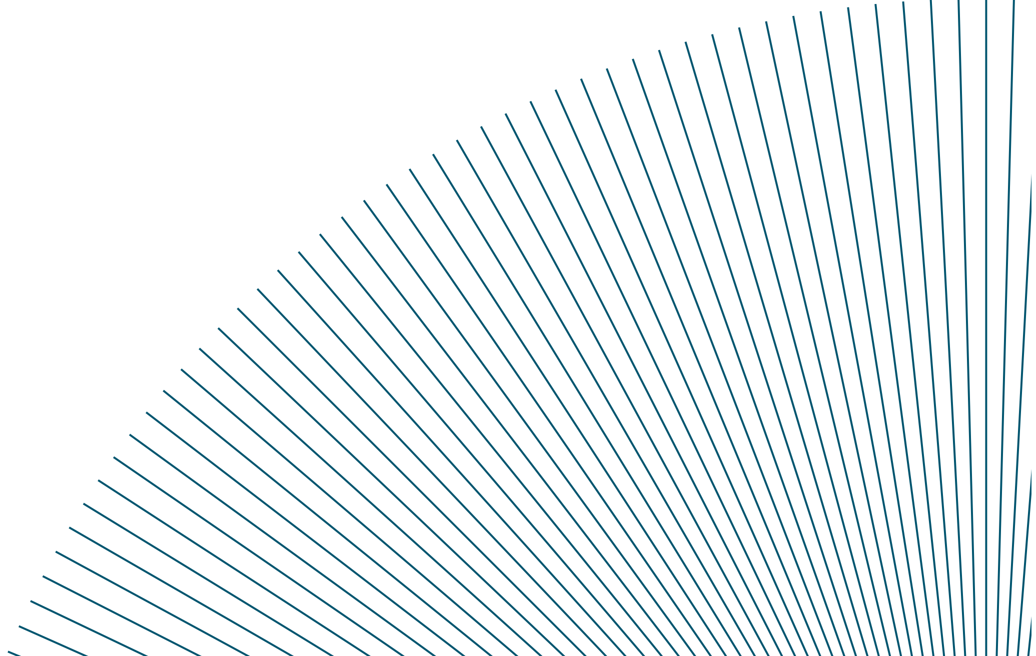
- Inform the Board of the ongoing assessment of the Bank's risks, and how the Bank intends to mitigate those risks. It also evaluates the current and future capital requirements that is necessary having considered other mitigating factors;
- Ensure that the Bank's capital position remains adequate in the event of an extreme but plausible global and regional economic stress conditions;

- Demonstrate that the Bank establishes and applies a strong and encompassing governance framework in addition to a robust risk and capital management, planning and forecasting process; and
- Provide a forward-looking view, in relation to solvency on the Bank's risk profile to ensure that it is in line with the Board's Risk Appetite limits.



The ICAAP assesses capital required for each of the material sources of risks and compares the overall capital requirements for Pillar 1 and Pillar 2 risks against available capital. Our assessment of capital adequacy is aligned to our assessment of risks. These include credit, market, operational, concentration risk (geographic, sectoral and obligor), liquidity risk, pension fund obligation, residual risks, and interest rate risk in the banking book.

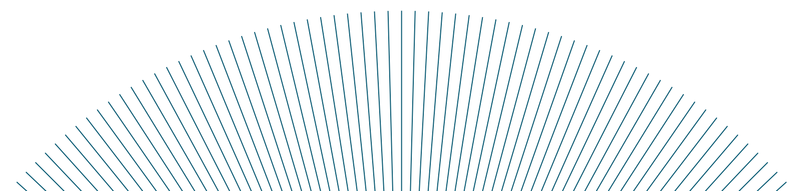
In addition to the assessment of capital requirements under Pillar 1 and Pillar 2A of the regulatory capital framework, the Group assesses capital requirements for stress events under Pillar 2B.



Pillar 2A Risks

The Pillar 2A measurement framework for the key risk categories is summarised below::

Material Sources of Risk (Pillar 2A)	Methodology
Credit Risk	Additional capital required for credit risk under ICAAP based on the Foundation Internal Ratings based approach
Concentration Risk - *Name Concentration* - *Sector Concentration* - *Geographic Concentration*	Capital requirements assessed for Name, Sector and Geographic concentration risks using the Herfindahl-Hisrchman Hirschman Index (HHI) approach
Counterparty Credit Risk	No capital add-on under ICAAP as Pillar 1 is assessed to be sufficient
Market Risk	The Bank uses SMM for market risk capital charge computation as prescribed by the local regulator the CBB. The Bank's own assessment has identified that additional capital charge maybe required for the marginal illiquidity of its market portfolio and movements in market prices. The capital charge for market risk assessed under Pillar 1 is, however, sufficient to cover these risks..
Operational Risk - *Conduct Risk* - *Non-Conduct Risk*	Under ICAAP the Bank re-assess operational risk within two categories of realised risk factors. • Conduct risk • Non-conduct risk Conduct risk losses are defined as losses described in the Basel loss event type of 'Client, Products and Business Practices (CPBP)' and legal losses. The CPBP loss events includes Regulatory fines, Sanctions (covering AML/KYC), Mis-selling and product risk (defects), Client confidentiality breaches, Non-compliance with disclosures. Non-Conduct risk losses are the Basel loss event types other than CPBP and legal losses. This category of loss events includes Internal fraud losses, External fraud losses, System break-down losses, Cyber security breach losses, Business disruption losses (BCP), Execution and transaction delivery loss, Documentation risk related losses.
Liquidity and Funding Risk	Liquidity and funding risk is covered under ILAAP and sufficient High Quality Liquid Asset Buffers (LAB) held to address this risk
Interest Rate Risk in the Banking Book (IRRBB)	Capital requirements assessed based on six stress scenarios in alignment with Basel IRRBB 2016 guidelines (BCBS 368). Capital requirements is assessed against internal threshold for EAR and EVE.
Pension Obligation Risk	Capital requirements assessed based on an actuarial assessment of pension fund obligations by computing the gap between the present value of all defined pension obligations and the value of the pension fund scheme assets which is complemented with a stress assessment using a set of stress scenarios
Strategic Risk	Regular review of strategy in view of the changing technology, regulatory and business landscape
Reputational Risk	Robust governance and management framework with significant involvement of senior management to proactively address any risk(s) to the Group's reputation



Pillar 2B - Stress Testing

Pillar 2B represents capital requirements to be assessed through Stress Testing and Scenario Analysis. Stress testing alerts the Bank's management to adverse unexpected outcomes related to a variety of risks and provides an indication of how much capital might be needed to absorb losses should large shocks occur.

The Bank applies an Integrated Stress Testing (IST) framework to assess the impact of a continuum of stress scenarios including market-wide, idiosyncratic and combined scenarios on its capital, asset quality, earnings and liquidity. IST also enhances the Bank's ability to integrate the feedback loop and interplay between different risks when a stress event occurs.

The market-wide scenarios generated from Moody's data on macro-economic forecasts allow the Bank to assess its vulnerabilities under mild, moderate, severe and reverse scenarios using the same macro-variables. Idiosyncratic scenarios have been identified for its material and emerging risks. Bank assesses the impact of these scenarios or new events for various risk drivers on a multi-dimensional basis, that is, at an entity, country, sector, business area, product, customer or any other applicable levels.

Finally, the Bank has leveraged the management actions identified under its ICAAP, ILAAP and RRP processes to complete the impact analysis by assessing the adequacy of these actions to resolve the adverse impact from these scenarios. The results of the IST process is aligned with the Bank's risk appetite setting at an entity and group level. The Bank uses the IST framework to complete its ICAAP.

The ICAAP considers mild, moderate and severe stress scenarios and assesses their impact on its earnings, asset quality, capital and liquidity adequacy. The macroeconomic stress scenarios are sourced from Moody's scenario generator platform. Impact on capital of the above is assessed and suitable management actions were identified to mitigate the impact of stress while making the overall capital adequacy assessments

Based on its assessment, the Group maintains adequate levels of capital buffers to meet its business growth over the planning horizon as well as withstand extreme but plausible stress.

Annual Planning Cycle

Our annual budget results in an assessment of RWA and capital requirements to support the Bank's growth plans and compares this with the available Capital. The annual budget, the 3 year forecasts and the ICAAP are approved by the Board. Regular assessments of RWA, Capital resources and the capital ratios are monitored and reported to the Board.

Capital Allocation

The responsibility for Group's capital allocation principles rests with the Group's Management Committee. The capital allocation disciplines are enforced through the Group Balance Sheet Management function that operates under the oversight of the Group Chief Financial Officer. Through our internal governance processes, we seek to maintain discipline over our investment and

The Group maintains adequate levels of capital buffers to meet its business growth over the planning horizon as well as withstand extreme but plausible stress.

capital allocation decisions and seek to ensure that returns on capital meet the Group's management objectives. Our strategy is to allocate capital to businesses and entities to support growth objectives where above hurdle returns have been identified based on their regulatory and economic capital needs.

We manage our new business returns with a Risk Adjusted Return on Capital (RAROC) measure to drive higher returns while balancing risks.

7. Related party transactions

Related parties represent associated companies, major shareholders, directors and key management personnel of the Group and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Group's senior management and are based on arm's length rationale.

Exposures to related parties are as follows:

US$ million	
Claims on shareholders*	**94**
Claims on directors & senior management	**4**
Claims on staff	**40**

**Unfunded exposures after applying CCF.*

Liabilities to related parties

Connected deposits	**4,297**

The interest expense in respect of connected deposits is US$ 112 million.

8. Repurchase and resale agreements

Proceeds from assets sold under repurchase agreements as at 31 December 2022 amounted to US$ 2,878 million. The carrying value of securities sold under repurchase agreements at the period end amounted to US$ 2,984 million.

Amounts paid for assets purchased under resale agreements at the period end amounted to US$ 1,386 million and relate to customer product and treasury activities. The market value of the securities purchased under resale agreements at the period end amounted to US$ 1,559 million.

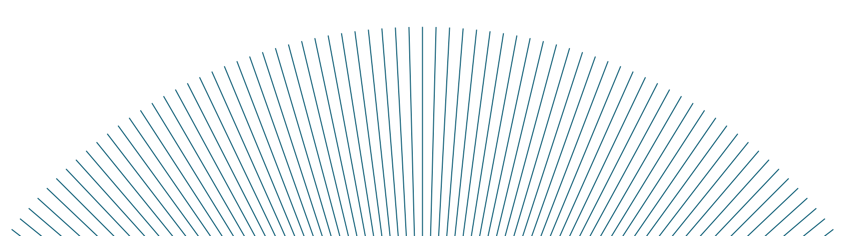
9. Material transactions

Transactions requiring approval by the Board include large credit transactions, related party transactions and any other significant strategic, investment or major funding decisions in accordance with Board approved policies and procedures.

APPENDIX I – REGULATORY CAPITAL DISCLOSURES

PD 1: Post 1 January 2019 disclosure template

	Basel III Common Disclosure Template	PIR as at 31 December 2022	Reference
	Common Equity Tier 1 capital: instruments and reserves		
1	Directly issued qualifying common share capital plus related stock surplus	3,104	A
2	Retained earnings	1,028	B
3	Accumulated other comprehensive income (and other reserves)	(351)	c1+c2+c3+c4+c5
4	*Not applicable*	-	
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	247	D
6	**Common Equity Tier 1 capital before regulatory adjustments**	**4,028**	
	Common Equity Tier 1 capital: regulatory adjustments		
7	Prudential valuation adjustments	-	
8	Goodwill (net of related tax liability)	51	
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	75	E
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	3	F
11	Cash-flow hedge reserve	-	
12	Shortfall of provisions to expected losses	-	
13	Securitisation gain on sale (as set out in paragraph 562 of Basel II framework)	-	
14	Not applicable	-	
15	Defined-benefit pension fund net assets	33	c6
16	Investments in own shares	-	
17	Reciprocal crossholdings in common equity	-	
18	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the Bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	
19	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	-	
20	Mortgage servicing rights (amount above 10% threshold)	-	
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-	
22	Amount exceeding the 15% threshold	-	
23	*of which: significant investments in the common stock of financials*	-	



APPENDIX I – REGULATORY CAPITAL DISCLOSURES (CONTINUED)

PD 1: Post 1 January 2019 disclosure template (continued)

	Basel III Common Disclosure Template	PIR as at 31 December 2022	Reference
	Common Equity Tier 1 capital: regulatory adjustments (continued)		
24	*of which: mortgage servicing rights*	-	
25	*of which: deferred tax assets arising from temporary differences*	-	
26	CBB specific regulatory adjustments	-	
27	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	-	
28	**Total regulatory adjustments to Common equity Tier 1**	**162**	
29	**Common Equity Tier 1 capital (CET1)**	**3,866**	
	Additional Tier 1 capital: instruments		
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	376	
31	*of which: classified as equity under applicable accounting standards*	376	
32	*of which: classified as liabilities under applicable accounting standards*	-	
33	*Directly issued capital instruments subject to phase out from Additional Tier 1*	-	
34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in Group AT1)	94	g
35	*of which: instruments issued by subsidiaries subject to phase out*	-	
36	**Additional Tier 1 capital before regulatory adjustments**	**470**	
	Additional Tier 1 capital: regulatory adjustments		
37	Investments in own Additional Tier 1 instruments	-	
38	Reciprocal crossholdings in Additional Tier 1 instruments	-	
39	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the Bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	-	
40	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	
41	CBB specific regulatory adjustments	-	
42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-	
43	**Total regulatory adjustments to Additional Tier 1 capital**	-	
44	**Additional Tier 1 capital (AT1)**	**470**	
45	**Tier 1 capital (T1 = CET1 + AT1)**	**4,336**	

	Basel III Common Disclosure Template	PIR as at 31 December 2022	Reference
Tier 2 capital: instruments and provisions			
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	-	
47	*Directly issued capital instruments subject to phase out from Tier 2*	-	
48	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in Group Tier 2)	76	i
49	*of which: instruments issued by subsidiaries subject to phase out*	-	
50	Provisions	214	h*
51	**Tier 2 capital before regulatory adjustments**	**290**	
Tier 2 capital: regulatory adjustments			
52	Investments in own Tier 2 instruments	-	
53	Reciprocal crossholdings in Tier 2 instruments	-	
54	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the Bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold)	-	
55	Significant investments in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	
56	National specific regulatory adjustments	-	
57	**Total regulatory adjustments to Tier 2 capital**	**-**	
58	**Tier 2 capital (T2)**	**290**	
59	**Total capital (TC = T1 + T2)**	**4,626**	
60	**Total risk-weighted assets**	**27,546**	
Capital ratios and buffers			
61	Common Equity Tier 1 (as a percentage of risk-weighted assets)	14.0%	
62	Tier 1 (as a percentage of risk-weighted assets)	15.7%	
63	Total capital (as a percentage of risk-weighted assets)	**16.8%**	
64	Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus G-SIB buffer requirement, expressed as a percentage of risk-weighted assets)	2.5%	
65	*of which: capital conservation buffer requirement*	2.5%	
66	*of which: bank specific countercyclical buffer requirement*	N/A	
67	*of which: G-SIB buffer requirement*	N/A	
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	5.0%	

APPENDIX I – REGULATORY CAPITAL DISCLOSURES (CONTINUED)

PD 1: Post 1 January 2019 disclosure template (continued)

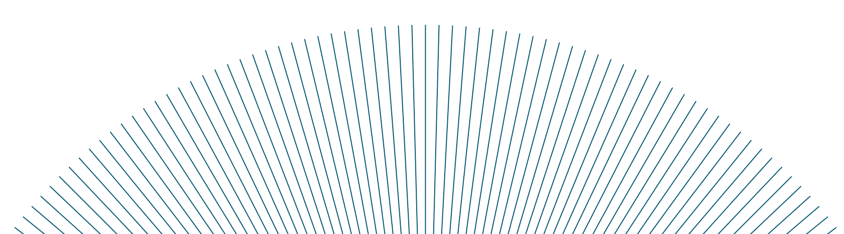
	Basel III Common Disclosure Template	PIR as at 31 December 2022	Reference
National minima including CBB (where different from Basel III)			
69	CBB Common Equity Tier 1 minimum ratio	9%	
70	CBB Tier 1 minimum ratio	10.5%	
71	CBB total capital minimum ratio	12.5%	
Amounts below the thresholds for deduction (before risk weighting)			
72	Non-significant investments in the capital of other financials	8	
73	Significant investments in the common stock of financials	33	
74	Mortgage servicing rights (net of related tax liability)	-	
75	Deferred tax assets arising from temporary differences (net of related tax liability)	217	
Applicable caps on the inclusion of provisions in Tier 2			
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	242	h*
77	Cap on inclusion of provisions in Tier 2 under standardised approach	313	
78	N/A		
79	N/A		
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2019 and 1 Jan 2023)			
80	*Current cap on CET1 instruments subject to phase out arrangements*	*N/A*	
81	*Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)*	*N/A*	
82	*Current cap on AT1 instruments subject to phase out arrangements*	*N/A*	
83	*Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)*	*N/A*	
84	*Current cap on T2 instruments subject to phase out arrangements*	*N/A*	
85	*Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)*	*N/A*	

* *As adjusted based on CBB circular "OG/226/2020"*

PD 2: Reconciliation of Regulatory Capital

i) Step 1: Disclosure of Balance Sheet under Regulatory scope of Consolidation

US$ million	Balance Sheet as in Published Financial Statements	Consolidated PIR Data
Liquid funds	2,886	-
Cash and balances at central banks	-	2,432
Placements with banks and similar financial institutions	2,226	4,070
Reverse repurchase agreements and other similar secured lending	1,386	-
Financial assets at fair value through P&L	590	590
Non-trading investments	8,080	-
Investment at Amortised Cost	-	1,397
Investments at FVOCI	-	6,697
Loans and advances	18,190	18,400
Investment properties	-	-
Interest receivable	-	460
Other assets	3,016	2,396
Investments in associates and joint ventures	-	33
Goodwill and intangible assets	-	126
Property, plant and equipment	265	264
TOTAL ASSETS	**36,639**	**36,865**
Deposits from banks	3,764	7,321
Deposits from customers	21,396	17,840
Certificate of deposits issued	435	435
Repurchase agreements and other similar secured borrowing	2,878	2,878
Interest payable	-	693
Taxation	84	-
Other liabilities	2,264	1,638
Borrowings	1,297	1,206
Subordinated liabilities	-	-
Additional Tier 1 Instrument	390	481
TOTAL LIABILITIES	**32,508**	**32,492**
Paid-in share capital	3,110	3,110
Treasury shares	(6)	(6)
Reserves	601	601
Non - controlling interest	426	426
Expected credit losses	-	242
TOTAL SHAREHOLDERS' EQUITY	**4,131**	**4,373**



APPENDIX I – REGULATORY CAPITAL DISCLOSURES (CONTINUED)

PD 2: Reconciliation of Regulatory Capital (continued)

ii) Step 2: Expansion of the Balance Sheet under Regulatory scope of Consolidation

US$ million	Balance Sheet as in Published Financial Statements	Consolidated PIR Data	Reference
ASSETS			
Liquid funds	2,886	-	
Cash and balances at central banks	-	2,432	
Placements with banks and similar financial institutions	2,226	4,070	
Reverse repurchase agreements and other similar secured lending	1,386	-	
Financial assets at fair value through P&L	590	590	
Loans and advances	18,190	18,400	
Non-trading investments	8,080	8,094	
Of which investment NOT exceeding regulatory threshold	-	*8,094*	
Interest receivable	-	460	
Other assets	3,016	2,396	
Of which deferred tax assets arising from carryforwards of unused tax losses, unused tax credits and all other	-	*3*	*F*
Of which deferred tax assets arising from temporary differences	-	*217*	
Investments in associates and joint ventures	-	33	
Of which Significant investment exceeding regulatory threshold	-	-	
Of which Significant investment NOT exceeding regulatory threshold	-	*33*	
Goodwill and intangible assets	-	126	
Of which goodwill	-	*51*	
Of which other intangibles (excluding MSRs) phased in at 100%	-	*75*	*E*
Of which MSRs	-	-	
Property, plant and equipment	265	264	
TOTAL ASSETS	**36,639**	**36,865**	

US$ million	Balance Sheet as in Published Financial Statements	Consolidated PIR Data	Reference
LIABILITIES & SHAREHOLDERS' EQUITY			
Deposits from banks	3,764	7,321	
Deposits from customers	21,396	17,840	
Certificate of deposits issued	435	435	
Repurchase agreements and other similar secured borrowing	2,878	2,878	
Interest payable	-	693	
Taxation	84	-	
Other liabilities	2,264	1,638	
Borrowings	1,297	1,206	
Subordinated liabilities	-	-	
Of which amount eligible for TII	-	-	
Of which amount Ineligible	-	-	
Additional Tier 1 Instrument	390	481	
Of which amount eligible for AT1	-	*42*	G
Of which amount eligible for TII	-	*10*	I
Of which amount Ineligible	-	*429*	
TOTAL LIABILITIES	**32,508**	**32,492**	
Paid-in share capital	3,110	3,110	
Treasury shares	(6)	(6)	
Of which form part of CET1			
Ordinary Share Capital	3,110	3,110	a
Treasury shares	(6)	(6)	A
Reserves	601	601	
Of which form part of CET1			
Retained earnings/(losses) brought forward	*971*	*986*	*b*
Net profit for the current year	*154*	*154*	*c1*
Legal reserve	*545*	*545*	*c2*
General (disclosed) reserves	*100*	*100*	*c3*
Fx translation adjustment	*(1,114)*	*(1,114)*	*c4*
Cumulative changes in fair value	*(22)*	*(22)*	*c5*
Pension fund reserve	*(33)*	*(33)*	*c6*
Non - controlling interest	426	426	
Of which amount eligible for CETI	-	*247*	*d*
Of which amount eligible for ATI	-	*52*	*g*
Of which amount eligible for TII	-	*66*	*I*
Of which amount ineligible	-	*61*	
Expected credit losses	-	242	
Of which amount eligible for TII (Maximum 1.25% of RWA)	-	*242*	*h*
Of which amount Ineligible	-	-	
TOTAL SHAREHOLDERS' EQUITY	**4,131**	**4,373**	

APPENDIX I – REGULATORY CAPITAL DISCLOSURES (CONTINUED)

PD 3: Main features of regulatory capital instruments

Disclosure template for main features of regulatory capital instruments				
1	Issuer	Arab Banking Corporation	Arab Banking Corporation	Banco ABC Brasil
2	Unique identifier	ABC	XS2426192261	LFSC19000 (series with various suffixes)
3	Governing law(s) of the instrument	Laws of Bahrain	English and Bahrain Law	Laws of the Federative Republic of Brazil
Regulatory treatment				
4	Transitional CBB rules	Common Equity Tier 1	N/A	N/A
5	Post-transitional CBB rules	Common Equity Tier 1	Additional Tier 1	Additional Tier 1
6	Eligible at solo/group/group & solo	Group & Solo	Group & Solo	Group
7	Instrument type (types to be specified by each jurisdiction)	Common equity shares	Perpetual NC 6 Additional Tier 1 Capital Securities	Perpetual NC 5, Sub-ordinated to all except Shareholders' Equity
8	Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date)	US$ 3,110	US$ 390	BRL 505 million (of which US$ 42 million equivalent eligible for AT1)
9	Par value of instrument	1	1	300,000
10	Accounting classification	Shareholders' equity	Shareholders equity	Liability- Amortised cost
11	Original date of issuance	Various	28th March 2022	Various
12	Perpetual or dated	Perpetual	Perpetual	Perpetual
13	Original maturity date	No maturity	No maturity	No maturity
14	Issuer call subject to prior supervisory approval	Yes	Yes	Yes
15	Optional call date, contingent call dates and redemption amount	N/A	28th March 2028 and every interest payment date thereafter	Yes
16	Subsequent call dates, if applicable	N/A	Every interest payment date after the first call date	N/A
Coupons / dividends				
17	Fixed or floating dividend/coupon	Floating (Dividend as decided by the shareholders)	Fixed	Floating
18	Coupon rate and any related index	N/A	N/A	Average market yield of 16,320%, equivalent to 1,20 times the current Selic Rate of 13,65% p.a.
19	Existence of a dividend stopper	N/A	Yes	No

Disclosure template for main features of regulatory capital instruments

20	Fully discretionary, partially discretionary or mandatory	Fully discretionary	Partly discretionary (Insufficiency of profits)	Partly discretionary (Insufficiency of profits)
21	Existence of step up or other incentive to redeem	No	No	No
22	Non-cumulative or cumulative	N/A	Non-cumulative	Non-cumulative
23	Convertible or non-convertible	N/A	Convertible	Non-convertible
24	If convertible, conversion trigger (s)	N/A	Non-Viability Event	N/A
25	If convertible, fully or partially	N/A	Fully	N/A
26	If convertible, conversion rate	N/A	Conversion Price as defined	N/A
27	If convertible, mandatory or optional conversion	N/A	Mandatory	N/A
28	If convertible, specify instrument type convertible into	N/A	Ordinary Shares	N/A
29	If convertible, specify issuer of instrument it converts into	N/A	ABC	N/A
30	Write-down feature	No	No	Yes
31	If write-down, write-down trigger(s)	N/A	N/A	CET 1 at 5.125% or below
32	If write-down, full or partial	N/A	N/A	Fully discretionary
33	If write-down, permanent or temporary	N/A	N/A	Permanent
34	If temporary write-down, description of write-up mechanism	N/A	N/A	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Subordinated to all depositors and creditors (including subordinated debt) of the Bank	Subordinated to all senior obligations of the bank and in priority to the Junior obligations (such as equity shares).	AT1 capital bills
36	Non-compliant transitioned features	No	No	N/A
37	If yes, specify non-compliant features	N/A	N/A	N/A

Sustainability: a key strategic objective

Embedding sustainability into the way Bank ABC operates, its risk appetite and culture, is a key strategic objective for the Bank.

It is imperative that the Bank plays a constructive role in managing a comprehensive transition to a more sustainable, low carbon economy. With the full commitment and support of the Group's Board and management towards this objective, the Bank has made significant progress during the year.

The Bank has invested in specialist resources with a view to developing a holistic, collaborative and evolutionary approach to sustainability and embed throughout the business to both mitigate the risks and fully capture the opportunities. The aim is to not only generate real business value across the Bank's value chain and create positive outcomes for our stakeholders.

The scope covers the entirety of the Bank's global footprint, encompassing governance, operations, risk management, business generation and stakeholder engagement. The aim is to develop a target-driven approach that sets out the Bank's ambition and commitment to sustainability and allows progress to be measured.

Sustainability: Holistic, Evolutionary & Collaborative

Governance

Corresponding to the United Nations Sustainability Development Goals

Any successful sustainability initiative needs a governance structure that allows for the effective board oversight of the sustainability strategy implementation, risk appetite and culture. To this, a review is underway to enhance the current governance structure with respect to sustainability. A robust reporting line, with clear targets and KPIs, will enable the Bank to monitor progress and success.

An important element is upskilling and building capability within the senior management team and across the firm. As part of that process, the executive team have already participated in several sustainability training sessions to develop their expertise and knowledge. Remuneration structures are also under review to create greater incentivisation and alignment with the Bank's sustainability objectives.

Operations

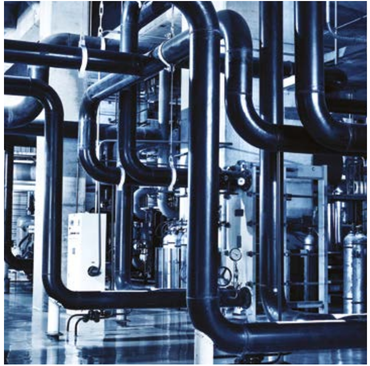
Corresponding to the United Nations Sustainability Development Goals

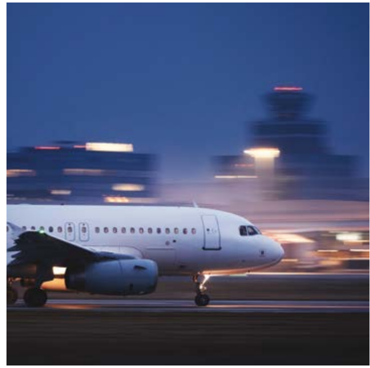
The Bank is making good progress in measuring, managing and reporting the environmental impact of its operations and supply chain. It has defined the baseline of greenhouse gas emissions, energy, water and waste use across its operational footprint. Calculating the baseline is an important first step in defining a credible net zero target to reduce greenhouse gas emissions and setting reduction targets for energy, water and waste usage. The baseline year has been defined as 2022. The Bank's global operations generated greenhouse gas emissions of 9,521 tCO_2 (tons of CO_2) in 2022, covering Scope 1, 2 & 3 (travel-related) emissions. Although total emissions rose in 2022 as employees returned to the office, it was encouraging to record that Scope 1 emissions declined 40%, from the previous year, to 122 tCO_2 in 2022. This was a result of initiatives to upgrade air conditioning across the Bank's real estate, most notably in Brazil, which led to a reduction in refrigerant leakage.

Scope 1, 2 & 3 travel-related greenhouse gas emissions (tCO_2, 2022)

Greenhouse Gas Emissions (tCO_2)	2022	2021	Commentary
Scope 1 – direct	122	203	Upgraded air conditioning reduced refrigerant leakage
Scope 2 – indirect	8,443	4,512	Increase due to return to office post-Covid
Scope 3 – indirect (travel-related)	956	333	Post-Covid impact as travel resumes
Total *	**9,521**	**5,048**	

*Scope 1, Scope 2 & Scope 3 reporting is based on the UK DEFRA, GHG Protocols & other internationally recognised metrics.





Scope 1

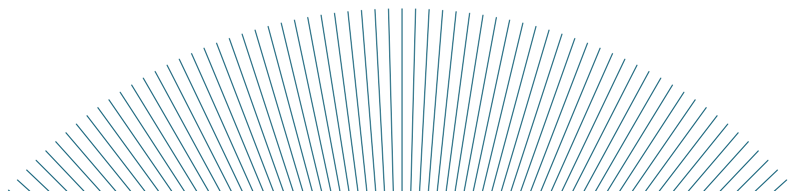
Emissions from company-owned activities, e.g. company vehicles & air conditioning

Scope 2

Indirect emissions from electricity generation

Scope 3

Emissions from indirect emissions not included in scope 2, e.g. employee travel & suppliers



Initiatives to reduce the Bank's environmental footprint are expected to accelerate during 2023. Bank ABC is now firming up action plans that will begin its journey to reduce the environmental impact or its operations and supply chain. The early signs are promising. The UK operation will source 100% of its energy from renewable sources as from April 2023. Efforts to mitigate the environmental footprint have not been restricted to operations. The impact of the Bank's supply chain is also being addressed. The supplier tendering process now includes an ESG risk assessment for each supplier. The approach evaluates their governance structure, how they manage their environmental and social footprint and together with their efforts to mitigate those risks. Technology and collaboration will be key to improved efficiency and resilience. The Bank is also reviewing its approach to data storage in order to reduce its energy use and improve efficiency. Meanwhile, the Bank's innovation team have been developing three projects that will help cut paper use, including an initiative to introduce digital signatures.

Human Capital Management

Corresponding to the United Nations Sustainability Development Goals

Employees are the Bank's most valuable asset, and Bank ABC remains committed to just and inclusive work environment, with purpose-driven careers that offer opportunities for self-development and professional growth.
The Bank adopts a progressive approach to human capital management and endeavors to strengthen it further to be the employer of choice across its network.

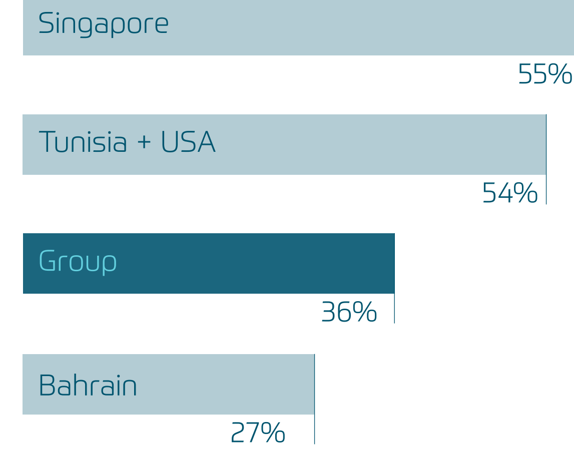
Bank ABC's Gender Ratio in 2022

	Group	Bahrain	UK	US	Singapore	Brazil	Jordan	Egypt	Algeria	Tunisia
Gender ratio *	36%	27%	39%	54%	55%	34%	36%	30%	47%	54%

*Female employees as % of total employees, 2022.

Females represent 36% of all employees in the Group with Singapore, US and Tunisia leading the way with gender ratios of 55%, 54% and 54%, respectively. Given that, there remains work to be done in Bahrain with the gender ratio at 27%.

There is a clear commitment from senior management to deepen the Bank's approach to diversity, equity & inclusion DEI and career development. Supporting and actively encouraging DEI to ensure a safe working environment that supports employee wellbeing. In turn, this will foster greater collaboration and allow idea generation to thrive. Career development is another key element to ensure that the Bank is able to retain high quality staff and allow it to promote from within.

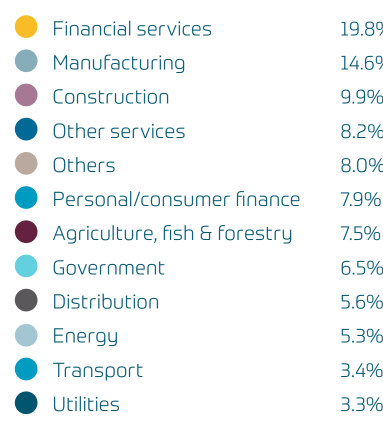


Risk Management

Corresponding to the United Nations Sustainability Development Goal

The risk management framework sets the strategic approach for this workstream across the firm by defining standards, objectives and responsibilities for the Group. Climate change, being a unique phenomenon and driver of risks, can have economic and operational impacts and can increase the severity of other risks. As such, climate risk has been embedded throughout the Group's business covering operations, credit, markets and treasury. Climate stress tests and scenario analysis are also being applied to estimate expected credit losses and the potential impact on ICAAP. In terms of evaluating the climate risk of the Bank's corporate loan book, the largest 100 obligors are given a climate risk rating based on a climate questionnaire and Moody's climate industry risk rating. It is also worth noting that, in contrast to many of the large global bank, Bank ABC's corporate loan portfolio has negligible exposure to the high environmentally damaging industries of coal exploration, coal-fired power, shale, fracking and Arctic exploration.

Gross loans split by sector- 2022

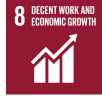


Sector	Share
Financial services	19.8%
Manufacturing	14.6%
Construction	9.9%
Other services	8.2%
Others	8.0%
Personal/consumer finance	7.9%
Agriculture, fish & forestry	7.5%
Government	6.5%
Distribution	5.6%
Energy	5.3%
Transport	3.4%
Utilities	3.3%

Looking forward, the Bank will continue to strengthen and widen its approach to measuring, managing and reporting on environmental risk. Environmental risk captures both climate risk and nature/biodiversity loss, which is an important distinction. The more the world's nature/ biodiversity is degraded, the greater the reduction in greenhouse gas emissions is required to achieve net zero and limit global warming to below 2 degrees centigrade. Amongst various key initiatives that the Bank has under review, is measuring the Scope 3 greenhouse gas emission of the loan book. This would be an important first step in developing a net zero target covering financed emissions. Carbon Disclosure Project estimates that the global bank industry's Scope 3 greenhouse gas emissions are 700x that of Scope 1 and 2 emissions.

Finance the Transition

Corresponding to the United Nations Sustainability Development Goals



The financial sector has a critical role to play in supporting the global economy in its transition to a more sustainable, low carbon economy. It is estimated that at least US$3-5 trillion of additional investment each year through to 2050 is required (Ref: Climate Financial Markets and Real Economy by Boston Consulting Group, December 2020). The vast majority of finance will be in the high emitting industries of power, transportation, building materials, mining and oil & gas as they invest in new technology and capability to reduce their environmental impact. The new technologies being developed to decarbonise the cement industry is a prime example. Experts have highlighted that concrete is the second most used material on the planet at an estimated 30b tonnes per year with cement generating over 70% of concrete's emissions. Decarbonising cement would have more dollar-for-dollar impact than decarbonising aviation and shipping. The shift to a more sustainable low carbon economy won't happen if banks are driven out of financing the major high emitting companies. Instead, banks need to work with industry participants to accelerate the transition.

Bank ABC recognises that it has an important role in supporting its customers to successfully deliver on their own transition journey. In 2022, the Bank provided US$775mn in green and sustainability-linked finance to its customers, of which US$595mn

was generated by our Brazil operation and US$180mn related to two Bahrain-based companies. Banco ABC Brasil (BAB) has now deployed US$2.4bn of green and sustainability-linked finance over the four year to 2022. Bank ABC participated in two loan syndications totalling US$3.4bn that both included Islamic sustainability-linked tranches. In both cases, the loans were used for refinancing. Both were Bahrain-based companies: Aluminium Bahrain B.S.C. (Alba) and the Oil & Gas Holding Company (nogaholding). Alba's sustainability-linked loan was related to achieving three ESG KPIs: (i) total recycled waste, (ii) training hours & (iii) number of injury incidents that incurred lost time. nogaholding's sustainability-linked tranche was linked to two ESG KPIs: (i) Carbon intensity reduction & (ii) Health & safety.

Green and Sustainability-linked Finance in 2022

Green and Sustainability-linked Finance	2022 (US$, mn)
Banco ABC Brasil	595
Bank ABC (excluding Brazil)	180
Total	**775**

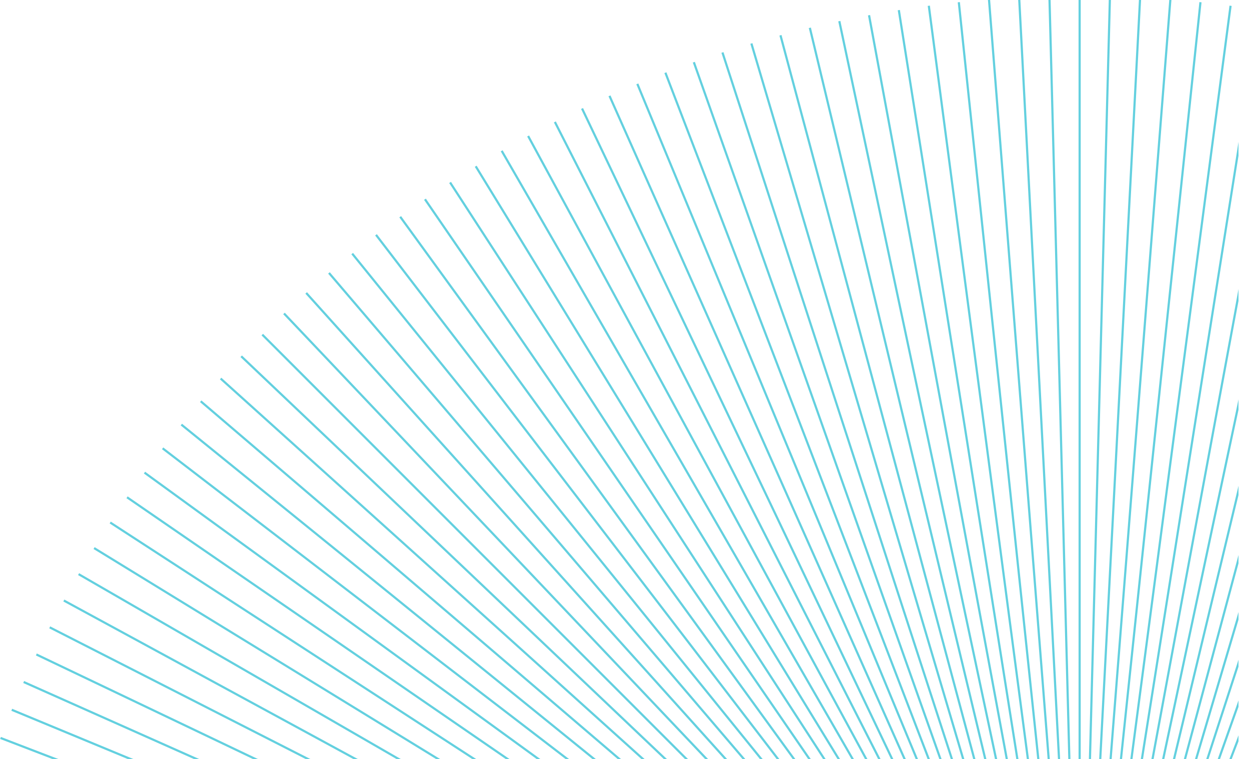
Bank ABC is looking at various initiatives across wholesale and retail banking to deepen its approach and fully capture the growth opportunities from green and sustainability-linked finance. BAB has had a sustainable finance taxonomy that defines what it deems green and sustainability-linked, since 2020. This is being strengthened to develop a Group-wide approach to ensure focus and mitigating any green washing. In parallel, priority segments within wholesale and retail banking are being defined to accelerate and deepen the Bank's resources and capability within green and sustainability-linked finance.

Environmental awareness initiative by Bank ABC Algeria

Community Investment & Socio-Economic Development

Corresponding to the United Nations Sustainability Development Goal

Bank ABC recognises its role in contributing to the sustainable development of local communities across its network. The earthquake that struck Turkey and Syria on 6th February 2023 was a stark reminder of this responsibility and the fragility of communities in the face of nature's devastating force. In response, Bank ABC announced a US$2mn donation, in support of the relief efforts in the affected areas. The donation will support the ongoing relief and recovery operations in the affected areas through select local and international non-profits actively working for the cause. Bank ABC has been present in Turkey since 2005 and remains committed to helping communities in need across its network. Additionally, on the occasion of Bahraini Women's Day, 2022, the Bank pledged financial support towards the initiatives of the Shamsaha Women's Center, a non-profit corporation, focusing on empowering and protecting women subjected to abuse through the first, full-scale 24/7 women's crisis response programme in the Middle East. Throughout the year, the Group worked closely with its partners on local community initiatives addressing poverty, hunger, education, inequalities and health & wellbeing. In parallel with its continued efforts to alleviate poverty and enhance health and wellbeing, the Bank has always dedicated special importance to education. This is driven by its belief in the importance of this sector for building a generation that is capable of excelling and championing progress and development in all areas of society.



Corporate Social Responsibility Highlights in 2022

Corresponding to the United Nations Sustainability Development Goals

Poverty & hunger

- Bank ABC Jordan supported the Young Women's Christian Association - Madaba (YWCA – Madaba) by providing food parcels to be distributed to families in need.
- The Bank continued to support the Jordanian Hashemite Fund for Human Development and distributed food parcels to families in need in cooperation with Tkiyet Um Ali.
- Made charitable donations to support students in deprived areas of Tunisia.
- For the 6th consecutive year Bank ABC Tunisia supported Citizen Engagement to provide 1,000 food baskets for families in need during the holy month.
- Bank ABC Algeria's joined the association "Shahre Errahma" to collect donations from Bank employees for families in need during Ramadan.

Education

- In Bahrain, the Bank celebrated International Women's Day by announcing a programme to sponsor two Head office employees, to undertake Masters degree, one of them being an MSc in Strategic Fintech for a female employee, commencing April 2023.
- Partnered with Central Bank of Jordan to provide a student programme promoting financial literacy.
- Continued to support the Jordanian Young Muslim Women Association Centre for Special Education by continuing to cover the expenses of two students.
- Supported an initiative launched by Al Aman Fund for the Future of Orphans which provides scholarships for orphaned students to support them in their higher education.
- Contributed to an education program launched by the Queen Rania Foundation for Education and Development that gives research papers, learning resources and education to children, parents and teachers.
- Bank ABC Tunisia sponsored an investment competition at Tunis Business School and actively supported school career days.
- In partnership with SOS Villages d'Enfants in Tunisia, the Bank sponsored their back-to-school initiative.
- In Algeria, the Bank launched its "MasterClass by Bank ABC" an initiative to introduce students to the career possibilities within banking.

Health & wellbeing

- Contributed to the Al Malath Foundation for Humanistic Care (Al Malath Hospice) in Jordan as a contribution in the Foundation's activities that meet important humanitarian needs and palliative care.
- Ongoing financial support to the King Hussein Cancer Centre (KHCC) in Jordan to support their treatment of cancer patients.
- Organised a Breast Cancer Awareness Day in Tunisia and sponsored the 7th half-marathon 'Run against cancer' organised by Nourane.
- Bank ABC Algeria made a charitable donation to Alif, school for children with Down Syndrome.
- As part of World Environment Day, Bank ABC Algeria hosted lecturers from the ENSA "National Higher School of Agronomy for a conference to raise environmental awareness.

The Sustainability Journey

The Bank is excited about the benefits to be realised from embedding sustainability across its value chain. This is expected to generate real business value for the Bank and create positive outcomes for its stakeholders. A strong governance structure is the cornerstone of the Bank ABC's efforts to support a just transition to a more sustainable, low-carbon economy that is equitable for employees, communities and the environment.

Adopting a holistic, collaborative, and evolutionary approach to sustainability should lead to greater efficiency, resilience and productivity while strengthening its approach to governance, operations, human capital management, risk management, business generation and stakeholder engagement. We look forward to updating our stakeholders as we progress on our sustainability journey.

Sustainability Roadmap: 2023 & Beyond

Governance

- Sustainability embedded into the governance structure to ensure effective board oversight of the sustainability strategy, risk appetite and culture.
- Robust and progressive approach to integrating environmental risk into the Bank's risk management system.
- Effective and timely reporting of ESG KPIs with targets that define the Bank's commitment and ambition.
- Alignment with Task Force on Climate-related Financial Disclosures for the effective monitoring of progress to targets.

Transition to a sustainable low-carbon economy

- Measure and mitigate the environmental impact of the Bank's global operations covering greenhouse gas emissions, energy, water and waste usage.
- Active engagement of key suppliers to support their efforts in reducing their environmental footprint.
- Finance the transition by supporting customer transition strategies and environmentally friendly trade, infrastructure & real estate.

Social responsibility

- Deepen the Bank's framework and approach to diversity, equity and career development.
- Strengthen training programs to support DEI, career development and sustainability capability.
- Enhance employee wellbeing.
- Active support and engagement of local communities across the Bank's global network.

For additional 2022 ESG data, refer to the ESG KPI disclosures for Bahrain Bourse on pages 230-231

Corporate Governance Report

03

Corporate Governance

(All figures stated in US Dollars unless otherwise indicated)

Arab Banking Corporation B.S.C. ("Bank ABC") follows internationally-recognised best practice principles and guidelines, having in place a corporate governance system that provides an effective and transparent control framework that is fair and accountable.

Bank ABC's shares have been listed on the Bahrain Bourse since 1990.

The Central Bank of Bahrain ("CBB") licenses Bank ABC as a conventional wholesale bank. Incorporated in 1980 as a Bahrain joint stock company, Bank ABC has an authorised capital of US$4.5 billion and a paid-up capital of US$3.11 billion as at 31 December 2022 (31 December 2021: US$3.11 billion).

Bank ABC communicates all relevant information to stakeholders punctually and clearly through a variety of channels, including a well-maintained website. In particular, it reports its profits on an annual, semi-annual and quarterly basis.

At least the last five years' consolidated financial statements are available on the Bank ABC corporate website.

Shareholders

Bank ABC's shares have been listed on the Bahrain Bourse since 1990. The Central Bank of Libya ("CBL"), one of Bank ABC's founding shareholders, owns a majority of the shares. The CBL increased its shareholding to 59.37% in 2010 by participating in that year's capital increase and acquiring the Abu Dhabi Investment Authority's 17.72% shareholding. The Kuwait Investment Authority, another of Bank ABC's founding shareholder, continues to own 29.69% of the shares. Each of the foregoing shareholders is either a governmental entity or is (directly or indirectly) owned by a governmental entity in its jurisdiction of establishment. International and regional investors hold the remaining shares of Bank ABC.

The following table shows the ownership structure of Bank ABC as at 31 December 2022:

Name of Shareholder	Percentage Shareholding	Nationality
Central Bank of Libya	59.37%	Libyan
Kuwait Investment Authority	29.69%	Kuwaiti
Other shareholders with less than 5% holdings	10.94%	Various
Total	**100%**	

The following table shows the distribution of shareholdings as at 31 December 2022 and 31 December 2021.

	2022			2021		
% of shares held	**No. of shares**	**No. of shareholders**	**% of total outstanding shares**	No. of shares	No. of shareholders	% of total outstanding shares
Less than 1%	**128,344,432**	**1,312**	**4.1**	128,344,432	1,320	4.1
1% up to less than 5%	**211,976,668**	**3**	**6.8**	211,976,668	3	6.8
5% up to less than 10%	**-**	**-**	**-**	-	-	-
10% up to less than 20%	**-**	**-**	**-**	-	-	-
20% up to less than 50%	**923,289,191**	**1**	**29.7**	923,289,191	1	29.7
50% and above	**1,846,389,709**	**1**	**59.4**	1,846,389,709	1	59.4
Total	**3,110,000,000**	**1,317**	**100**	3,110,000,000	1,325	100

Bank ABC's Corporate Governance Charter

In 2010, the CBB substantially updated its corporate governance requirements (particularly the CBB Rulebook's High Level Controls module) for financial institutions, which are incorporated in Bahrain (the "CBB Corporate Governance Requirements"). Such regulatory requirements largely correspond with the Corporate Governance Code of Bahrain of 2010, which the Ministry of Industry and Commerce of Bahrain issued for the first time in March 2010 (and was later amended on 19th March 2018 when the Ministry of Industry and Commerce of Bahrain issued the Decree No. (19) for 2018 concerning the issuance of the Corporate Governance Code (the Code.") The Code has recently been amended by the Ministry of Industry and Commerce of Bahrain's Resolution No. (91) of 2022. The Code is applicable to all joint stock companies incorporated in Bahrain, including joint stock companies licensed by the Central Bank of Bahrain. The Board of Directors adopted the Bank ABC Corporate Governance Charter in December 2010 (the "Corporate Governance Charter"), which substantially reflects the CBB Corporate Governance Requirements and the Code as they have evolved. Bank ABC reviews on a regular basis the Corporate Governance Charter and, whenever required, makes the necessary and appropriate amendments. The Corporate Governance Charter is displayed on the Bank ABC corporate website and deals with a number of corporate governance related matters, including:

- the role and responsibilities of the Board and its committees;
- the responsibilities of Directors to Bank ABC and the shareholders;
- the appointment, training and evaluation of the Board;
- remuneration of the Board and of Bank ABC employees;
- Bank ABC's management structure;
- communications with shareholders and the disclosure of information to relevant stakeholders; and
- the detailed mandates of each of the committees of the Board.

Recent Corporate Governance Changes

In 2022, there were no material changes to the Corporate Governance Charter.

Compliance with CBB Corporate Governance Requirements and the Code

Bank ABC was compliant with the CBB Corporate Governance Requirements and the Code as at 31 December 2022, save that the Chairman of the Board was not an independent Director, the Board Corporate Governance Committee was comprised of less than three independent Directors (although the majority of Directors were independent) which is contrary to the non-mandatory guidance included in the CBB Corporate Governance Requirements and the Code, and the Board Audit Committee comprised of two independent Directors (including its Chairman) and two non-executive Directors,

which is contrary to the CBB Corporate Governance Requirements (which requires that the Board Audit Committee be composed of at least three directors of which the majority must be independent).

BOARD OF DIRECTORS

Responsibilities of the Board

Bank ABC has previously adopted both a corporate governance charter for the Board and charters for the various Board committees (the "Bank ABC Board Mandates"). The Bank ABC Board Mandates are displayed on the Bank ABC corporate website. The Board of Directors is responsible for the overall direction, supervision and control of the Bank ABC Group. In particular, the Board's responsibilities include (but are not limited to):

a) those responsibilities assigned to the Board by the Articles of Association of Bank ABC;

b) establishing Bank ABC's objectives;

c) Bank ABC's overall business performance;

d) monitoring management's performance;

e) the adoption and annual review of strategy;

f) monitoring the implementation of strategy by management;

g) causing financial statements to be prepared which accurately disclose Bank ABC's financial position;

h) convening and preparing the agenda for shareholder meetings;

i) monitoring conflicts of interest and preventing abusive related-party transactions;

j) assuring equitable treatment of shareholders, including minority shareholders;

k) the adoption and review of management structure and responsibilities;

l) the adoption and review of the systems and controls framework; and

m) overseeing the design and operation of the remuneration systems of the Bank ABC Group and ensuring that such systems are not primarily controlled by the executive management of the Bank ABC Group.

The Board meets regularly to consider key aspects of the Group's affairs, strategy and operations.

The Board exercises its responsibilities for best practice management and risk oversight mainly through the Board Risk Committee, which oversees the definition of risk/reward guidelines, risk appetite, risk tolerance standards and risk policies.

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

> **The current three-year term of the Board of Directors began on 23 March 2022.**

Appointment of Directors

The shareholders appoint the Board for a term of three years, with the current term of the Board commencing on 23rd March 2022 and terminating in March 2025. At the 2022 year end, there were nine Directors on the Board, with diverse and relevant skills, who worked well together as a team. Collectively, they exercised independent and objective judgement in meeting their responsibilities. Currently, eight Directors are male (88.89%) and one is a female (11.11%).

In accordance with Bank ABC's Articles of Association, a shareholder or group of shareholders holding 25% or more of the share capital may

nominate Directors proportionate to their respective shareholdings. Other Directors are elected.

In accordance with the Bank ABC Board Mandates, each proposal for the election or re-election of a Director shall be accompanied by a recommendation of the Board, and a summary of the advice of the Board Remuneration Committee (see the description of role of the Board Remuneration Committee in this report).

The Board also has the power under Bank ABC's Articles of Association to appoint new directors and fill any Board vacancies that may arise, subject to such appointments being subsequently ratified by shareholders.

When a new Director is inducted, the Chairman, or Bank ABC's Board Secretary or Compliance Officer, or other individual delegated by the Chairman, reviews the Board's role and duties with that person. In particular, they describe the legal and regulatory requirements of the Bank ABC Board Mandates, the Code and the CBB Corporate Governance Requirements. The Chairman of the Board (or other individual delegated by the Chairman of the Board) ensures that each new Director is provided with a comprehensive induction pack providing requisite materials to ensure his contribution to the Board from the beginning of his term.

Bank ABC has a written appointment agreement with each Director. This describes the Director's powers, duties, responsibilities and accountabilities, as well as other matters relating to his appointment including his term, the time commitment envisaged, the Board committee assignments (if any), Directors' remuneration and expense reimbursement entitlement, and Directors' access to independent professional advice when needed.

Biographies of the Board of Directors are included in pages 32-33.

Assessment of the Board

The Bank ABC Board Mandates require that the Board evaluates its own performance each year, as well as the performance of each Board committee and individual Director. This evaluation includes:

a) assessing how the Board operates;

b) evaluating the performance of each Board committee in light of its specific purposes and responsibilities, which shall include reviews of the self-evaluations undertaken by each Board committee;

c) reviewing each Director's work, his attendance at Board and Board committee meetings, and his constructive involvement in discussions and decision making;

d) reviewing the Board's current composition against its desired composition in order to maintain an appropriate balance of skills and experience, and to ensure planned and progressive refreshing of the Board; and

e) recommendations for new Directors to replace long-standing Directors, or those Directors whose contribution to Bank ABC or its Board committees (such as the Board Audit Committee) is not adequate.

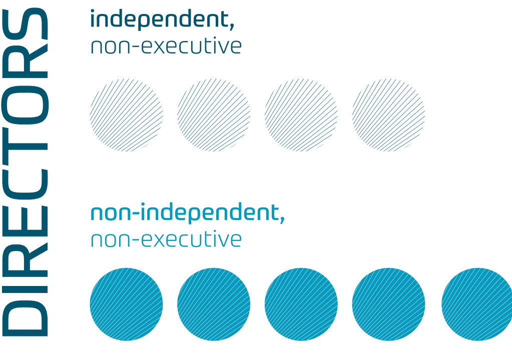
The Board has conducted an evaluation and self-assessment of its performance, and the performance of each Board committee and each individual Director in relation to the financial year ended on 31 December 2022.

Independence of Directors

The Bank ABC Board Mandates include detailed criteria to determine whether a Director should be

classified as independent or not. The Bank ABC independence criteria are at least as restrictive as the formal criteria specified in the CBB Corporate Governance Requirements.

Bank ABC had four independent, non-executive Directors and five non-independent, non-executive Directors as at 31 December 2022.



The CBB Corporate Governance Requirements require that at least a one-third of Bank ABC's Board of Directors is independent and also require that certain Board committees (including the Board Audit Committee, the Board Remuneration Committee, Board Compliance Committee, and Board Risk Committee) be comprised of a certain number of Directors, a certain proportion of independent Directors and/or that such Board committees be chaired by an independent Director. Save as may otherwise be disclosed in this section, Bank ABC is now fully compliant with such requirements. The CBB Corporate Governance Requirements also state that it is preferable for the Chairman of the Board to be an independent Director, whereas the Chairman of the Board is, in fact, classified as a non-executive, non-independent Director.

As a rule, Directors do not have any direct or indirect material interest in any contract of significance with Bank ABC, or any of its subsidiaries, or any material conflicts of interest. This remained the case in 2022.

The Bank ABC Board Mandates require that any transaction that causes a Director to have a material conflict of interest must be unanimously approved by the Board (other than the relevant Director). Each Director is required to inform the entire Board of any actual, or potential, conflicts of interest in their activities with, or commitments to, other organisations as they arise, and to abstain from voting on these matters. Disclosures shall include all material facts.

Each Director has a legal duty of loyalty to Bank ABC, and can be personally sued by Bank ABC or shareholders for any violation.

Compensation & interests of Directors

The remuneration structure for the Board of Directors is determined in accordance with directors' remuneration policy (the "Remuneration Policy") of Bank ABC. The Remuneration Policy is adopted by the Annual General Meeting on 21 March 2021 in accordance with Article 28 (b) of the Articles of Association of Bank ABC, based on a proposal of the Board of Directors of Bank ABC. The Remuneration Policy is intended to remain in force until 2025.

The objective of the Remuneration Policy, amongst others, is for Bank ABC to be able to (at all times) to attract, retain, and motivate Directors of skills and expertise commensurate with the complexity and diversification of its global business and be able at the same time to provide value to such Directors in return of their value to Bank ABC.

The remuneration structure for the Board of Directors is composed of a flat fee (the "Flat Fee"), which is easy to manage, but also competitive enough to motivate Directors' behavior and attract and retain the quality needed to run Bank ABC successfully. Such Flat Fee is composed of a monthly cash retainer (the "Retainer[1]"); attendance fees payable to Directors attending different Board and Board Committee meetings ("Attendance Fees[2]"); and allowances to cover travelling, accommodation and subsistence costs incurred in connection with attending Board and Board Committee meetings ("Allowances").

[1]This is referred to in the following table, according to the MOICT disclosure tables as "Remunerations of the chairman and BOD".

[2]This is referred to in the following table, according to the MOICT disclosure tables as "Total allowance for attending Board and committee meetings".

The aggregate remuneration paid to Board members in 2022 amounted to US$1,760,511 (2021: US$1,382,000), which was divided among the three elements as follows:

	Fixed remunerations					Variable remunerations							
Name	Remunerations of the Chairman and Board	Total allowance for attending Board and committee meetings	Salaries	Others*	Total	Remunerations of the Chairman and Board	Bonus	Incentive plans	Others	Total	**End-of-service award**	**Aggregate amount** (Does not include expense allowance)	**Expenses allowance**
First: Independent Directors:													
Dr. Anwar Al Mudhaf	36,250	6,000	-	-	42,250	-	-	-	-	-	-	-	-
Mr. Bashir Omer	35,000	4,500	-	-	39,500	-	-	-	-	-	-	-	-
Dr. Farouk El Okdah	127,500	12,000	-	18,103	157,603	-	-	-	-	-	-	-	-
Dr. Yousef Al Awadi	38,750	6,000	-	-	44,750	-	-	-	-	-	-	-	-
Dr. Ibrahim El Danfour	101,250	21,000	-	69,868	192,118	-	-	-	-	-	-	-	-
Mr. Abdallah Al Humaidhi	97,500	13,500	-	29,777	140,777	-	-	-	-	-	-	-	-
Mr. Khalil Nooruddin	111,667	34,500	-	19,325	165,492	-	-	-	-	-	-	-	-
Second: Non-Executive Directors:													
Mr. Saddek Omar El Kaber	142,500	12,000	-	34,213	188,713	-	-	-	-	-	-	-	-
Mr. Mohammad Saleem	136,250	19,500	-	50,940	206,690	-	-	-	-	-	-	-	-
Mr. Ali Al Ashhab	28,750	6,000	-	-	34,750	-	-	-	-	-	-	-	-
Mr. Ashraf Mukhtar	82,500	10,500	-	43,127	136,127	-	-	-	-	-	-	-	-
Dr. Tarik Yousef	137,083	37,500	-	43,127	217,710	-	-	-	-	-	-	-	-
Ms. Huda Al Mousa	124,167	34,500	-	35,364	194,031	-	-	-	-	-	-	-	-
Third: Executive Directors:													
-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	**1,199,167**	**217,500**	**-**	**343,844**	**1,760,511**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

***** Travel and accommodation costs.

Note: The aggregate remuneration paid to the members of the Board Remuneration Committee with respect to their membership of such committee for the year 2022 was US$20,000, which sum is included in the Retainer fee (2021: US$20,000).

No Director owned or traded Bank ABC shares in 2022.

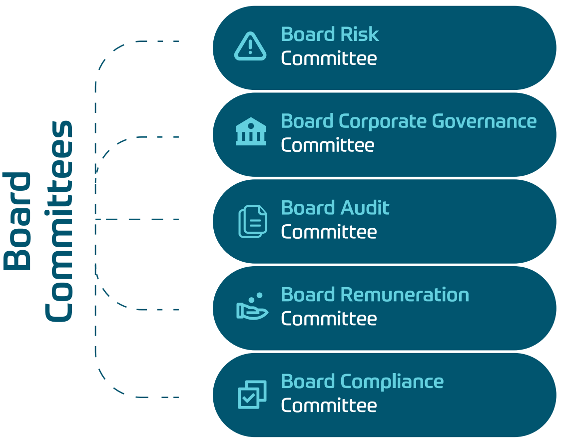
Board Committees

The Board and its committees are supplied with full and timely information to enable them to discharge their responsibilities. In this respect, the Board, its committees and all Directors have access to senior management, external consultants and advisors. The Board Secretary is responsible for ensuring that the Board procedures, and applicable rules and regulations, are observed.

The Board has delegated specific responsibilities to a number of Board committees. Each such committee has its own formal written charter, which is set out in full in the Corporate Governance Charter. The main Board committees are:

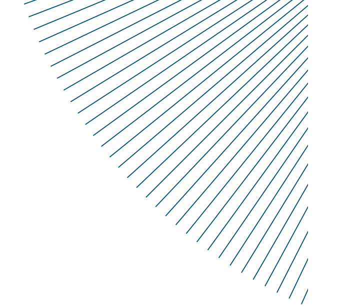
- The **Board Risk Committee,** which is responsible for the review and approval of the Group's Credit and Risk Policies. The Committee reviews and makes recommendations to the Board regarding the annual risk strategy/appetite, within which business strategy, objectives and targets are formulated. The Committee delegates authority to senior management to conduct day-to-day business within the prescribed policy and strategy parameters, while ensuring that processes and controls are adequate to manage the Group's Risk Policies and Strategy. The Board Risk Committee meets not less than three times a year.
- The **Board Corporate Governance Committee,** which assists the Board in shaping and monitoring the Group's Corporate Governance policies and practices, reviewing and assessing the adequacy of these policies and practices, and evaluating the Group's compliance with them. The Board Corporate Governance Committee meets not less than once a year.
- The **Board Audit Committee,** which is responsible to the Board for the integrity and effectiveness of the Group's system of financial and internal controls. This Committee also recommends the appointment, compensation and oversight of the external auditors, as well as the appointment of the Group Chief Internal Auditor. The Board Audit Committee meets not less than four times a year.
- The **Board Remuneration Committee,** which is responsible for the formulation of the Group's executive and staff remuneration policy, as well as senior management appointments, ensuring that Bank ABC's remuneration levels remain competitive so it can attract, develop and retain the skilled staff needed to meet its strategic objectives. The Committee also ensures that the remuneration policy and philosophy of Bank ABC and the ABC Group are aligned with Bank ABC's long-term business strategy, business objectives, risk appetite, values and long-term interests, while recognising the interests of relevant stakeholders. The Board Remuneration Committee meets not less than twice per year.
- The **Board Compliance Committee,** which is responsible to the Board for monitoring compliance of the Group in the various countries in which the Group operates. The Committee also assists the Board in discharging its governance and oversight responsibilities for the Compliance risk management framework of Bank ABC and of Bank ABC's compliance with applicable laws and regulations on a group wide basis. The Board Compliance Committee meets not less than four times a year.

The Board has also delegated specific responsibilities for reviewing and overseeing the implementation of the strategy for Bank ABC and the Bank ABC Group to an ad-hoc Board Strategy Committee which shall meet as required to be effective.



As at 31 December 2022, the current members of each of the Board committees are as set out in the following table:

Board Committee	Member Name	Member Position	Classification of Director
The Board Risk Committee	Mr. Abdallah Al Humaidhi	Chairman	Independent
	Mr. Khalil Nooruddin	Member	Independent
	Dr. Ibrahim El Danfour	Member	Independent
	Mr. Mohammad Saleem	Member	Non-Independent
The Board Corporate Governance Committee	Dr. Farouk El Okdah	Chairman	Independent
	Mr. Abdallah Al Humaidhi	Member	Independent
	Dr. Tarik Yousef	Member	Non-Independent
The Board Audit Committee	Mr. Khalil Nooruddin	Chairman	Independent
	Ms. Huda Al Mousa	Member	Non-Independent
	Dr. Ibrahim El Danfour	Member	Independent
	Dr. Tarik Yousef	Member	Non-Independent
The Board Remuneration Committee	Dr. Farouk El Okdah	Chairman	Independent
	Mr. Abdallah Al Humaidhi	Member	Independent
	Dr. Ibrahim El Danfour	Member	Independent
The Board Compliance Committee	Mr. Khalil Nooruddin	Chairman	Independent
	Ms. Huda Al Mousa	Member	Non-Independent
	Dr. Ibrahim El Danfour	Member	Independent
	Dr. Tarik Yousef	Member	Non-Independent



Attendance of Directors

The details of Directors' 2022 attendance at Board and Board committee meetings are set out in the following table:

Board Members	Board Meetings	The Board Risk Committee	The Board Corporate Governance Committee	The Board Audit Committee	The Board Remuneration Committee	The Board Compliance Committee
Mr. Saddek Omar El Kaber Chairman	9(9)	N/A	N/A	N/A	N/A	N/A
Mr. Mohammad Saleem Deputy Chairman	9(9)	4(5)	2(4)[11]	N/A	N/A	N/A
Ms. Huda Al Mousa Director	8(9)	N/A	N/A	6(7)	N/A	5(6)
Mr. Abdallah Al Humaidhi Director	7(9)[12]	4(5)[13]	1(4)[14]	N/A	2(3)[15]	N/A
Dr. Ibrahim El Danfour Director	7(9)[16]	4(5)[17]	N/A	6(7)[18]	3(3)[19]	5(6)[20]
Dr. Tarik Yousef Director	9(9)	N/A	4(4)	7(7)	N/A	6(6)
Mr. Ashraf Mukhtar Director	7(9)[21]	N/A	N/A	N/A	N/A	N/A
Mr. Khalil Nooruddin Director	7(9)[22]	4(5)[23]	N/A	6(7)[24]	N/A	5(6)[25]
Dr. Farouk El Okdah Director	8(9)	N/A	4(4)	N/A	3(3)	N/A
Mr. Ali Al Ashhab Director	2(9)[26]	1(5)[27]	N/A	N/A	N/A	N/A
Dr. Anwar Al Mudhaf Director	2(9)[28]	1(5)[29]	N/A	1(7)[30]	N/A	1(6)[31]
Mr. Bashir Omer Director	1(9)[32]	1(5)[33]	N/A	1(7)[34]	N/A	1(6)[35]
Dr. Yousef Al Awadi Director	2(9)[36]	1(5)[37]	1(4)[38]	1(7)[39]	N/A	1(6)[40]

Figures in brackets indicate the maximum number of meetings during the period of membership. "N/A" indicates that a Director was not a member of the relevant Board committee during 2022.

[11] Retired from the Board Corporate Governance Committee in March 2022
[12] Appointed to the Board in March 2022
[13] Appointed to the Board Risk Committee in March 2022
[14] Appointed to the Board Corporate Governance Committee in March 2022
[15] Appointed to the Board Remuneration Committee in March 2022
[16] Appointed to the Board in March 2022
[17] Appointed to the Board Risk Committee in March 2022
[18] Appointed to the Board Audit Committee in March 2022
[19] Appointed to the Board Remuneration Committee in March 2022
[20] Appointed to the Board Compliance Committee in March 2022
[21] Appointed to the Board in March 2022
[22] Appointed to the Board in March 2022
[23] Appointed to the Board Risk Committee in March 2022
[24] Appointed to the Board Audit Committee in March 2022
[25] Appointed to the Board Compliance Committee in March 2022
[26] Retired from the Board in March 2022
[27] Retired from the Board Risk Committee in March 2022
[28] Retired from the Board on March 2022
[29] Retired from the Board Risk Committee in March 2022
[30] Retired from the Board Audit Committee in March 2022
[31] Retired from the Board Compliance Committee in March 2022
[32] Retired from the Board on March 2022
[33] Retired from the Board Risk Committee in March 2022
[34] Retired from the Board Audit Committee in March 2022
[35] Retired from the Board Compliance Committee in March 2022
[36] Retired from the Board on March 2022
[37] Retired from the Board Risk Committee in March 2022
[38] Retired from the Board Corporate Governance Committee in March 2022
[39] Retired from the Board Audit Committee in March 2022
[40] Retired from the Board Compliance Committee in March 2022

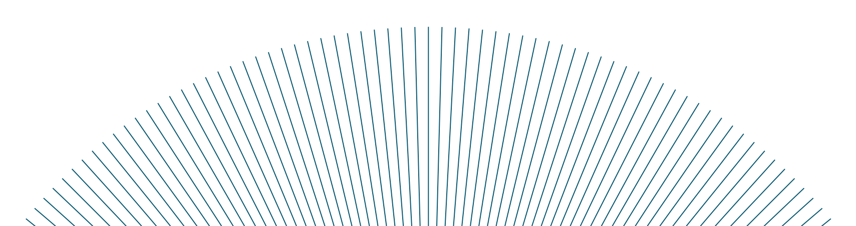
Meeting dates during 2022

The Board and its committees meet as frequently as is necessary for them to discharge their respective responsibilities, but the Board meets no less than four times a year. The Board Audit Committee meets no less than four times a year, the Board Remuneration Committee meets no less than twice a year, the Board Risk Committee meets no less than three times a year, the Board Corporate Governance Committee meets no less than once a year, and the Board Compliance Committee meets no less than four times a year.

The Board Strategy Committee meets as required to be effective. In 2022, no meeting of the Board Strategy Committee was held. However, the Board had a dedicated session on strategy during 2022.

The details of the dates of the Board and Board committee meetings in 2022 are set out below:

	Dates of Meetings
Board	13 February 2022 23 March 2022 23 March 2022 (New Term) 27 March 2022 22 May 2022 25 July 2022 6 November 2022 7 November 2022 11 December 2022
The Board Risk Committee	30 January 2022 15 May 2022 15 June 2022 30 October 2022 28 November 2022
The Board Corporate Governance Committee	10 February 2022 22 March 2022 24 July 2022 10 December 2022
The Board Audit Committee	31 January 2022 26 April 2022 16 May 2022 14 June 2022 3 August 2022 31 October 2022 4 December 2022
The Board Remuneration Committee	24 July 2022 5 November 2022 10 December 2022
The Board Compliance Committee	31 January 2022 16 May 2022 14 June 2022 3 August 2022 31 October 2022 4 December 2022



INTERNAL CONTROLS

The Board of Directors is responsible for establishing and reviewing the Group's system of internal control. The Board receives minutes and reports from the Board Risk Committee ("BRC") and the Board Audit Committee, identifying any significant issues relating to the adequacy of the Group's risk management policies and procedures, as well as reports and recommendations from the Board Corporate Governance Committee and the Board Remuneration Committee. The Board then decides what action to take.

Management informs the Board regularly about how the Group is performing versus budget, identifying major business issues and examining the impact of the external business and economic environment.

Day-to-day responsibility for internal control rests with management. The key elements of the process for identifying, evaluating and managing the significant risks faced by the Group can be summarised as:

- a well-defined management structure - with clear authorities and delegation of responsibilities, documented procedures and authority levels - to ensure that all material risks are properly assessed and controlled;
- internal control policies that require management to identify major risks, and to monitor the effectiveness of internal control procedures in controlling them and reporting on them;
- a robust compliance function including, but not limited to, anti-money laundering and anti-insider trading policies;
- an internal audit function, exercised through Group Audit, which reports to the Board Audit Committee on the effectiveness of key internal controls in relation to the major risks faced by the Group, and conducts reviews of the efficacy of management oversight in regard to delegated responsibilities, as part of its regular audits of Group departments and business units;
- a comprehensive planning and budgeting process that delivers detailed annual financial forecasts and targets for Board approval; and
- a Group Risk Management function, comprising overarching Head Office risk management committees and a dedicated risk management support group.

Management structure

The Group Chief Executive Officer, supported by Head Office management, is responsible for managing the day-to-day operations of Bank ABC. There is a clear segregation of duties in the management structure at Bank ABC.

Senior managers did not hold or trade any shares in Bank ABC during 2022.

The management organisation chart is included in page 17.

COMPLIANCE

Compliance risk is the risk of legal or regulatory sanctions, material financial loss, or loss to reputation the Bank may suffer as a result of its failure to comply with the statutory, regulatory and supervisory requirements including industry codes with which the Group must by law comply with, or which it voluntarily adheres to.

Bank ABC is committed to maintaining the highest standards of ethical and professional conduct, including complying with all applicable rules and regulations. The Group Head of Compliance (GHOC), together with the Heads of Compliance and Money Laundering Reporting Officers Group-wide, support the Board and Senior Management in effectively managing the compliance risks faced by the Bank.

No Director or senior manager held or traded any shares in Bank ABC during 2022.

The Bank has a dedicated Group Board Compliance Committee (BCC). The GHOC reports directly to the BCC and administratively to the Group Chief Executive Officer (GCEO).

The Group Compliance Oversight Committee (GCOC) is the Senior Management committee established by the BCC, that oversees compliance risk management group-wide. To support the GCOC, Compliance and Financial Crime Committees (CFCCs) are established in each jurisdiction group-wide, which report into their respective BCC, or equivalent.

As detailed in the Group's Risk Appetite Statement, the Bank has no tolerance for regulatory breaches that are intentional or due to gross negligence. In addition, the Bank has no appetite for the facilitation, aiding or abetting of any form of criminal activity.

It is recognised that operational risk, including Compliance Risk, is inherent in business operations, processes and systems and that inadvertent errors may occur. Nevertheless, the Bank is committed to conducting business in compliance with regulatory requirements and implementing appropriate risk management and risk mitigation mechanisms to ensure that a robust compliance culture is embedded within the organisation.

The Bank continues to enhance its compliance framework by investing in systems and the Compliance Function capability.

External auditors

1. In 2022, the Bank ABC Group paid its external auditors US$1,758,733 in audit fees on a global basis.
2. Non-audit services were specifically pre-approved by the Audit Committee and provided by the external auditors including, but not limited to, prudential information reports reviews, quarterly reviews and tax related services amount to US$234,497.36 on a global basis.
3. Ernst & Young have expressed their willingness to continue as the auditors of the Group for the year ending 31 December 2023. Bank ABC's management, based on evaluation of services provided by its external auditors, has recommended the appointment of Ernst & Young and a resolution proposing their reappointment will be presented at the annual general meeting to be held in March 2023.

> The Bank has zero tolerance **for regulatory breaches that are intentional or due to gross negligence.**

Policy on the employment of relatives and approved persons

Bank ABC has a Board approved Policy on Employment of Relatives and Connected Persons. This Policy aims to ensure that Bank ABC has transparency in relation to the employment of relatives and Connected Persons in order to prevent actual, or perceived, conflicts of interest.

The Policy sets out that no relatives or near relatives of any Bank ABC employee, executive or Board member may enter into employment with Bank ABC. Exceptional approvals may be granted by an independent panel following a full and fair selection process.

Remuneration policies of Bank ABC in compliance with the requirements of the CBB

Senior management and staff receive compensation based on several fixed elements, covering: salary, allowances and benefits, as well as variable, performance-related elements.

In January 2014, the CBB issued new rules relating to the remuneration of approved persons and material risk-takers and others, which were subsequently amended later during 2014 (the "CBB Sound Remuneration Practices"). Bank ABC has implemented remuneration policies and procedures to cover both Bank ABC and Bank ABC Islamic, which are compliant with the CBB Remuneration Rules.

Bank ABC reviewed its remuneration practices and redesigned its variable compensation scheme in order to be fully compliant with the CBB's requirements. Key changes to Bank ABC's remuneration systems and governance processes were made to comply with the CBB regulations and included:

i. Ensuring the risk framework is extensive and captured in decisions around variable pay, including confirming risk-adjustments to any bonus pool.

ii. Separating control functions from the Group bonus pool and ensuring they are measured independently from the businesses they oversee.

iii. Introducing an equity-linked vehicle in which to deliver the appropriate amount of variable remuneration for covered persons.

iv. Introducing deferral arrangements that defer the appropriate amount of variable remuneration for the Group Chief Executive Officer (GCEO), deputies, top five most highly-paid business line employees, material risk takers and approved persons.

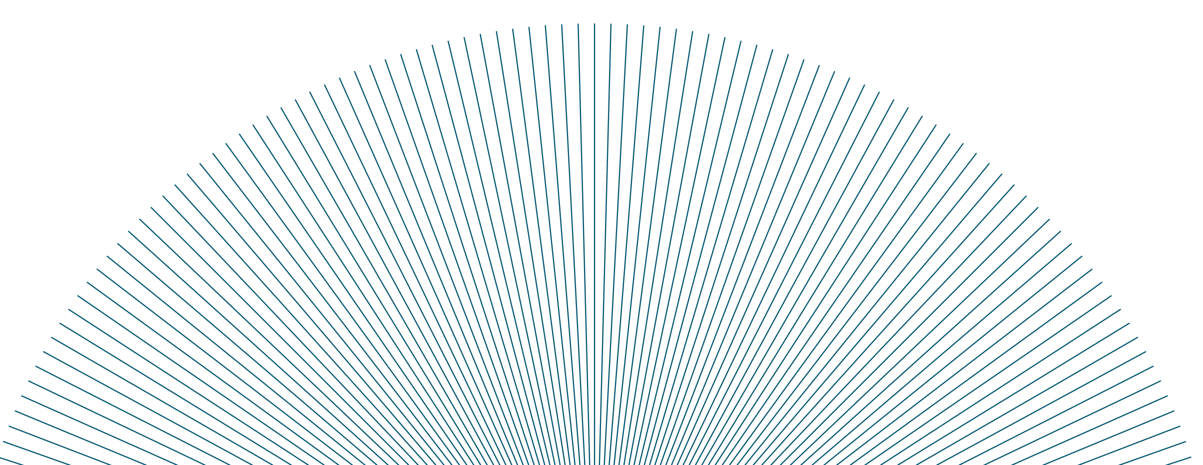
v. Introducing clawback and malus policies that apply to variable remuneration.

While maintaining the same Variable Compensation Scheme (VCS) and bonus multiples tables, further changes to the Employees' Performance Management System were introduced in early 2016 to encourage behaviours that will help fulfil the Group's strategic goals. Variable pay now depends on a more extensive matrix of factors, rather than just the income generated. These added factors facilitate measuring the quality of the income rather than just its magnitude. In addition, other non-financial factors have also been added as part of the performance matrix.

The Board Remuneration Committee (RemCo) reviews and approves Bank ABC's remuneration policy structure on an annual basis. Where rules on compensation exist in other jurisdictions in which Bank ABC operates, Bank ABC's Group policy is to take necessary steps to comply with local market regulations that are applicable to our foreign subsidiaries and branches. Where no rules are applicable, ABC adopts best local market practices.

A distinct and separate bonus pool has been created to reinforce the safeguarding role and independence of staff in Control Functions, and is measured by the impact and quality of their safeguarding role. These measures are based on department-specific objectives and targets, which are independent of company financial performance.

Bank ABC conducts business within a set of overarching goals and limits that, together, define its risk appetite and tolerance. This is approved by the Board Risk Committee as part of the Group Risk Strategy, which complements the budgets and strategic plans proposed by the business.



The Bank's bonus pool is subject to potential adjustments based on the review of the RemCo, in the respect of the approved risk appetite, risk tolerance and risk policies during the fiscal year.

Variable compensation and performance management are linked. Performance expectations are clearly articulated for revenue-generating, support and control functions. Individual bonus payments reflect Group, business unit and individual performance.

Bank ABC has adopted a remuneration deferral policy in line with the CBB Sound Remuneration Practices. This defers a required amount of the variable remuneration for the GCEO, deputies, top five most highly-paid business line employees, defined material risk takers and approved persons.

Bank ABC has also adopted a malus policy, which allows any form of deferred variable remuneration to be reduced or cancelled in specific and exceptional circumstances. Exceptional circumstances are defined as material events. They may include a material restatement of the Bank's financial statements, the discovery of significant failures in risk management or exposure to material financial losses at Group, business unit or individual level. In respect of unvested awards, and depending on each specific circumstance, malus may be applied to either that portion of unvested awards linked to the performance year in question or the total outstanding set of unvested awards.

A clawback policy has been introduced to allow Bank ABC to recover part, or all, of the awards already paid to an employee or former employee if a material event is discovered. Clawback provisions may be enforced upon the discovery of an employee's, or former employee's, accountability or responsibility for, or direct implication in, material events that may bring the Bank into serious disrepute. Additionally, they may be enforced in the event of individual criminal or other substantial misconduct.

The design of the Bank's reward structure aligns pay outcomes with prudent risk management and sound governance practices. The mix of an individual employee's pay, allowances and variable compensation is dictated by the nature of the role he/she holds. Variable pay for the relevant employees is delivered using a blend of cash and equity-linked instruments. It may be paid up-front in cash or deferred in accordance with the Bank's deferral policy. With Board approval, the variable pay multiples may be reviewed from time to time to ensure competitiveness with the market.

The remuneration disclosures have been reviewed and approved by the RemCo, which has confirmed they are aligned to the CBB rulebook requirements.

Bank ABC takes risk seriously. Reward practices embed and reinforce the Bank's desired risk culture, and risk behaviours directly impact variable pay, based on the following principles:

i. Financial performance is not the sole measure of performance; both quantitative and qualitative approaches are used to measure risk; bonus pools are adjusted for all types of risk, both tangible and intangible, reflecting both Group and business unit performance.

ii. Bonuses can be diminished (or nil) in light of excessive risk taking at Group, business or individual level.

iii. Bonus pools reflect the cost of capital required, and liquidity risk assumed, in the conduct of business.

In addition, Bank ABC has a process for assessing the performance of senior management against a set of pre-agreed audit, risk & compliance (ARC) objectives, which are cascaded down in the organisation. Their pay is linked to long-term profitability and sustainable value.

The design of the Bank's reward structure **aligns pay outcomes with prudent risk management and sound governance practices.**

Pay principles

The following 'pay principles' apply at Bank ABC and govern all current and future remuneration decisions. These principles have been approved by the RemCo.

Summary

Principle	Theme
Principle 1	We pay for performance
Principle 2	We take risk seriously
Principle 3	We think long-term
Principle 4	Pay decisions are governed effectively
Principle 5	Clear and simple
Principle 6	Competitive, sustainable and affordable

Principle 1 | We pay for performance

Approach

- Performance expectations are clearly articulated for revenue-generating, support and control functions.
- Pay and performance management are linked.
- Bank ABC rewards performance that delivers its strategy, and that delivers the behaviours, cultures and ways of working that underpin doing business with the Bank.

Delivery

- Group and/or business unit underperformance can result in no bonus pool.
- Bonuses can be diminished (or nil) in light of poor Group, business unit or individual performance.
- Individual bonus payments reflect Group, business unit and individual performance.
- Group and business units are expected to meet demanding but achievable performance targets.
- Low performance ratings for any employee can result in no bonus.
- High performing business units may pay bonuses, even if the Group underperforms.
- Bank ABC differentiates high performance from average or low performance.
- Bonuses can be paid for non-profitable business units in start-up or turn-around phases.
- Bonus calculations reflect a measure of the appropriate behaviours which support doing business with Bank ABC.
- Control functions are measured on the impact and quality of their safeguarding role.
- Pay for employees engaged in control functions promotes impartiality and objectivity – it ensures that all employees at Bank ABC take risk seriously.
- Bonuses can be paid to control function employees who exercise their roles effectively, even in light of poor Group or business unit performance.

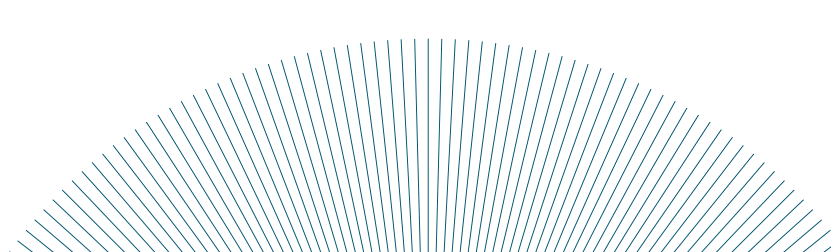
Principle 2 | We take risk seriously

Approach

- Reward practices embed and reinforce Bank ABC's desired risk culture.
- Risk behaviours directly impact variable pay.

Delivery

- Financial performance is not the sole measure of performance.
- Bonuses can be diminished (or nil) in light of excessive risk taking at Group, business or individual level.
- Bonus pools reflect the cost of capital required, and liquidity risk assumed, in the conduct of business.



- Bonus pools are adjusted for all types of risk, both tangible and intangible, which are reflected in both Group and business unit performance.
- Both quantitative and qualitative approaches are used to measure risk.
- Pay for material risk takers is significantly weighted towards variable pay.
- Material risk takers' performance is rewarded using a mix of cash and equity (or an equity-linked vehicle) to reflect their influence on the Bank's risk profile.
- Risk behaviours of material risk takers have a direct impact on variable pay outcomes.

Principle 3 | We think long-term

Approach

- Pay is linked to long-term profitability and sustainable value.

Delivery

- Deferral mechanisms are used for approved persons/material risk takers.
- Deferral mechanisms include an equity-linked vehicle.
- 60% of variable pay for GCEO and the most highly-paid employees is deferred for three years.
- 40% of variable pay for material risk takers and approved persons (paid over BHD100,000) is deferred for three years.
- No form of guaranteed variable remuneration can be granted, except in exceptional circumstances, for a period of no more than one year following hire.
- Unvested deferred bonuses can be recovered in light of discovering past failures in risk management, or policy breaches, that led to the award originally being granted.
- Participation in deferral is reviewed on an annual basis, subject to meeting the minimum requirements under the CBB rules.

Principle 4 | Pay decisions are governed effectively

Approach

- Variable pay schemes are owned and monitored by the RemCo.
- The RemCo oversees remuneration practices across the Bank.

Delivery

- The RemCo oversees the design and delivery of variable pay across the Bank.
- The RemCo reviews and approves the Bank's remuneration policy on an annual basis.
- The GCEO and senior management do not directly own or control remuneration systems.
- The RemCo reviews and approves bonus pools and payouts across the Bank, and reviews and approves the pay proposals for material risk takers and approved persons.
- Risk and Compliance provide information to the RemCo before it determines the bonus pool and Group performance.
- HR controls remuneration policies, while line managers have suitable discretion to apply them.
- HR develops compliance and monitoring practices to actively track global compliance with Group remuneration policy.

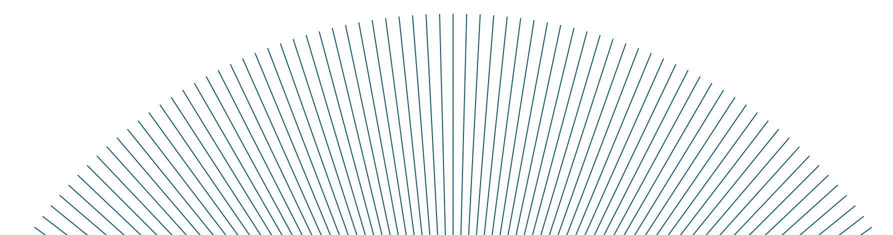
Principle 5 | Clear and simple

Approach

- Reward communications are clear, user-friendly and written in plain language.
- The aims and objectives of the new VCS are clear and transparent.

Delivery

- Clearly communicate what is meant by malus and clawback, and the instances in which these provisions could be applied.
- Open and easy access to the variable pay policy, plan rules and relevant communications.



Principle 6 | Competitive, sustainable and affordable

Approach

- The VCS helps to attract and retain high-calibre talent.
- The VCS structure can be maintained over the long term, and its total cost is always affordable to the Bank.

Delivery

- Bonus pools vary year-on-year, based on Group performance, external market conditions, the internal climate and affordability.
- Individual pay opportunities are driven by the external market and internal positioning.

Application of pay principles

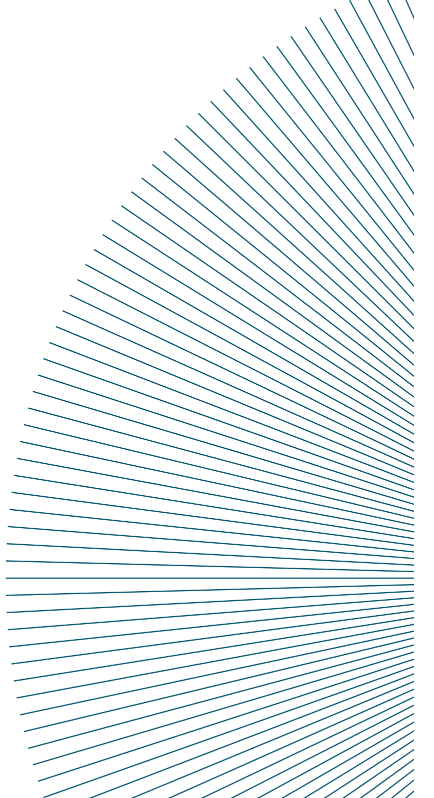
Bank ABC will remunerate covered employees to attract, retain and motivate sufficient talent to safeguard the interests of the Bank and its shareholders, while ensuring the Bank avoids paying more than necessary. The remuneration systems fairly reward performance delivered within the risk appetite of the Bank, over an appropriate time horizon, to align with risk.

Variable remuneration is paid according to the scheme on the below categorisation:

- Approved persons in business lines: For the GCEO and the five most highly-paid business line employees, variable pay in 2022 was paid as 40% upfront cash, 10% in deferred cash and 50% in a deferred equity-linked vehicle. For the others in the same category, the pay split was 50% upfront cash, 10% upfront equity-linked vehicle, 40% deferred equity-linked vehicle.
- Approved persons in control functions: The variable pay for employees in this category was paid as 50% upfront cash, 10% upfront equity-linked vehicle, 40% deferred equity-linked vehicle.
- Other material risk takers: The variable pay for employees in this category was paid as 50% upfront cash, 10% upfront equity-linked vehicle, 40% deferred equity-linked vehicle.
- Other staff of Bahrain operations: The variable pay was paid fully in cash up front.

Remuneration arrangements are structured to promote sound risk behaviours. Their performance is measured against a range of financial and non-financial factors related to risk. Employees categorised as approved persons in control functions have their remuneration measured independently of the business that they oversee, so ensuring sufficient independence and authority. All variable pay is subject to malus and clawback.

The remuneration systems **fairly reward performance delivered** within the risk appetite of the Bank.



\ Remuneration

a) 2022

Employee Group	Number of Employees (at 31/12/22)	Fixed Remuneration US$ million	Variable Remuneration US$ million
Approved persons in business lines	14	9.8	5.4
Approved persons in control functions	19	7.4	2.6
Other material risk takers	62	14.4	5.4
Other staff of Bahrain operations not covered above	415	55.0	15.1
Total	510	86.6	28.5

Employee-related expenses such as government charges, recruitment agency fees, etc, related to Head Office staff are excluded from the above table.

	Variable Remuneration Details*			
Employee Group	Upfront Cash US$ million	Deferred Cash US$ million	Upfront Equity-Linked Instrument US$ million	Deferred Equity Linked Instrument US$ million
Approved persons in business lines	2.3	0.4	0.2	2.5
Approved persons in control functions	1.4	-	0.2	1.0
Other material risk takers	3.2	-	0.4	1.8
Other staff of Bahrain operations not covered above	14.3	-	0.1	0.6
Total	21.3	0.4	1.0	5.9

*no guaranteed bonus was awarded in 2022

	Sign on Bonuses (Cash/Shares)		Severance Payments	
Employee Group	Number of employees	Amount US$ million	Number of employees	Amount US$ million
Approved persons in business lines	-	-	2	5.1
Approved persons in control functions	-	-	2	0.6
Other material risk takers	-	-	1	0.1
Other staff of Bahrain operations not covered above	-	-	4	1.1
Total	-	-	9	6.9

		Shares		
Deferred Awards	Cash US$ million	Number	US$ million	Total US$ million
Opening balance	0.9	9.5	11.6	12.5
Awarded during the period	0.4	5.7	6.9	7.3
Paid out/released through performance adjustments	(0.3)	(3.8)	(4.8)	(5.1)
Other adjustments	-	-	0.2	0.2
Closing balance	1.0	11.4	13.9	14.9

b) 2021

Employee Group	Number of Employees (at 31/12/21)	Fixed Remuneration US$ million	Variable Remuneration US$ million
Approved persons in business lines	25	18.0	6.0
Approved persons in control functions	17	5.3	1.3
Other material risk takers	61	15.0	4.1
Other staff of Bahrain operations not covered above	348	42.5	8.0
Total	**451**	**80.8**	**19.4**

Employee-related expenses such as government charges, recruitment agency fees, etc, related to Head Office staff are excluded from the above table.

	Variable Remuneration Details*			
Employee group	Upfront Cash US$ million	Deferred Cash US$ million	Upfront Equity-Linked Instrument US$ million	Deferred Equity Linked Instrument US$ million
Approved persons in business lines	2.7	0.4	0.2	2.7
Approved persons in control functions	0.7	-	0.1	0.5
Other material risk takers	2.5	-	0.3	1.3
Other staff of Bahrain operations not covered above	8.0	-	-	-
Total	**13.9**	**0.4**	**0.6**	**4.5**

*no guaranteed bonus was awarded in 2021

	Sign on Bonuses (Cash/Shares)		Severance Payments	
Employee Group	Number of employees	Amount US$ million	Number of employees	Amount US$ million
Approved persons in business lines	-	-	3	0.41
Approved persons in control functions	-	-	-	0.00
Other material risk takers	-	-	1	0.18
Other staff of Bahrain operations not covered above	-	-	1	0.27
Total	**-**	**-**	**5**	**0.86**

		Shares		
Deferred Awards	Cash US$ million	Number	US$ million	Total US$ million
Opening balance	0.9	9.9	11.7	12.6
Awarded during the period	0.4	4.1	5.1	5.5
Paid out/released through performance adjustments	(0.4)	(4.5)	(5.7)	(6.1)
Other adjustments	-	-	0.5	0.5
Closing balance	**0.9**	**9.5**	**11.6**	**12.5**

Financial Results

04

Independent Auditors' Report to the Shareholders of Arab Banking Corporation (B.S.C.)

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C.R. No. 29977-1

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Arab Banking Corporation (B.S.C.) ("the Bank") and its subsidiaries (together "the Group"), which comprise the consolidated statement of financial position as at 31 December 2022 and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity 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 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

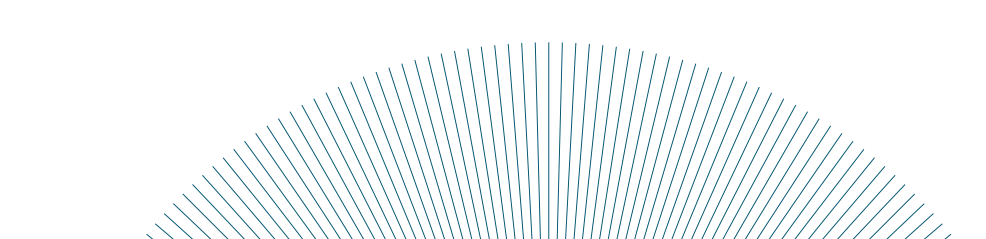
Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). 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 the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements for the year ended 31 December 2022. 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 matter below, provide the basis for our audit opinion on the accompanying consolidated financial statements.



Independent Auditors' Report to the Shareholders of Arab Banking Corporation (B.S.C.)

Impairment provision for loans and advances

Description of key audit matter	How the key audit matter was addressed in the audit
IFRS 9 Financial Instruments (IFRS 9) requires use of expected credit loss ("ECL") models for the purposes of calculating impairment loss against loans and advances carried at amortised cost and FVOCI. The process for estimating the impairment provision on loans and advances in accordance with IFRS 9 is a significant and complex area, due to subjective nature of ECL calculation and the level of estimation involved. Additional subjectivity and judgement has been introduced into measurement of ECL due to the heightened uncertainty associated with the impact of current economic outlook and uncertain geopolitical situation in countries where the Group and its customers operate. Due to the complexity of ECL related IFRS 9 requirements, effect of the matters stated above, significance of the judgements applied in determination of ECL and the Group's exposure to loans and advances forming a major portion of the Group's assets, the audit of ECL is a key area of focus	Our approach included testing the controls associated with the relevant processes for estimating ECL and performing substantive procedures on such estimates. Our procedures, among others, focused on following: • We assessed: - the compliance of Group's IFRS 9 based impairment provisioning policy including the significant increase in credit risk criteria with the requirements of IFRS 9 and regulatory guidelines; - the Group's ECL modelling techniques and methodology against the requirements of IFRS 9; - the basis of determination of any management overlays applied by the Group's management to incorporate the effects of the current and future economic outlook; - the theoretical soundness and tested the mathematical integrity of the models. • We obtained an understanding of the design and tested the operating effectiveness of relevant controls over the ECL models, including approvals for any changes to the models, ongoing monitoring / validation, model governance and mathematical accuracy. We have also tested the completeness and accuracy of the data used and evaluated the reasonableness of the management assumptions. • We understood and assessed the significant modelling assumptions adopted by the Group for calculating ECL against exposures as well as process and basis for arriving at ECL related management overlays

Independent Auditors' Report to the Shareholders of Arab Banking Corporation (B.S.C.)

Report on the audit of the consolidated financial statements (continued)

Key audit matters (continued)

Impairment provision for loans and advances (continued)

Description of key audit matter	How the key audit matter was addressed in the audit
As at 31 December 2022, the Group's gross loans and advances amounted to US$ 18,863 million and the related ECL amounted to US$ 673 million, comprising US$ 210 million of ECL against Stage 1 and 2 exposures and US$ 463 million of ECL against exposures classified under Stage 3. The basis of calculation of ECL is presented in note 4 "summary of significant accounting policies" and note 25 "risk management" to the consolidated financial statements. Significant accounting judgements, estimates and assumptions and disclosures of loans and advances and credit risk are included in notes 4, 9 and 25 to the consolidated financial statements.	• For a sample of exposures, we performed procedures to evaluate: - Appropriateness of exposure at default, probability of default and loss given default (including collateral values used) in the calculation of ECL; - Timely identification of exposures with a significant increase in credit risk and appropriateness of the Group's staging; and - Appropriateness of the ECL calculation. • For forward looking information used by the Group's management in its ECL calculations, we held discussions with management and checked internal approvals by management for the economic outlook used for purposes of calculating ECL; • We considered the adequacy of the disclosures included in the consolidated financial statements in relation to impairment of loans and advances as required under IFRS. We also involved our specialists in performing the above procedures.

Finalisation of purchase price allocation (PPA) and impairment assessment of goodwill

Description of key audit matter	How the key audit matter was addressed in the audit
a) Finalisation of purchase price allocation exercise During 2021, the Group completed the acquisition of BLOM Bank Egypt S.A.E. ("BLOM Bank Egypt"). This transaction was recorded using acquisition method of accounting as set out in IFRS 3 Business combinations (IFRS 3). During 2022, purchase price allocation (PPA) was finalised by management within a period of 12 months following the acquisition date as allowed by IFRS 3 and the Group recorded US$ 22 million of intangible assets and US$ 80 million of goodwill. The Group's management engaged an independent valuation expert to assist them in finalising the PPA and provide valuation support with respect to the determination of the fair values of the assets acquired and liabilities assumed under IFRS 3. Finalisation of PPA required significant judgements in determining the fair value of assets acquired and liabilities assumed including identification and valuation of intangible assets which are inherently judgemental due to specialised nature of the intangible assets and subjectivity of the assumptions used to value them. Given the subjectivity and judgement involved in determining fair value of assets acquired and liabilities assumed and specialised nature of PPA exercise, we consider the finalisation of PPA as key audit matter.	Significant procedures performed by us included the following: • We assessed the competence and capabilities of the specialists used by management for PPA finalisation. • We obtained and read the PPA report to obtain an understanding of PPA exercise and methodology adopted by the Group and assessed its compliance with the relevant requirements of IFRS 3 and IFRS 13 Fair value measurements (IFRS 13). • We assessed the Group's determination of the fair value of the assets acquired and liabilities assumed having regard to the completeness of assets and liabilities identified and the reasonableness of the underlying assumptions used in their respective valuations, assessment of the useful lives of the intangible assets. • We assessed the reasonableness of conclusions reached having regard to the key assumptions used including forecasted cash flows, discount and growth rates and cross-checking valuation calculations against comparable companies, whilst considering the risk of management bias. • We assessed the adequacy of the disclosures included in the consolidated financial statements relating to the finalisation of PPA. We also involved our specialists in performing the above procedures.

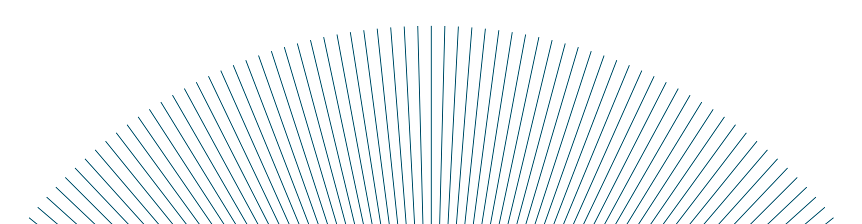
Independent Auditors' Report to the Shareholders of Arab Banking Corporation (B.S.C.)

Report on the audit of the consolidated financial statements (continued)

Key audit matters (continued)

Finalisation of purchase price allocation (PPA) and impairment assessment of goodwill

Description of key audit matter	How the key audit matter was addressed in the audit
b) Goodwill impairment assessment IAS 36 Impairment of assets (IAS 36) requires an impairment assessment to be carried out for goodwill on an annual basis. Goodwill is considered to be impaired if the carrying value of a cash generating unit (CGU), including goodwill, to which goodwill is allocated is less than the recoverable amount of the CGU. The recoverable amount of the CGU is represented by its value-in-use (VIU) computed using a discounted cash flow model / residual income approach that estimates the future cash flows of the CGU based on management forecasts. Due to the complexity of the impairment assessment process and significant management judgement involved in making key assumptions, such as discount and long-term growth rates which are affected by future market conditions, we consider this area to be a key audit matter. Refer notes 4 and 35 for details on finalisation of PPA and the significant judgements and estimates involved in impairment assessment of goodwill.	With respect to goodwill impairment assessment, significant procedures performed by us included the following: • Assessment of the appropriateness of key assumptions used by management in goodwill impairment assessment. • We challenged and examined the business plans / budgets approved and assumptions used by the management, including forecasted cash flows and discount and growth rates for terminal value calculations. • We evaluated sensitivity analysis performed by management around the key assumptions (e.g. discount rates, etc.) and challenged the outcomes of the assessment. • We assessed the adequacy of the disclosures included in the consolidated financial statements relating to goodwill impairment assessment. We also involved our specialists in performing the above procedures.



Independent Auditors' Report to the Shareholders of Arab Banking Corporation (B.S.C.)

Other information included in the Group's 2022 annual report

Other information consists of the information included in the Group's 2022 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 auditors' report, we obtained the Directors report which forms 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 IFRSs and for such internal control as the Board of Directors determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error. In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty

Independent Auditors' Report to the Shareholders of Arab Banking Corporation (B.S.C.)

Report on the audit of the consolidated financial statements (continued)

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

exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the 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 audit committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the 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 Directors report 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, regulations and associated resolutions, rules and procedures of the Bahrain Bourse or the terms of the Bank's memorandum and articles of association during the year ended 31 December 2022 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 Kazim Merchant.

Ernst + Young

Partner's registration no: 244
12 February 2023
Manama, Kingdom of Bahrain

Consolidated Statement of Financial Position

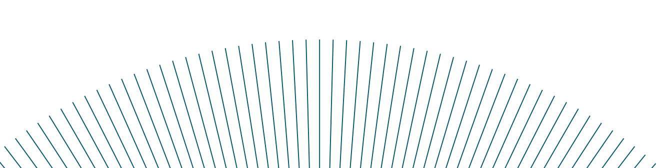
	Note	2022	(Restated) 2021
ASSETS			
Liquid funds	6	**2,886**	2,626
Trading securities	7	**590**	902
Placements with banks and other financial institutions		**2,226**	3,031
Securities bought under repurchase agreements	27	**1,386**	698
Non-trading investments	8	**8,080**	8,390
Loans and advances	9	**18,190**	16,716
Other assets	11	**3,016**	2,219
Premises and equipment		**265**	319
TOTAL ASSETS		**36,639**	34,901
LIABILITIES			
Deposits from customers		**21,396**	20,734
Deposits from banks		**3,764**	4,388
Certificates of deposit		**435**	725
Securities sold under repurchase agreements	27	**2,878**	2,011
Taxation	12	**84**	83
Other liabilities	13	**2,264**	1,514
Borrowings	14	**1,297**	1,211
TOTAL LIABILITIES		**32,118**	30,666
EQUITY	15		
Share capital		**3,110**	3,110
Treasury shares		**(6)**	(6)
Statutory reserve		**545**	530
Retained earnings		**1,125**	1,055
Other reserves		**(1,069)**	(817)
EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT		**3,705**	3,872
Additional / perpetual tier-1 capital	16	**390**	-
EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT AND PERPETUAL INSTRUMENT HOLDERS		**4,095**	3,872
Non-controlling interests		**426**	363
Total equity		**4,521**	4,235
TOTAL LIABILITIES AND EQUITY		**36,639**	34,901

The consolidated financial statements were authorised for issue by the Board of Directors on 12 February 2023 and signed on their behalf by the Chairman, Deputy Chairman and the Acting Group Chief Executive Officer.

Saddek El Kaber
Chairman

Mohammad Abdulredha Saleem
Deputy Chairman

Sael Al Waary
Acting Group Chief Executive Officer



\ Year Ended 31 December 2022 (All figures in US$ Million)

Consolidated Statement of Profit or Loss

	Note	2022	2021
OPERATING INCOME			
Interest and similar income	17	**2,039**	1,256
Interest and similar expense	18	**(1,253)**	(664)
Net interest income		**786**	592
Other operating income	19	**315**	262
Total operating income		**1,101**	854
OPERATING EXPENSES			
Staff		**426**	347
Premises and equipment		**54**	49
Other		**210**	173
Total operating expenses		**690**	569
NET OPERATING PROFIT BEFORE CREDIT LOSS EXPENSE AND TAXATION		**411**	285
Credit loss expense	10	**(119)**	(106)
PROFIT BEFORE TAXATION		**292**	179
Taxation on foreign operations	12	**(83)**	(51)
PROFIT FOR THE YEAR		**209**	128
Profit attributable to non-controlling interests		**(55)**	(28)
PROFIT ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT		**154**	100
BASIC AND DILUTED EARNINGS PER SHARE (EXPRESSED IN US$)	32	**0.05**	0.03

Saddek El Kaber
Chairman

Mohammad Abdulredha Saleem
Deputy Chairman

Sael Al Waary
Acting Group Chief Executive Officer

Consolidated Statement of Comprehensive Income

	Note	2022	2021
PROFIT FOR THE YEAR		**209**	128
Other comprehensive income (loss):			
Other comprehensive income (loss) that will be reclassified (or recycled) to profit or loss in subsequent periods:			
Foreign currency translation:			
Unrealised loss on exchange translation in foreign subsidiaries		**(139)**	(69)
Debt instruments at FVOCI:			
Net change in fair value during the year	15 (e)	**(85)**	43
		(224)	(26)
Other comprehensive income (loss) that will not be reclassified (or recycled) to profit or loss in subsequent periods:			
Net change in pension fund reserve		**(3)**	10
		(3)	10
Other comprehensive loss for the year		**(227)**	(16)
TOTAL COMPREHENSIVE (LOSS) INCOME FOR THE YEAR		**(18)**	112
Attributable to:			
Shareholders of the parent		**(98)**	105
Non-controlling interests		**80**	7
		(18)	112

\ Year Ended 31 December 2022 (All figures in US$ Million)

Consolidated Statement of Cash Flows

	Note	2022	2021
OPERATING ACTIVITIES			
Profit for the year		**209**	128
Adjustments for:			
Credit loss expense	10	**119**	106
Depreciation and amortisation		**63**	53
Gain on disposal of non-trading debt investments - net	19	**(16)**	(23)
Changes in operating assets and liabilities:			
Treasury bills and other eligible bills		**3**	(40)
Trading securities		**377**	(769)
Placements with banks and other financial institutions		**278**	(1,236)
Securities bought under repurchase agreements		**(677)**	1,071
Loans and advances		**(2,062)**	(1,467)
Other assets		**(762)**	31
Deposits from customers*		**2,157**	3,694
Deposits from banks		**(618)**	905
Securities sold under repurchase agreements		**861**	880
Other liabilities		**742**	(436)
Exchange rate changes and non-cash movements		**261**	246
Net cash from operating activities		**935**	3,143
INVESTING ACTIVITIES			
Purchase of non-trading investments		**(5,322)**	(5,888)
Sale and redemption of non-trading investments		**4,942**	4,298
Purchase of premises and equipment		**(36)**	(75)
Sale of premises and equipment		**6**	8
Investment in subsidiaries - net		**(13)**	(13)
Purchase of a subsidiary net of cash and cash equivalents acquired	35	**-**	(285)
Net cash used in investing activities		**(423)**	(1,955)
FINANCING ACTIVITIES			
Issue of certificates of deposit		**294**	430
Repayment of certificates of deposit		**(480)**	(196)
Issue of borrowings		**83**	940
Repayment of borrowings		**(3)**	(1,521)
Interest paid on additional / perpetual tier-1 capital instruments		**(9)**	-
Dividend paid to the Group's shareholders		**(31)**	-
Dividend paid to non-controlling interests		**(23)**	(14)
Net cash used in financing activities		**(169)**	(361)
Net change in cash and cash equivalents		**343**	827
Effect of exchange rate changes on cash and cash equivalents		**(81)**	7
Cash and cash equivalents at beginning of the year		**2,586**	1,752
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	6	**2,848**	2,586

*This excludes non-cash item amounting to US$ 390 million, which was converted from deposits from customers to additional / perpetual tier-1 capital instruments during the year.

Consolidated Statement of Changes in Equity

	Equity attributable to the shareholders of the parent									Additional / perpetual tier - 1 capital	Non-controlling interests	Total equity
					Other reserves							
	Share capital	Treasury shares	Statutory reserve	Retained earnings*	General reserve	Foreign exchange translation adjustments	Cumulative changes in fair value	Pension fund reserve	Total			
At 31 December 2020	3,110	(6)	520	965	100	(902)	20	(40)	3,767	-	377	4,144
Profit for the year	-	-	-	100	-	-	-	-	100	-	28	128
Other comprehensive (loss) income for the year	-	-	-	-	-	(48)	43	10	5	-	(21)	(16)
Total comprehensive income (loss) for the year	-	-	-	100	-	(48)	43	10	105	-	7	4,256
Transfers during the year	-	-	10	(10)	-	-	-	-	-	-	-	-
Dividend	-	-	-	-	-	-	-	-	-	-	(14)	(14)
Acquisition of a subsidiary (note 35)	-	-	-	-	-	-	-	-	-	-	2	2
Other equity movements in subsidiaries	-	-	-	-	-	-	-	-	-	-	(9)	(9)
At 31 December 2021	3,110	(6)	530	1,055	100	(950)	63	(30)	3,872	-	363	4,235
Profit for the year	-	-	-	154	-	-	-	-	154	-	55	209
Other comprehensive (loss) income for the year	-	-	-	-	-	(164)	(85)	(3)	(252)	-	25	(227)
Total comprehensive income (loss) for the year	-	-	-	154	-	(164)	(85)	(3)	(98)	-	80	(18)
Transfers during the year	-	-	15	(15)	-	-	-	-	-	-	-	-
Dividend (note 32)	-	-	-	(31)	-	-	-	-	(31)	-	(23)	(54)
Issue of additional / perpetual tier-1 capital (note 16)	-	-	-	-	-	-	-	-	-	390	-	390
Interest paid on additional / perpetual tier-1 capital	-	-	-	(9)	-	-	-	-	(9)	-	-	(9)
Increase in ownership of a subsidiary	-	-	-	(19)	-	-	-	-	(19)	-	6	(13)
Other equity movements in subsidiaries	-	-	-	(10)	-	-	-	-	(10)	-	-	(10)
At 31 December 2022	**3,110**	**(6)**	**545**	**1,125**	**100**	**(1,114)**	**(22)**	**(33)**	**3,705**	**390**	**426**	**4,521**

* Retained earnings include non-distributable reserves arising from consolidation of subsidiaries amounting to US$ 517 million (2021: US$ 510 million).

Notes to the Consolidated Financial Statements

31 December 2022 (All figures in US$ Million)

1 INCORPORATION AND ACTIVITIES

Arab Banking Corporation (B.S.C.) ['the Bank'] is incorporated in the Kingdom of Bahrain by an Amiri decree and operates under a conventional wholesale banking licence issued by the Central Bank of Bahrain [CBB]. The Bank is a Bahraini Shareholding Company with limited liability and is listed on the Bahrain Bourse. The Central Bank of Libya is the ultimate parent of the Bank and its subsidiaries (together 'the Group').

The Bank's registered office is at ABC Tower, Diplomatic Area, P.O. Box 5698, Manama, Kingdom of Bahrain. The Bank is registered under commercial registration number 10299 issued by the Ministry of Industry and Commerce, Kingdom of Bahrain.

The Group is a leading provider of Trade Finance, Treasury, Project & Structured Finance, Syndications, Corporate & Institutional Banking, Islamic Banking services and the digital, mobile-only banking space named ""ila Bank"" within retail consumer banking services. Retail banking services are only provided in the MENA region.

2 BASIS OF PREPARATION

2.1 Statement of compliance

The consolidated financial statements of the Group are prepared in accordance with International Financial Reporting Standards ("IFRS"). The consolidated financial statements of the Group for the year ended 31 December 2021 were prepared in accordance with IFRS as modified by the CBB. The transition from "IFRS as modified by the CBB" to "IFRS" has not resulted in any changes to the previously reported numbers in the consolidated statement of financial position as of 1 January 2021 and 31 December 2021 and the consolidated statements of profit or loss, comprehensive income, cash flows and changes in equity for the year ended 31 December 2021.

2.2 Accounting convention

The consolidated financial statements are prepared under the historical cost convention, as modified by the measurement at fair value of derivatives and certain debt and equity financial assets. In addition, as more fully discussed below, assets and liabilities that are hedged items in fair value hedges, and are otherwise carried at cost, are adjusted to record changes in fair values attributable to the risk being hedged.

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

2.3 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at 31 December 2022. Control is achieved when the Bank has:

- Power over the investee (i.e. existing rights that give 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 influence those returns.

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.

3 NEW AND AMENDED STANDARDS AND INTERPRETATIONS

3.1 Standards 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 the adoption of the new and amended standards and interpretations, applicable to the Group, and which are effective for annual periods beginning on or after 1 January 2022.

IFRS 9 Financial Instruments (IFRS 9) – Fees in the '10 per cent' test for derecognition of financial liabilities

The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. There is no similar amendment proposed for IAS 39 Financial Instruments: Recognition and Measurement.

In accordance with the transitional provisions, the Group applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment (the date of initial application). These amendments had no impact on the consolidated financial statements of the Group as there were no modifications of the Group's financial liabilities during the year.

3.2 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.

Classification of Liabilities as Current or Non-current - Amendments to IAS 1: effective for annual reporting periods beginning on or after 1 January 2023;

Definition of Accounting Estimates - Amendments to IAS 8 : effective for annual reporting periods beginning on or after 1 January 2023;

Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2 : applicable for annual periods beginning on or after 1 January 2023;

Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12 : applicable to transactions that occur on or after the beginning of the earliest comparative period presented; and

Annual improvements 2018-2020 cycle.

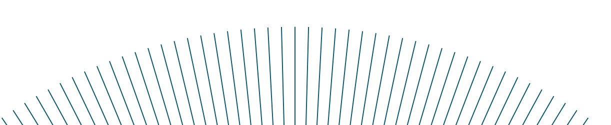
4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.1 Liquid funds

Liquid funds comprise of cash, nostro balances, balances with central banks and treasury bills and other eligible bills. Liquid funds are initially measured at their fair value and subsequently remeasured at amortised cost, less provision for impairment.

4.2 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, deposits with central banks, treasury bills and other eligible bills with original maturities of three months or less.



Notes to the Consolidated Financial Statements

31 December 2022 (All figures in US$ Million)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.3 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 profit or loss in the period in which they arise. Interest earned and dividends received are included in 'Interest and similar income' and 'Other operating income' respectively, in the consolidated statement of profit or loss.

4.4 Placements with banks and other financial institutions

Placements with banks and other financial institutions are initially measured at fair value and subsequently remeasured at amortised cost, net of any amounts written off and provision for impairment.

4.5 Investments in associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries. Investments in associates are accounted for under the equity method of accounting.

Under the equity method, the investment in an associate or a joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate or joint venture since the acquisition date.

4.6 Premises and equipment

Premises and equipment are stated at cost, less accumulated depreciation and provision for impairment in value, if any. Freehold land is not depreciated. Depreciation on other premises and equipment is provided on a straight-line basis over their estimated useful lives ranging from 3 to 30 years.

4.7 Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life (ranging from 3 to 10 years) and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level.

4.8 Leases - Group as a lessee

The Group assesses at contract inception 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.

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 of machinery and equipment (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.

4.9 Collateral repossessed

Any repossessed assets are held for sale at their fair value (if financial assets) and fair value less cost to sell for non-financial assets at the repossession date in, line with the Group's policy.

4.10 Repurchase and reverse repurchase agreements

Assets sold with a simultaneous commitment to repurchase at a specified future date (repos) are not derecognised. The counterparty liability for amounts received under these agreements are shown as securities sold under repurchase agreements in the consolidated statement of financial position. The difference between sale and repurchase price is treated as interest expense and is accrued over the life of the agreement using the effective interest rate. Assets purchased with a corresponding commitment to resell at a specified future date (reverse repos) are not recognised in the consolidated statement of financial position, as the Group does not obtain control over the assets. The difference between purchase and resale price is treated as interest income using the effective yield method.

4.11 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.

4.12 Recognition of income and expenses

4.12.1 The effective interest rate (EIR) method

Under IFRS 9 Financial instruments (IFRS 9), interest income is recorded using the EIR method for all financial assets measured at amortised cost, interest rate derivatives for which hedge accounting is applied and the related amortisation/recycling effect of hedge accounting. Interest income on interest bearing financial

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.12 Recognition of income and expenses (continued)

4.12.1 The effective interest rate (EIR) method (continued)

assets measured at fair value through other comprehensive income (FVOCI) under IFRS 9 is also recorded using the EIR method. Interest expense is also calculated using the EIR method for all financial liabilities held at amortised cost. The EIR is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability or, when appropriate, a shorter period, to the gross carrying amount of the financial asset or liability.

The EIR (and therefore, the amortised cost of the financial asset) is calculated by taking into account transaction costs and any discount or premium on the acquisition of the financial asset, as well as fees and costs that are an integral part of the EIR. The Group recognises interest income using a rate of return that represents the best estimate of a constant rate of return over the expected life of the loan. Hence, the EIR calculation also takes into account the effect of potentially different interest rates that may be charged at various stages of the financial asset's expected life, and other characteristics of the product life cycle (including prepayments, penalty interest and charges).

If expectations of fixed rate financial assets' or liabilities' cash flows are revised for reasons other than credit risk, then changes to future contractual cash flows are discounted at the original EIR with a consequential adjustment to the carrying amount. The difference from the previous carrying amount is booked as a positive or negative adjustment to the carrying amount of the financial asset or liability on the balance sheet with a corresponding increase or decrease in interest revenue/expense calculated using the effective interest method.

For floating-rate financial instruments, periodic re-estimation of cash flows to reflect the movements in the market rates of interest also alters the effective interest rate, but when instruments were initially recognised at an amount equal to the principal, re-estimating the future interest payments does not significantly affect the carrying amount of the asset or the liability.

The Group adopted IBOR reform phase 2 from its effective date, which allows as a practical expedient for changes to the basis for determining contractual cash flows to be treated as changes to a floating rate of interest, provided certain conditions are met. The conditions include that the change is necessary as a direct consequence of IBOR reform and that the transition takes place on an economically equivalent basis.

4.12.2 Interest and similar income/expense

Net interest income comprises interest income and interest expense calculated using the effective interest method.

The Group calculates interest income on financial assets, other than those considered credit-impaired, by applying the EIR to the gross carrying amount of the financial asset.

When a financial asset becomes credit-impaired (therefore regarded as 'Stage 3'), the Group suspends the recognition of interest income of the financial asset. If the financial asset cures and is no longer credit-impaired, the Group reverts to calculating interest income on a gross basis.

For purchased or originated credit-impaired (POCI) financial assets, the Bank calculates interest income by calculating the credit-adjusted EIR and applying that rate to the amortised cost of the financial asset. The credit-adjusted EIR is the interest rate that, at initial recognition, discounts the estimated future cash flows (including credit losses) to the amortised cost of the POCI financial asset.

4.12.3 Fee and commission income

The Group earns fee and commission income from a diverse range of financial services it provides to its customers. Fee and commission income is recognised at an amount that reflects the consideration to which the Group expects to be entitled in exchange for providing the services.

The performance obligations, as well as the timing of their satisfaction, are identified, and determined, at the inception of the contract. When the Group provides a service to its customers, consideration is invoiced and generally due immediately upon satisfaction of a service provided at a point in time or at the end of the contract period for a service provided over time. The Group has generally concluded that it is the principal in its revenue arrangements because it typically controls the services before transferring them to the customer.

Performance obligations satisfied over time include asset management and other services, where the customer simultaneously receives and consumes the benefits provided by the Group's

performance as the Group performs. The Group's fee and commission income from services where performance obligations are satisfied over time include the following:

Asset management fees

These fees are earned for the provision of asset management services, which include portfolio diversification and rebalancing, typically over defined periods. These services represent a single performance obligation comprised of a series of distinct services which are substantially the same, being provided continuously over the contract period. Asset management fees consist of management and performance fees that are considered variable consideration.

Management fees are invoiced quarterly and determined based on a fixed percentage of the net asset value of the funds under management at the end of the quarter. The fees are allocated to each quarter because they relate specifically to services provided for a quarter, and are distinct from the services provided in other quarters. The fees generally crystallise at the end of each quarter and are not subject to a clawback. Consequently, revenue from management fees is generally recognised at the end of each quarter.

Loan commitment and other fees

These are fixed annual fees paid by customers for loan and other credit facilities with the Group, but where it is unlikely that a specific lending arrangement will be entered into with the customer and the loan commitment is not measured at fair value. The Group promises to provide a loan facility for a specified period. As the benefit of the services is transferred to the customer evenly over the period of entitlement, the fees are recognised as revenue on a straight-line basis.

4.12.4 Net trading income

Net trading income includes all gains and losses from changes in fair value and the related interest income or expense and dividends, for financial assets held for trading.

4.13 Treasury shares

Own equity instruments that are reacquired (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognised as share premium.

4.14 Financial instruments

4.14.1 Date of recognition

Financial assets and liabilities, with the exception of loans and advances to customers, deposits to customers and banks, are initially recognised on the trade date, i.e., the date that the Group becomes a party to the contractual provisions of the instrument. This includes regular way trades: purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. Loans and advances to customers are recognised when funds are transferred to the customers' accounts. The Group recognises deposits from customers and banks when funds are received by the Group.

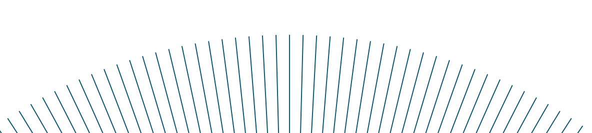
4.14.2 Initial measurement

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments, as described in notes 4.15 and 4.16.

At initial recognition, the Group measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss (FVTPL), transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at FVTPL are expensed in profit or loss. Immediately after initial recognition, an expected credit loss (ECL) is recognised for financial assets measured at amortised cost and investments in debt instruments measured at FVOCI, which results in an accounting loss being recognised in the consolidated statement of profit or loss when an asset is newly originated. When the fair value of financial assets and liabilities at initial recognition differs from the transaction price, the Group accounts for the Day 1 profit or loss, as described below.

4.14.3 Day 1 profit or loss

When the transaction price of the instrument differs from the fair value at origination, the difference is treated as follows:



Notes to the Consolidated Financial Statements

31 December 2022 (All figures in US$ Million)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.14 Financial instruments (continued)

4.14.3 Day 1 profit or loss (continued)

(a) When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a Level 1 input) or based on a valuation technique that uses data only from observable markets, the difference is recognised as a day 1 gain or loss.

(b) In all other cases, the difference is deferred and the timing of recognition of deferred day 1 profit or loss is determined individually. It is either amortised over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or when the instrument is derecognised.

4.15 Financial assets

4.15.1 Debt type instruments - classification and subsequent measurement

The classification requirements for financial assets is as below.

Classification and subsequent measurement of debt instruments depend on:

(i) the Group's business model for managing the asset; and

(ii) the cash flow characteristics of the asset i.e. solely payments of principal and interest (SPPI) test.

Based on these factors, the Group classifies its debt instruments into one of the following three measurement categories:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent SPPI, and that are not designated at FVTPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any ECL allowance recognised and measured. Interest income from these financial assets is included in 'Interest and similar income' using the EIR method.

- Fair value through other comprehensive income (FVOCI): Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent SPPI, and that are not designated at FVTPL, are measured at fair value through other comprehensive income (FVOCI). Movements in the carrying amount are taken through other comprehensive income (OCI), except for the recognition of expected credit losses or writebacks, interest income and foreign exchange gains and losses. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in 'Other operating income' as 'Gain or loss on disposal of non-trading debt investments'. Interest income from these financial assets is included in 'Interest and similar income' using the effective interest rate (EIR) method.

- Fair value through profit or loss (FVTPL): Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. The Group may also designate a financial asset at FVTPL, if so doing eliminates or significantly reduces measurement or recognition inconsistencies. A gain or loss on a debt investment that is subsequently measured at FVTPL is recognised and presented in the consolidated statement of profit or loss within 'Other operating income' as 'Income from trading book' in the year in which it arises. Interest income from these financial assets is included in 'Interest and similar income' using the EIR method.

4.15.2 Business model

The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. The business model reflects how the Group manages the assets in order to generate cash flows. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'held for trading' business model and measured at FVTPL. The business model assessment is not carried

out on an instrument-by-instrument basis but at the aggregate portfolio level and is based on observable factors such as:

- The stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- How the asset's and business model performance is evaluated and reported to key management personnel and Group Asset and Liability Committee (GALCO);
- How risks are assessed and managed; and
- The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realised.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account.

Financial assets that are held for trading and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

4.15.3 SPPI test

The Group assesses the contractual terms of financial asset to identify whether they meet the SPPI test.

Principal for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

Interest is the consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group considers:

- the currency in which the financial asset is denominated, and the period for which the interest rate is set;
- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms; and
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse asset arrangements).

Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at FVTPL.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are SPPI.

4.15.4 Reclassification

The Group reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the year.

4.15.5 Equity type instruments - classification and subsequent measurement

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets.

Upon initial recognition, the Group elects to irrevocably designate certain equity investments

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4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.15 Financial assets (continued)

4.15.5 Equity type instruments - classification and subsequent measurement (continued)

at FVOCI which are held for purposes other than held for trading. When this election is used, fair value gains and losses are recognised in other comprehensive income and are not subsequently reclassified to consolidated profit or loss, including on disposal. Equity investments at FVOCI are not subject to impairment assessment. All other equity investments which the Group has not irrevocably elected at initial recognition or transition, to classify at FVOCI, are recognised at FVTPL.

Gains and losses on equity investments at FVTPL are included in the 'Other operating income' as 'Income from trading book' line in the consolidated statement of profit or loss.

Dividends are recognised in the consolidated statement of profit or loss under 'Other operating income' when the Group's right to receive payments is established.

4.15.6 Modified or forbearance of loans

The Group sometimes makes concessions or modifications to the original terms of loans as a response to the borrower's financial difficulties, rather than taking possession or to otherwise enforce collection of collateral. The Group considers a loan forborne when such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties and the Group would not have agreed to them if the borrower had been financially healthy. Indicators of financial difficulties include:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay.
- Whether any substantial new terms are introduced, such as a profit share/equity-based return that substantially affects the risk profile of the loan.
- Significant extension of the loan term when the borrower is not in financial difficulty.
- Significant change in the interest rate.
- Change in the currency the loan is denominated in.
- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

If the terms are substantially different, the Group derecognises the original financial asset and recognises a 'new' asset at fair value and recalculates a new EIR for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Group also assesses whether the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the customer being unable to make the originally agreed payments. Differences in the carrying amount are also recognised in profit or loss as a gain or loss on derecognition.

In order for the loan to be reclassified out of the forborne category, the customer has to meet all of the following criteria:

- All of its facilities has to be considered performing;
- Regular payments of more than an insignificant amount of principal or interest have been made during most of the period when asset has been classified as forborne; and
- The customer does not have any contract that is more than 30 days past due.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Group recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in consolidated profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original EIR (or credit-adjusted EIR for purchased or originated credit-impaired financial assets).

Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms. It is the Group's policy to monitor forborne loans to help ensure that future payments continue to be likely to occur. Derecognition decisions and classification between Stage 2 and Stage 3 are determined on a case-by-case basis or based on SICR criteria. If these procedures identify a loss in relation to a loan, it is disclosed and managed as an impaired

Stage 3 forborne asset until it is collected or written off or is transferred back to Stage 2.

4.15.7 Derecognition other than on a modification

Financial assets, or a portion thereof, are derecognised when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) the Group transfers substantially all the risks and rewards of ownership, or (ii) the Group neither transfers nor retains substantially all the risks and rewards of ownership and the Group has not retained control.

The Group enters into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards. These transactions are accounted for as 'pass through' transfers that result in derecognition if the Group:

(i) Has no obligation to make payments unless it collects equivalent amounts from the assets;

(ii) Is prohibited from selling or pledging the assets; and

(iii) Has an obligation to remit any cash it collects from the assets without material delay.

Collateral (shares and bonds) furnished by the Group under standard repurchase agreements and securities lending and borrowing transactions are not derecognised because the Group retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met.

4.15.8 Derecognition of financial instruments in the context of IBOR reform

As explained in note 4.15.6 and 4.16.2, the Group derecognises financial assets and financial liabilities if there has been a substantial modification of their terms and conditions. In the context of IBOR reform, certain financial instruments have already been amended or will be amended during 2023 as they transition from IBORs to ARRs. In addition to the interest rate of a financial instrument changing, there may be other changes made to the terms of the financial instrument at the time of transition.

For financial instruments measured at amortised cost, the Group first applies the practical expedient as described in note 4.12, to reflect the change in the referenced interest rate from an IBOR to a ARR. Second, for any changes not covered by the practical expedient, the Group applies judgement to assess whether the changes are substantial and if they are, the financial instrument is derecognised and a new financial instrument is recognised. If the changes are not substantial, the Group adjusts the gross carrying amount of the financial instrument by the present value of the changes not covered by the practical expedient, discounted using the revised EIR.

4.16 Financial liabilities

4.16.1 Classification and subsequent measurement

Financial liabilities are classified as subsequently measured at amortised cost, except for:

- Financial liabilities at FVTPL: this classification is applied to derivatives and financial liabilities held for trading. Gains or losses on financial liabilities designated at FVTPL are presented partially in other comprehensive income (the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of the issuer, which is determined as the amount that is not attributable to changes in market conditions that give rise to market risk) and partially in profit or loss (the remaining amount of change in the fair value of the liability). This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains and losses attributable to changes in the credit risk of the issuer are also presented in consolidated profit or loss;

- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition, whereby a financial liability is recognised for the consideration received for the transfer. In subsequent periods, the Group recognises any expense incurred on the financial liability; and

- Financial guarantee contracts and loan commitments.

4.16.2 Derecognition

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

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4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.16 Financial liabilities (continued)

4.16.2 Derecognition (continued)

The exchange between the Group and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original EIR, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in covenants are also taken into consideration. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

4.17 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.

4.18 Impairment of financial assets

The Group assesses on a forward-looking basis, the expected credit loss (ECL) associated with its debt instruments 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 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 or an approximation thereof.

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;

- undrawn loan commitments: estimates the expected portion of the loan commitment that are drawn down over the expected life of the loan commitment; and calculates the present value of cash shortfalls between the contractual cash flows that are due to the entity if the holder of the loan commitment draws down that expected portion of the loan and the cash flows that the entity expects to receive if that expected portion of the loan is drawn down; and

- 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.

For the purposes of calculation of ECL, the Group categorises its FVOCI debt securities, loans and advances and loan commitments and financial guarantee contracts into Stage 1, Stage 2, Stage 3 and POCI, based on the applied impairment methodology, as described below:

- Stage 1 – Performing: when financial assets are first recognised, the Group recognises an allowance based up to 12-month ECL.

- Stage 2 – Significant increase in credit risk: when a financial asset shows a significant increase in credit risk, the Group records an allowance for the lifetime ECL.

- Stage 3 – Impaired: the Group recognises the lifetime ECL for these financial assets.

- Purchased or originated credit impaired ('POCI'): when financial assets are purchased or are originated at a deep discount or are credit-impaired on initial recognition. These are subject to lifetime ECLs. POCI includes non-performing loans and advances acquired through the acquisition of the BLOM Bank Egypt S.A.E. ("BLOM Egypt") that are recorded at fair value and therefore do not carry an allowance for ECL at the time of initial recognition as it is already incorporated in the calculation of effective interest rate on initial recognition. It also includes recognition of previously written off loans of the Group where the expectation of recovery has improved.

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.

The Group records impairment for FVOCI debt securities, depending on whether they are classified as Stage 1, 2, or 3, as explained above. However, ECL does not reduce the carrying amount of these financial assets in the consolidated statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the asset were measured at amortised cost is recognised in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss.

No impairment is recorded on equity instruments.

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, unless the new loan is deemed to be POCI. 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.

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4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.18 Impairment of financial assets (continued)

The Group applies low credit risk expedient and considers following types of debts as 'low credit risk (LCR)':

- All local currency sovereign exposures funded in local currency;
- All local currency exposures to the Government of Bahrain or the CBB; and
- All exposures with external rating A- or above.

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.

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 or past due event;
- 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.

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.

Other than originated credit-impaired loans, loans are transferred out of Stage 3 if they no longer meet the criteria of credit-impaired after a cooling-off period of 12 months.

Purchased or originated credit impaired ('POCI')

For POCI financial assets, the Group only recognises the lifetime ECL and any cumulative changes since initial recognition are recorded in the ECL allowance. There are no migration from POCI to other Stages.

Forward looking information

The Group incorporates forward-looking information in the measurement of ECLs.

The Group considers forward-looking information 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, an upward and a downward scenario. The base case scenario represents the more likely outcome from Moody's macro-economic models. For each scenario, the Group derives an ECL and apply a probability weighted approach to determine the impairment allowance.

The Group also uses published external information from International Monetary Fund (IMF).

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the consolidated statement of financial position as follows:

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: as a provision under other liabilities; and
- debt instruments measured at FVOCI: no loss allowance is recognised in the consolidated statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the cumulative changes in fair value reserve.

Limitation of estimation techniques

The models applied by the Group may not always capture all characteristics of the market at a point in time as they cannot be recalibrated at the same pace as changes in market conditions. Interim adjustments are expected to be made until the base models are validated. Although the Group uses data that is as current as possible, models used to calculate ECLs are based on data that is up to date except for certain macro-economic factors for which the data is updated once it is available.

Experienced credit adjustment

The Group's ECL allowance methodology requires the Group to use its experienced credit judgement to incorporate the estimated impact of factors not captured in the modelled ECL results, in all reporting periods. Refer note 25.4.1 for additional details.

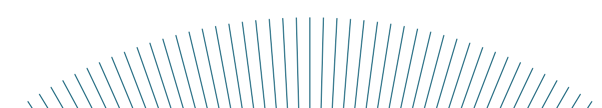
4.19 Impairment of non-financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that is largely independent of the cash inflows of others assets or cash generating units (CGU). Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or CGU is the greater of its value in use an fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recogised if the carrying amount of an asset or CGU exceeds its recoverable amount. Impairment losses are recognised in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to CGU, and then to reduce the carrying amounts of others assets in the CGU on pro-rata basis. An impairment loss on goodwill is not reversed. For, other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed



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4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.19 Impairment of non-financial assets (continued)

the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

4.20 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and 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 profit or loss net of any reimbursement.

4.21 Financial guarantee contracts and loan commitments

The Group issues financial guarantees, letters of credit and loan commitments.

Financial guarantees are initially recognised in the consolidated financial statements at fair value, being the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the consolidated statement of profit or loss, and an ECL provision.

The premium received is recognised in the consolidated statement of profit or loss in 'Other operating income' on a straight line basis over the life of the guarantee.

Undrawn loan commitments and letters of credits are commitments under which, over the duration of the commitment, the Group is required to provide a loan with pre-specified terms to the customer.

The nominal contractual value of financial guarantees, letters of credit and undrawn loan commitments, where the loan agreed to be provided is on market terms, are not recorded in the consolidated statement of financial position.

An ECL is calculated and recorded for these in a similar manner as for debt type financial instruments as explained in note 4.18.

4.22 Derivatives and hedging activities

The Group has adopted IFRS 9 on its effective date of 1 January 2018 and applies the same for hedge accounting.

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided that, in the case of a non-financial variable, it is not specific to a party to the contract (i.e., the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts expected to have a similar response to changes in market factors.
- It is settled at a future date.

The Group enters into derivative transactions with various counterparties. These include interest rate swaps, futures, credit default swaps, cross-currency swaps, forward foreign exchange contracts and options on interest rates, foreign currencies and equities. Derivatives are initially recognised at fair value on the date on which the derivative contract is entered into and are subsequently remeasured at fair value. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

All derivatives are measured at FVTPL except for when the derivative is designated and qualifies as a hedging instrument, and if so, the nature of the item being hedged determines the method of recognising the resulting gain or loss. The Group designates certain derivatives as either:

(a) Hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedges);

(b) Hedges of highly probable future cash flows attributable to a recognised asset or liability (cash flow hedges); or

(c) Hedges of a net investment in a foreign operation (net investment hedges).

The Group documents, at the inception of the hedge, the relationship between hedged items and hedging instruments, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

(a) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the consolidated statement of profit or loss, together with changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest rate method is used is amortised to profit or loss over the period to maturity and recorded as net interest income.

(b) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the consolidated statement of profit or loss.

Amounts accumulated in equity are recycled to the consolidated statement of profit or loss in the periods when the hedged item affects profit or loss. They are recorded in the income or expense lines in which the revenue or expense associated with the related hedged item is reported.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised in the periods when the hedged item affects profit or loss. When a forecast transaction is no longer expected to occur (for example, the recognised hedged asset is disposed of), the cumulative gain or loss previously recognised in other comprehensive income is immediately reclassified to the consolidated statement of profit or loss.

(c) Net investment hedge

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised directly in other comprehensive income; the gain or loss relating to the ineffective portion is recognised immediately in the consolidated statement of profit or loss. Gains and losses accumulated in equity are included in the consolidated statement of profit or loss when the foreign operation is disposed of as part of the gain or loss on the disposal.

(d) IBOR reform phase 1 and 2 impacts on hedge accounting

The Group applies temporary reliefs to hedging relationships directly affected by IBOR reform during the year before the replacement of an existing interest rate benchmark with an alternative benchmark rate (ARR). A hedging relationship is affected if IBOR reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument.

IBOR reform phase 1 requires that for hedging relationships affected by IBOR reform, the Group must assume that for the purpose of assessing expected future hedge effectiveness, the interest rate is not altered as a result of IBOR reform.

The reliefs cease to apply once certain conditions are met. These include when the uncertainty arising from IBOR reform is no longer present with respect to the timing and amount of the benchmark-based cash flows of the hedged item, if the hedging relationship is discontinued or once amounts in the cash flow hedge reserve have been released.

The IBOR reform phase 2 provides temporary reliefs that allow the Group's hedging relationships to continue upon the replacement of an existing interest rate benchmark with an ARR. The reliefs require the Group to amend the hedge designations and hedge documentation.

Hedge designation

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

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.22 Derivatives and hedging activities (continued)

i) designating an ARR (contractually or non-contractually specified) as a hedged risk;

ii) amending the description of the hedged item, including the description of the designated portion of the cash flows or fair value being hedged; or

iii) 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.

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.

For each ARR to which the relief has been applied, the Group judges that both the volume and market liquidity of financial instruments that reference the ARR and are priced using the ARR will increase during the 24- month period with the result that the hedged ARR risk component will become separately identifiable in the change in fair value or cash flows of the hedged item.

4.23 Fair value measurement

The Group measures financial instruments at fair value at each reporting date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interests.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 valuation: Directly observable quotes for the same instrument.
- Level 2 valuation: Directly observable proxies for the same instrument accessible at valuation date.
- Level 3 valuation: Derived proxies (interpolation of proxies) for similar instruments that have not been observed.

For assets and liabilities that are recognised in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

4.24 Taxation on foreign operations

There is no tax on corporate income of the Bank in the Kingdom of Bahrain. Taxation on foreign operations is provided for in accordance with the fiscal regulations applicable in each location. No provision is made for any liability that may arise in the event of distribution of the reserves of subsidiaries. A substantial portion of such reserves is required to be retained to meet local regulatory requirements.

Current tax

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date in the countries where the Group operates and generates taxable income.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the consolidated statement of profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date. Deferred tax liabilities are recognised for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

In assessing the recoverability of deferred tax assets, the Group relies on forecasts used for its budgeting purposes and in other management reports.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date. Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in OCI or directly in equity.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognised subsequently if new information about facts and circumstances change. The adjustment is either

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31 December 2022 (All figures in US$ Million)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.24 Taxation on foreign operations (continued)

treated as a reduction in goodwill (as long as it does not exceed goodwill) if it was incurred during the measurement period or recognised in profit or loss.

The Group offsets deferred tax assets and deferred tax liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

4.25 Foreign currencies

Transactions and balances

Transactions in foreign currencies are initially recorded at the spot rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities in foreign currencies are translated into functional currency at the rates of exchange ruling at the reporting date. Any gains or losses are taken to the consolidated statement of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in OCI or profit or loss are also recognised in OCI or profit or loss, respectively).

Group companies

As at the reporting date, the assets and liabilities of foreign operations are translated into the Bank's functional currency at rates of exchange ruling at the reporting date. Income and expense items are translated at average exchange rates for the year. Exchange differences arising on translation are recorded in the consolidated statement of comprehensive income under unrealised gain or loss on exchange translation in foreign subsidiaries. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the consolidated statement of profit or loss.

4.26 Trade and settlement date accounting

All "regular way" purchases and sales of financial assets are recognised on the trade date, i.e. the date that the Group commits to purchase or sell the asset, except for loans and advances to customers, deposits to customers and banks.

4.27 Fiduciary assets

Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and, accordingly, are not included in the consolidated statement of financial position.

4.28 Offsetting

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 offset the recognised amounts and the Group intends to settle on a net basis, or to realise the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the consolidated statement of financial position.

4.29 Borrowings

Issued financial instruments (or their components) are classified as liabilities under 'Borrowings', where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder.

Borrowings are initially measured at fair value plus transaction costs. After initial measurement, the borrowings are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective interest rate.

4.30 Write-off

Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to consolidated statement of profit and loss.

4.31 Collateral valuation

To mitigate its credit risks on financial assets, the Group seeks to use collateral, where possible. The collateral comes in various forms, such as cash, securities, letters of credit/financial guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. Collateral, unless repossessed, is not recorded on the Group's consolidated statement of financial position. However, the fair value of collateral affects the calculation of ECLs. It is generally assessed, at a minimum, at inception and re-assessed on a periodic basis. However, some collateral, for example, cash or securities relating to margining requirements, is valued daily.

To the extent possible, the Group uses active market data for valuing financial assets held as collateral. Other financial assets which do not have readily determinable market values are valued using internal valuation techniques as appropriate. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as mortgage brokers, or based on housing price indices.

4.32 Business combination and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in relevant line items in the consolidated statement of profit or loss.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed). If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss. After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Where goodwill has been allocated to a cash-generating unit (CGU) and part of the business within that unit is disposed of, the goodwill associated with the disposed business operation is included in the carrying amount of the business operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

Impairment of non-financial assets

Impairment exists when the carrying value of an asset or CGU exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs of disposing of the asset. The value in use calculation is based on a DCF model. The cash flows are derived from the

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31 December 2022 (All figures in US$ Million)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.32 Business combination and goodwill (continued)

budget for the next 5-7 years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the performance of the assets of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. These estimates are most relevant to goodwill recognised by the Group.

4.33 Significant accounting judgements, estimates and assumptions

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures, as well as the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. In the process of applying the Group's accounting policies, management has made the following judgements and assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Existing circumstances and assumptions about future developments may change due to circumstances beyond the Group's control and are reflected in the assumptions if and when they occur. Items with the most significant effect on the amounts recognised in the consolidated financial statements with substantial management judgement and/or estimates are collated below with respect to judgements/estimates involved.

Going concern

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

Measurement of the expected credit loss allowance (ECL)

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

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

- Internal credit rating model, which assigns probability of defaults (PDs) to the individual ratings;
- Determining criteria for significant increase in credit risk (SICR);
- Choosing appropriate models and assumptions for the measurement of ECL;
- Determination of associations between macroeconomic scenarios and, economic inputs, such as GDP, oil prices, equity indices, unemployment levels and collateral values, and the effect on PD, exposure at default (EAD) and loss given default (LGD);
- Selection and relative weightings of forward-looking scenarios to derive the economic inputs into the ECL models;
- Establishing groups of similar financial assets for the purposes of measuring ECL; and
- Determining relevant period of exposure with respect to the revolving credit facilities and facilities undergoing restructuring at the time of the reporting date.

Classification of financial assets

Classification of financial assets in the appropriate category depends upon the business model and

SPPI test. Determining the appropriate business model and assessing whether the cash flows generated by the financial asset meet the SPPI test is complex and requires significant judgements by management.

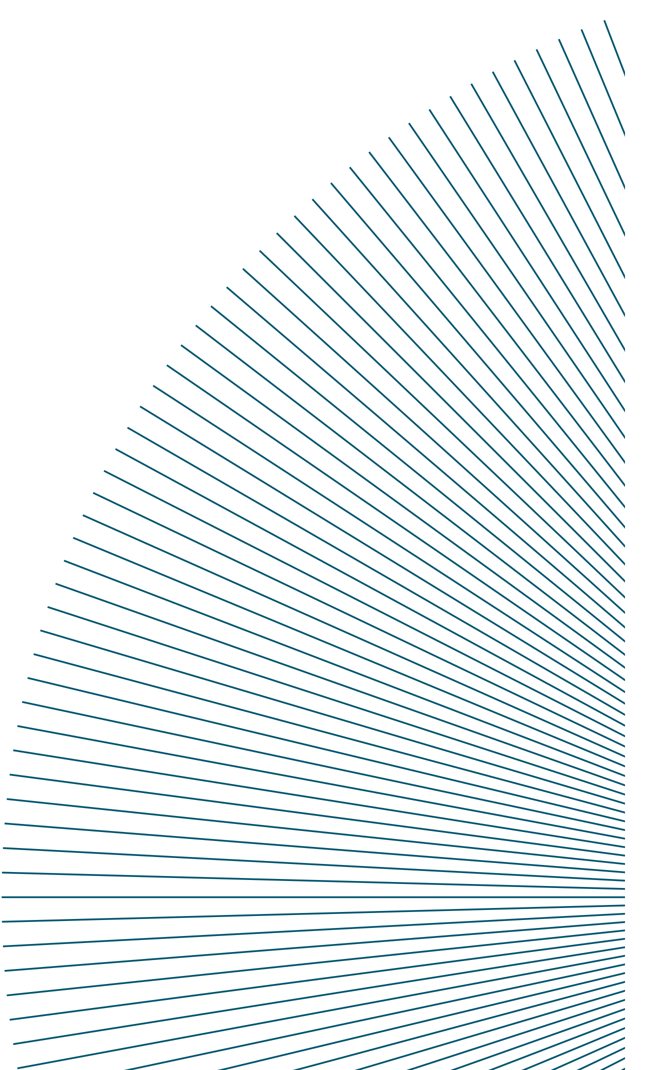
The Group applies judgement while carrying out SPPI test and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of valuation models. The inputs to these models are derived from observable market data where possible, but if this is not available, judgement is required to establish fair values. Refer to note 23 for further disclosures.

4.34 Corresponding figures

Certain of the prior year's figures have been re-classified to conform to the presentation adopted in the current year. Such reclassifications do not affect previously reported net profit and total comprehensive income for the year or shareholder's equity.



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31 December 2022 (All figures in US$ Million)

5 CLASSIFICATION OF FINANCIAL INSTRUMENTS

As at 31 December, financial instruments have been classified as follows:

At 31 December 2022	FVTPL	FVOCI	Amortised cost	Total
ASSETS				
Liquid funds	-	-	2,886	2,886
Trading securities	590	-	-	590
Placements with banks and other financial institutions	-	-	2,226	2,226
Securities bought under repurchase agreements	-	-	1,386	1,386
Non-trading investments	-	6,683	1,397	8,080
Loans and advances	95	631	17,464	18,190
Other assets	968	-	1,912	2,880
	1,653	7,314	27,271	36,238
LIABILITIES				
Deposits from customers	-	-	21,396	21,396
Deposits from banks	-	-	3,764	3,764
Certificates of deposit	-	-	435	435
Securities sold under repurchase agreements	-	-	2,878	2,878
Other liabilities	809	-	1,356	2,165
Borrowings	-	-	1,297	1,297
	809	-	31,126	31,935

At 31 December 2021 (Restated)	FVTPL	FVOCI	Amortised cost	Total
ASSETS				
Liquid funds	-	-	2,626	2,626
Trading securities	902	-	-	902
Placements with banks and other financial institutions	-	-	3,031	3,031
Securities bought under repurchase agreements	-	-	698	698
Non-trading investments	-	6,707	1,683	8,390
Loans and advances	152	466	16,098	16,716
Other assets	666	-	1,373	2,039
	1,720	7,173	25,509	34,402
LIABILITIES				
Deposits from customers	-	-	20,734	20,734
Deposits from banks	-	-	4,388	4,388
Certificates of deposit	-	-	725	725
Securities sold under repurchase agreements	-	-	2,011	2,011
Other liabilities	693	-	766	1,459
Borrowings	-	-	1,211	1,211
	693	-	29,835	30,528

6 LIQUID FUNDS

	2022	2021
Cash on hand	**80**	46
Balances due from banks	**516**	632
Deposits with central banks	**2,062**	1,908
Treasury bills and other eligible bills with original maturities of three months or less	**190**	-
Cash and cash equivalents	**2,848**	2,586
Treasury bills and other eligible bills with original maturities of more than three months	**38**	40
	2,886	2,626
ECL allowances	**-**	-
	2,886	2,626

7 TRADING SECURITIES

	2022	2021
Debt instruments	**576**	884
Equity instruments	**14**	18
	590	902

8 NON-TRADING INVESTMENTS

	2022	2021
Debt securities		
At amortised cost	**1,397**	1,723
At FVOCI	**6,755**	6,755
	8,152	8,478
ECL allowances	**(87)**	(105)
Debt securities - net	**8,065**	8,373
Equity securities		
At FVOCI	**15**	17
	8,080	8,390

The external ratings distribution of non-trading debt investments are given below:

	2022	2021
AAA rated debt securities	**1,400**	690
AA to A rated debt securities	**2,011**	2,783
Other investment grade debt securities	**1,365**	1,320
Other non-investment grade debt securities	**3,116**	3,478
Unrated debt securities	**260**	207
	8,152	8,478
ECL allowances	**(87)**	(105)
	8,065	8,373

Following are the stage wise break-up of debt securities as at 31 December 2022 and 31 December 2021:

	2022			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Debt securities, gross	**8,078**	**-**	**74**	**8,152**
ECL allowances	**(13)**	**-**	**(74)**	**(87)**
	8,065	**-**	**-**	**8,065**

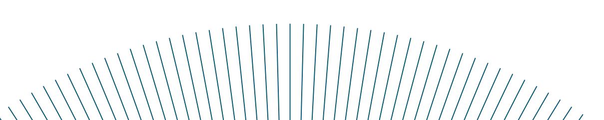
	2021			
	Stage 1	Stage 2	Stage 3	Total
Debt securities, gross	8,389	-	89	8,478
ECL allowances	(19)	-	(86)	(105)
	8,370	-	3	8,373

An analysis of movement in the ECL allowances during the years ended 31 December 2022 and 31 December 2021 are as follows:

	2022			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
As at 1 January	**19**	**-**	**86**	**105**
Additions	**-**	**-**	**-**	**-**
Recoveries / write back	**(5)**	**-**	**(2)**	**(7)**
Charge for the year - net	**(5)**	**-**	**(2)**	**(7)**
Amounts written-off	**-**	**-**	**(10)**	**(10)**
Exchange adjustments and other movements	**(1)**	**-**	**-**	**(1)**
As at 31 December	**13**	**-**	**74**	**87**

	2021			
	Stage 1	Stage 2	Stage 3	Total
As at 1 January	15	-	85	100
Additions	4	-	1	5
Recoveries / write back	-	-	-	-
Charge for the year - net	4	-	1	5
Exchange adjustments and other movements	-	-	-	-
As at 31 December	19	-	86	105

No interest income was received during the year on impaired investments classified under Stage 3 (2021: nil).



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9 LOANS AND ADVANCES

Below is the classification of loans and advances by measurement:

	2022				
	Stage 1	**Stage 2**	**Stage 3**	**POCI**	**Total**
At FVTPL					
- Wholesale	**95**	**-**	**-**	**-**	**95**
At FVOCI					
- Wholesale	**631**	**-**	**-**	**-**	**631**
At Amortised cost					
- Wholesale	**15,902**	**701**	**611**	**-**	**17,214**
- Retail	**838**	**41**	**44**	**-**	**923**
	17,466	**742**	**655**	**-**	**18,863**
ECL allowances	**(139)**	**(71)**	**(463)**	**-**	**(673)**
	17,327	**671**	**192**	**-**	**18,190**

	2021				
	Stage 1	Stage 2	Stage 3	POCI	Total
At FVTPL					
- Wholesale	152	-	-	-	152
At FVOCI					
- Wholesale	469	-	-	-	469
At Amortised cost					
- Wholesale	14,464	761	566	-	15,791
- Retail	902	60	32	1	995
	15,987	821	598	1	17,407
ECL allowances	(109)	(89)	(493)	-	(691)
	15,878	732	105	1	16,716

Below is the classification of loans and advances by industrial sector:

	Gross loans		ECL allowances		Net loans	
	2022	2021	**2022**	2021	**2022**	2021
Financial services	**3,729**	3,649	**20**	19	**3,709**	3,630
Government	**1,220**	596	**7**	5	**1,213**	591
Other services	**1,549**	1,528	**285**	255	**1,264**	1,273
Manufacturing	**2,751**	2,891	**99**	104	**2,652**	2,787
Agriculture, fishing and forestry	**1,408**	1,259	**13**	18	**1,395**	1,241
Construction	**1,863**	1,447	**74**	75	**1,789**	1,372
Utilities	**627**	854	**5**	18	**622**	836
Energy	**1,004**	1,001	**3**	8	**1,001**	993
Distribution	**1,059**	903	**5**	17	**1,054**	886
Personal /consumer finance	**1,496**	999	**44**	49	**1,452**	950
Transport	**632**	624	**30**	23	**602**	601
Commercial real estate financing	**331**	551	**10**	4	**321**	547
Technology, media and telecommunications	**447**	371	**22**	37	**425**	334
Trade	**370**	427	**41**	43	**329**	384
Retailers	**250**	172	**-**	4	**250**	168
Mining and quarrying	**90**	93	**15**	12	**75**	81
Residential mortgage	**37**	42	**-**	-	**37**	42
	18,863	17,407	**673**	691	**18,190**	16,716

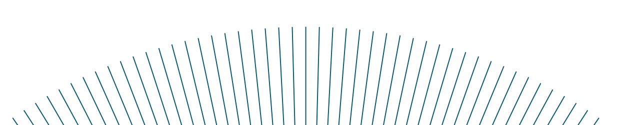
An analysis of movement in the ECL allowances during the years ended 31 December 2022 and 31 December 2021 are as follows:

	2022				
	Stage 1	**Stage 2**	**Stage 3**	**POCI**	**Total**
As at 1 January	**109**	**89**	**493**	**-**	**691**
Transfers to stage 1	**7**	**(7)**	**-**	**-**	**-**
Transfers to stage 2	**(2)**	**2**	**-**	**-**	**-**
Transfers to stage 3	**-**	**(23)**	**23**	**-**	**-**
Net transfers between stages	**5**	**(28)**	**23**	**-**	**-**
Additions	**27**	**10**	**121**	**-**	**158**
Recoveries / write back	**-**	**-**	**(39)**	**-**	**(39)**
Charge for the year - net	**27**	**10**	**82**	**-**	**119**
Amounts written-off	**-**	**(2)**	**(153)**	**-**	**(155)**
Amounts derecognised	**-**	**-**	**-**	**-**	**-**
Exchange adjustments and other movements	**(2)**	**2**	**18**	**-**	**18**
As at 31 December	**139**	**71**	**463**	**-**	**673**

	2021 (Restated)				
	Stage 1	Stage 2	Stage 3	POCI	Total
As at 1 January	67	95	708	-	870
Transfers to stage 1	1	(1)	-	-	-
Transfers to stage 2	(1)	1	-	-	-
Transfers to stage 3	-	(2)	2	-	-
Net transfers between stages	-	(2)	2	-	-
Additions	41	(2)	123	-	162
Recoveries / write back	-	-	(77)	-	(77)
Charge for the year - net	41	(2)	46	-	85
Amounts written-off	-	(2)	(253)	-	(255)
Amounts derecognised	-	(3)	(13)	-	(16)
Exchange adjustments and other movements	1	3	3	-	7
As at 31 December	109	89	493	-	691

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 31 December 2022 amounts to US$ 59 million (2021: US$ 89 million).

At 31 December 2022, interest in suspense on past due loans under Stage 3 amounts to US$ 99 million (2021: US$ 86 million).



Notes to the Consolidated Financial Statements

31 December 2022 (All figures in US$ Million)

10 CREDIT LOSS EXPENSE

	2022			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Non-trading debt investments (note 8)	**(5)**	**-**	**(2)**	**(7)**
Loans and advances (note 9)	**27**	**10**	**82**	**119**
Credit commitments and contingent items (note 22)	**1**	**-**	**(1)**	**-**
Other financial assets	**-**	**1**	**6**	**7**
	23	**11**	**85**	**119**

	2021			
	Stage 1	Stage 2	Stage 3	Total
Non-trading debt investments (note 8)	4	-	1	5
Loans and advances (note 9)	41	(2)	46	85
Credit commitments and contingent items (note 22)	-	(1)	16	15
Other financial assets	1	-	-	1
	46	(3)	63	106

11 OTHER ASSETS

	2022	2021
Interest receivable	**460**	309
Goodwill (note 35)	**51**	80
Right-of-use assets	**52**	48
Trade receivables	**340**	333
Positive fair value of derivatives (note 21)	**968**	666
Assets acquired on debt settlement	**40**	42
Deferred tax assets	**220**	218
Bank owned life insurance	**40**	40
Margin dealing accounts	**133**	82
Staff loans	**40**	45
Advances and prepayments	**154**	99
Investments in associates	**33**	36
IT projects work-in-progress	**62**	58
Others	**423**	163
	3,016	2,219

The negative fair value of derivatives amounting to US$ 809 million (2021: US$ 693 million) is included in other liabilities (note 13). Details of derivatives are given in note 21. No impairment loss on goodwill was recognised during the year ended 31 December 2022.

Allowances for ECL against other financial assets included in "other assets" amounts to US$ 6 million (2021: US$ 8 million).

Below are the carrying amounts of the Group's right-of-use assets and movements during the year:

	Right-of-use assets	
	2022	2021
As at 1 January	**48**	57
Add: New/terminated leases - net	**16**	2
Less: Amortisation	**(10)**	(10)
Add: Acquired through business combination	**-**	1
Others (including foreign exchange movements)	**(2)**	(2)
As at 31 December	**52**	48

12 TAXATION ON FOREIGN OPERATIONS

Determining the Group's taxation charge for the year involves a degree of estimation and judgement.

	2022	2021
Consolidated statement of financial position		
Current tax liability	**20**	22
Deferred tax liability	**64**	61
	84	83
Consolidated statement of profit or loss		
Current tax on foreign operations	**70**	52
Deferred tax on foreign operations	**13**	(1)
	83	51
Analysis of tax charge		
At Bahrain (income tax rate of nil)	**-**	-
On profits of subsidiaries operating in other jurisdictions	**82**	66
Charge (credit) arising from tax treatment of hedging currency movements	**1**	(15)
Income tax expense reported in the consolidated statement of profit or loss	**83**	51

The effective tax rates on the profit of subsidiaries in MENA was 40% (2021: 42%) and United Kingdom was 18% (2021: 14%) as against the actual tax rates of 19% to 35% (2021: 19% to 38%) in MENA and 25% (2021: 19%) in United Kingdom.

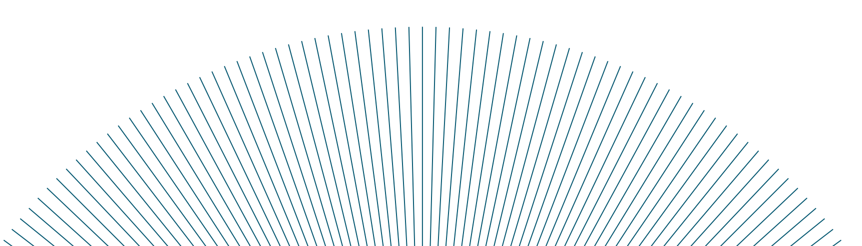
In the Bank's Brazilian subsidiary, the effective tax rate on normalised earnings was 45% (2021: 38%) as against the actual tax rate of 45% (2021: 45%), after taking into account the tax debit for the year of US$1 million arising from the tax treatment of hedging currency movements (2021: tax credit of US$ 15 million) on a certain transaction.

In view of the operations of the Group being subject to various tax jurisdictions and regulations, it is not practical to provide a reconciliation between the accounting and taxable profits.

13 OTHER LIABILITIES

	2022	2021
Interest payable	**693**	270
Lease liabilities	**55**	50
Negative fair value of derivatives (note 21)	**809**	693
Employee related payables	**127**	108
Margin deposits including cash collateral	**32**	46
Deferred income	**18**	18
ECL allowances for credit commitments and contingent items (note 22)	**44**	62
Accrued charges and other payables	**486**	267
	2,264	1,514

The positive fair value of derivatives amounting to US$ 968 million (2021: US$ 666 million) is included in other assets (note 11). Details of derivatives are given in note 21.



Notes to the Consolidated Financial Statements

31 December 2022 (All figures in US$ Million)

13 OTHER LIABILITIES (CONTINUED)

Below are the carrying amounts of the Group's lease liabilities and movements:

	Lease Liabilities	
	2022	2021
As at 1 January	**50**	60
Add: New/terminated leases - net	**16**	2
Add: Acquired through business combination	**-**	1
Add: Interest expense	**2**	2
Less: Repayments	**(11)**	(13)
Others (including foreign exchange movements)	**(2)**	(2)
As at 31 December	**55**	50

14 BORROWINGS

In the ordinary course of business, the Bank and certain subsidiaries raise term financing through various capital markets at commercial rates.

Total obligations outstanding at 31 December 2022

	Currency	Rate of Interest %	Parent bank	Subsidiaries	Total
Aggregate maturities					
2023	US$	SOFR +1.35%	**-**	**175**	**175**
2024	EUR	EURIBOR +1.15%	**-**	**53**	**53**
2027	US$	SOFR +2%	**470**	**-**	**470**
2028	US$	SOFR +2%	**470**	**-**	**470**
2029	US$	2.67%	**-**	**30**	**30**
2023-2027	TND	8.2-11.50%	**-**	**7**	**7**
Perpetual**	BRL	Selic *1.2	**-**	**92**	**92**
			940	**357**	**1,297**

Total obligations outstanding at 31 December 2021

	Currency	Rate of Interest %	Parent bank	Subsidiaries	Total
Aggregate maturities					
2023	US$	LIBOR + 1.20%	-	175	175
2027*	US$	LIBOR +2%	470	-	470
2028*	US$	LIBOR +2%	470	-	470
2022-2027	TND	10.00-11.50%	-	11	11
Perpetual**	BRL	Selic *1.47	-	85	85
			940	271	1,211

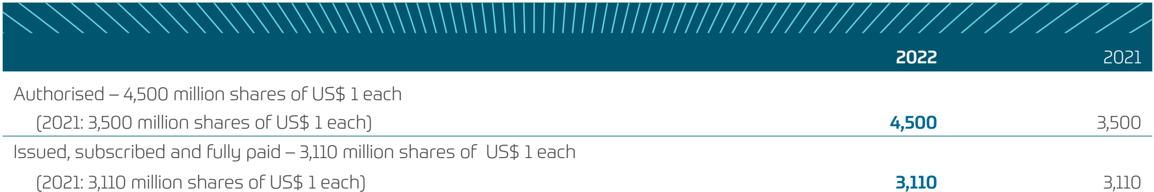
* During 2021, the Bank revised the terms and conditions of this borrowing and entered into a new arrangement with maturity extended to as reflected above. No gain or loss was recognised on derecognition of the old borrowing.

** Perpetual

This instrument issued by a subsidiary qualifies as Additional Tier 1 ("AT1") capital for the purpose of capital adequacy calculation as disclosed in note 33. The outstanding AT1 as at 31 December 2022 amounts to US$ 92 million (2021: US$ 85 million).

15 EQUITY

a) Share capital



	2022	2021
Authorised – 4,500 million shares of US$ 1 each (2021: 3,500 million shares of US$ 1 each)	**4,500**	3,500
Issued, subscribed and fully paid – 3,110 million shares of US$ 1 each (2021: 3,110 million shares of US$ 1 each)	**3,110**	3,110

The Group has amended its Memorandum of Association to increase the authorised share capital from US$ 3.5 billion to US$4.5 billion following a resolution that was passed by the shareholders during the Extraordinary General Meeting of the Group held on 23 March 2022.

b) Treasury shares

The Group owns 15,515,000 treasury shares (2021: 13,675,672 shares) for a cash consideration of US$ 6 million (2021: US$ 6 million).

c) Statutory reserve

As required by the Articles of Association of the Bank and the Bahrain Commercial Companies Law, 10% of the profit for the year is transferred to the statutory reserve. Such annual transfers will cease when the reserve totals 50% of the paid up share capital. The reserve is not available except in such circumstances as stipulated in the Bahrain Commercial Companies Law and following the approval of the Central Bank of Bahrain.

d) General reserve

The general reserve underlines the shareholders' commitment to enhance the strong equity base of the Bank. There are no restrictions on the distribution of this reserve.

e) Cumulative changes in fair value

	2022	2021
At 1 January	**63**	20
Net movement in fair value during the year	**(85)**	43
At 31 December	**(22)**	63

16 ADDITIONAL/ PERPETUAL TIER-1 CAPITAL

The Group issued Basel 3 compliant additional / perpetual Tier 1 Capital securities amounting to US$ 390 million during the year. These securities are perpetual, subordinated and unsecured and carry an interest of 4.75% per annum payable semi-annually. The holders of these securities do not have a right to claim the interest and such an event of non-payment will not be considered an event of default. Further, the corresponding interest paid to investors is accounted for as an appropriation of profits.

17 INTEREST AND SIMILAR EXPENSE

	2022	2021
Loans and advances	**1,290**	785
Securities and investments	**495**	344
Placements with banks and other financial institutions	**232**	120
Others	**22**	7
	2,039	1,256

Notes to the Consolidated Financial Statements

31 December 2022 (All figures in US$ Million)

18 INTEREST AND SIMILAR EXPENSE

	2022	2021
Deposits from banks	**239**	145
Deposits from customers	**932**	454
Borrowings	**50**	44
Certificates of deposit and others	**32**	21
	1,253	664

19 OTHER OPERATING INCOME

	2022	2021
Fee and commission income - net*	**184**	166
Bureau processing income	**32**	25
Net gain from trading book (including foreign currencies transaction)	**38**	35
Gain on disposal of non-trading debt investments - net	**16**	23
Merchant acquiring income	**12**	3
Others - net	**32**	25
	314	277
Gain (loss) on hedging foreign currency movements**	**1**	(15)
	315	262

*Included in the fee and commission income is US$ 12 million (2021: US$ 14 million) of fee income relating to funds under management.

**Gain (loss) on hedging foreign currency movements relate to a transaction which has an offsetting impact on the tax expense for the year.

20 GROUP INFORMATION

20.1 Information about subsidiaries

The principal subsidiaries, all of which have 31 December as their year-end, are as follows:

	Principal activities	Country of incorporation	Interest of Arab Banking Corporation (B.S.C.)	
			2022 %	2021 %
ABC International Bank Plc	Banking	United Kingdom	**100.0**	100.0
ABC SA	Banking	France	**100.0**	100.0
ABC Islamic Bank (E.C.)	Banking	Bahrain	**100.0**	100.0
Arab Banking Corporation (ABC) - Jordan	Banking	Jordan	**87.0**	87.0
Banco ABC Brasil S.A.	Banking	Brazil	**63.7**	61.8
ABC Algeria	Banking	Algeria	**88.9**	88.9
Arab Banking Corporation - Egypt [S.A.E.]	Banking	Egypt	**99.8**	99.8
ABC Tunisie	Banking	Tunisia	**100.0**	100.0
Arab Financial Services Company B.S.C. (c)	Credit card and Fintech services	Bahrain	**90.4**	60.3
BLOM Bank - Egypt [S.A.E] (note 35)	Banking	Egypt	**99.5**	99.5

20.2 Significant restrictions

The Group does not have significant restrictions on its ability to access or use its assets and settle its liabilities other than those resulting from supervisory frameworks within which banking subsidiaries operate. The supervisory frameworks require banking subsidiaries to keep certain levels of regulatory capital and liquid assets, limit their exposure to other parts of the Group and comply with other ratios. In certain jurisdictions, distribution of reserves is subject to prior supervisory approval.

20.3 Material partly-owned subsidiaries

Financial information of a subsidiary that has material non-controlling interests is provided below:

Banco ABC Brasil S.A.

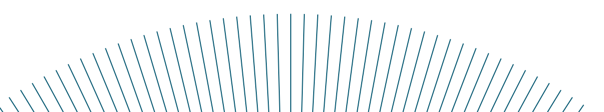
	2022	2021
Proportion of equity interest held by non-controlling interests (%)	**36.3%**	38.2%
Dividends paid to non-controlling interests	**23**	14

The summarised financial information of this subsidiary is provided below. This information is based on amounts before inter-company eliminations.

	2022	2021
Summarised statement of profit or loss:		
Interest and similar income	**950**	504
Interest and similar expense	**(664)**	(330)
Other operating income	**120**	92
Operating expenses	**(169)**	(110)
Credit loss expense	**(47)**	(37)
Profit before tax	**190**	119
Taxation *	**(37)**	(14)
Profit for the year	**153**	105
Profit attributable to non-controlling interests	**56**	40
Total comprehensive income	**207**	50
Total comprehensive income attributable to non-controlling interests	**75**	19

* This includes tax debit of US$ 1 million (2021: tax credit of US$ 15 million) relating to hedging of currency movements as explained in note 12.

	2022	2021
Summarised statement of financial position:		
Total assets	**9,613**	7,717
Total liabilities	**8,610**	6,872
Total equity	**1,003**	845
Equity attributable to non-controlling interests	**365**	322
Summarised cash flow information:		
Operating activities	**272**	31
Investing activities	**(265)**	66
Financing activities	**(85)**	(56)
Net (decrease) increase in cash and cash equivalents	**(78)**	41



Notes to the Consolidated Financial Statements

31 December 2022 (All figures in US$ Million)

21 DERIVATIVES AND HEDGING

In the ordinary course of business the Group enters into various types of transactions that involve derivative financial instruments.

The table below shows the positive and negative fair values of derivative financial instruments. The notional amount is that of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at year end and are not indicative of either market or credit risk.

	2022			2021		
	Positive fair value	**Negative fair value**	**Notional amount**	Positive fair value	Negative fair value	Notional amount
Derivatives held for trading						
Interest rate swaps	**314**	**287**	**8,369**	142	147	8,204
Currency swaps	**5**	**3**	**248**	2	1	241
Forward foreign exchange contracts	**63**	**33**	**8,415**	80	21	5,811
Options*	**460**	**420**	**11,011**	414	373	26,108
Futures	**23**	**62**	**2,985**	17	64	3,386
	865	**805**	**31,028**	655	606	43,750
Derivatives held as hedges						
Interest rate swaps	**103**	**2**	**3,248**	7	87	3,377
Currency swaps	**-**	**-**	**118**	-	-	160
Forward foreign exchange contracts	**-**	**2**	**86**	4	-	352
	103	**4**	**3,452**	11	87	3,889
	968	**809**	**34,480**	666	693	47,639
Risk-weighted equivalents (credit and market risk)			**1,232**			1,376

Derivatives are carried at fair value using valuation techniques based on observable market inputs.

* This includes options for which the Group has a back-to-back cover available.

Derivatives held as hedges include fair value hedges which are predominantly used to hedge fair value changes arising from interest rate fluctuations in debt instruments at FVOCI and/or amortised cost.

For the year ended 31 December 2022, net impact from ineffectiveness from hedges amounts to Nil (2021: Nil) comprising net loss of US$ 172 million (2021: net loss of US$ 76 million) on hedging instruments offsetting the total gain on hedged items attributable to the hedged risk amounted to US$ 173 million (2021: gain of US$ 76 million).

The Group uses deposits which are accounted for as hedges of net investment in foreign operations. As at 31 December 2022, the Group had deposits amounting to US$ 636 million (2021: US$ 685 million) which were designated as net investment hedges.

Derivatives held or issued for trading purposes

Most of the Group's derivative trading activities relate to sales, positioning and arbitrage. Sales activities involve offering products to customers. Positioning involves managing market risk positions with the expectation of profiting from favourable movements in prices, rates or indices. Arbitrage involves identifying and profiting from price differentials between markets or products. Also included under this heading are any derivatives which do not meet IFRS 9 hedging requirements.

Derivative related credit risk

Credit risk in respect of derivative financial instruments arises from the potential for a counterparty to default on its contractual obligations and is limited to the positive fair value of instruments that are favourable to the Group. The majority of the Group's derivative contracts

are entered into with other financial institutions and there is no significant concentration of credit risk in respect of contracts with positive fair value with any individual counterparty at the date of the consolidated statement of financial position.

Derivatives held or issued for hedging purposes

The Group has adopted a comprehensive system for the measurement and management of risk. Part of the risk management process involves managing the Group's exposure to fluctuations in foreign exchange rates (currency risk) and interest rates through asset and liability management activities. It is the Group's policy to reduce its exposure to currency and interest rate risks to acceptable levels as determined by the Board of Directors. The Board has established levels of currency risk by setting limits on currency position exposures. Positions are monitored on an ongoing basis and hedging strategies used to ensure positions are maintained within established limits. The Board has established levels of interest rate risk by setting limits on the interest rate gaps for stipulated periods. Interest rate gaps are reviewed on an ongoing basis and hedging strategies used to reduce the interest rate gaps to within the limits established by the Board of Directors.

As part of its asset and liability management the Group uses derivatives for hedging purposes in order to reduce its exposure to currency and interest rate risks. This is achieved by hedging specific financial instruments, forecasted transactions as well as strategic hedging against overall statement of financial position exposures. For interest rate risk this is carried out by monitoring the duration of assets and liabilities using simulations to estimate the level of interest rate risk and entering into interest rate swaps and futures to hedge a proportion of the interest rate exposure, where appropriate. Since strategic hedging does not qualify for special hedge accounting related derivatives are accounted for as trading instruments.

The Group uses forward foreign exchange contracts, currency options, currency swaps to hedge against specifically identified currency risks. In addition, the Group uses interest rate swaps and interest rate futures to hedge against the interest rate risk arising from specifically identified loans and securities bearing fixed interest rates. In all such cases the hedging relationship and objective, including details of the hedged item and hedging instrument, are formally documented and the transactions are accounted for as hedges.

The Group applies hedge accounting in two separate hedging strategies, as follows:

Interest rate risk on fixed rate debt type instruments (fair value hedge)

The Group holds a portfolio of long-term variable and fixed rate loans / securities / deposits and therefore is exposed to changes in fair value due to movements in market interest rates. The Group manages this interest rate risk exposure by entering into pay fixed / receive floating interest rate swaps.

Only the interest rate risk element is hedged and therefore other risks, such as credit risk, are managed but not hedged by the Group. The interest rate risk component is determined as the change in fair value of the long-term variable / fixed rate loans and securities arising solely from changes in the benchmark rate of interest. Such changes are usually the largest component of the overall change in fair value. The Group primarily designates the benchmark rate as the hedged risk and, accordingly, enters into interest rate swaps whereby the fixed legs represent the economic risks of the hedged items. This strategy is designated as a fair value hedge and its effectiveness is assessed by critical terms matching and measured by comparing changes in the fair value of the loans attributable to changes in the benchmark rate of interest with changes in the fair value of the interest rate swaps.

The Group establishes the hedging ratio by matching the notional of the derivatives with the principal of the portfolio being hedged. Possible sources of ineffectiveness are as follows:

(i) differences between the expected and actual volume of prepayments, as the Group hedges to the expected repayment date taking into account expected prepayments based on past experience;

(ii) hedging derivatives with a non-zero fair value at the date of initial designation as a hedging instrument; and

(iii) counterparty credit risk which impacts the fair value of uncollateralised interest rate swaps but not the hedged items.

Net investment in foreign operation (net investment hedge)

The Group has an investment in a foreign operation which is consolidated in its financial statements.

Notes to the Consolidated Financial Statements

31 December 2022 (All figures in US$ Million)

21 DERIVATIVES AND HEDGING (CONTINUED)

Net investment in foreign operation (net investment hedge) (continued)

The foreign exchange rate exposure arising from this investment is hedged through the use of deposits. These deposits are designated as net investment hedges to hedge the equity of the subsidiaries. The Group establishes the hedging ratio by matching the deposits with the net assets of the foreign operation.

The following table sets out the maturity profile of the trading and hedging instruments used in the Group's trading and non-dynamic hedging strategies:

	Within 1 month	1 - 3 months	3 - 6 months	6 - 12 months	1 - 5 years	5-10 years	Over 10 years	Total
Notional								
2022	**5,881**	**5,129**	**2,579**	**6,791**	**8,775**	**5,025**	**300**	**34,480**
2021	22,337	2,604	2,205	4,764	10,491	5,066	172	47,639

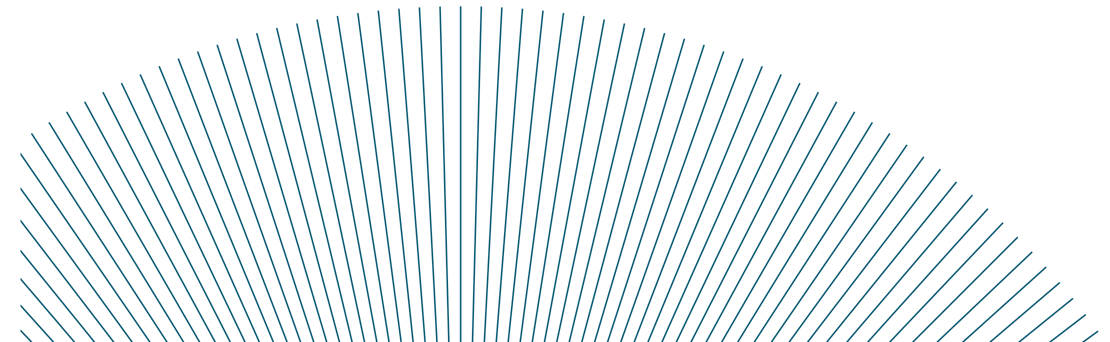
Hedge ineffectiveness

Hedge effectiveness is determined at the inception of the hedge relationship, and through periodic prospective effectiveness assessments to ensure that an economic relationship exists between the hedged item and hedging instrument. For hedges of exposures to fluctuations in foreign exchange rates, the Group enters into hedge relationships where the critical terms of the hedging instrument match exactly with the terms of the hedged item. The Group therefore performs a qualitative assessment of effectiveness. If changes in circumstances affect the terms of the hedged item such that the critical terms no longer match exactly with the critical terms of the hedging instrument, the Group uses quantitative hedge effectiveness testing using the dollar offset method to assess effectiveness.

In hedges of foreign currency exposures, ineffectiveness may arise if the timing of the cash flows changes from what was originally estimated, or if there are changes in the credit risk of the Bank or the derivative counterparty.

Hedge ineffectiveness only arises to the extent the hedging instruments exceed in nominal terms the risk exposure from the foreign operations. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised in OCI, while any gains or losses relating to the ineffective portion are recognised in the consolidated statement of profit or loss. On disposal of the foreign operation, the cumulative value of any such gains or losses recorded in equity is transferred to the consolidated statement of profit or loss.

The ineffectiveness during 2022 or 2021 in relation to the interest rate swaps is however not significant to the Group.



22 CREDIT COMMITMENTS AND CONTINGENT ITEMS

Credit commitments and contingent items include commitments to extend credit, standby letters of credit, acceptances and guarantees, which are structured to meet the various requirements of customers.

At the reporting date, the principal outstanding and the risk weighted equivalents were as follows:

	2022	2021
Short-term self-liquidating trade and transaction-related contingent items	**2,892**	2,575
Direct credit substitutes and guarantees	**2,970**	2,777
Undrawn loans and other commitments	**2,119**	2,383
	7,981	7,735
Credit exposure after applying credit conversion factor	**3,339**	3,143
Risk-weighted equivalents	**2,657**	2,562

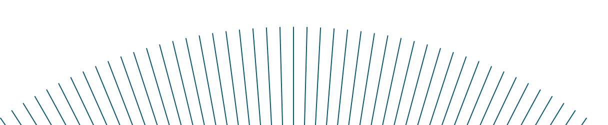
The table below shows the contractual expiry by maturity of the Group's credit commitments and contingent items:

	2022	2021
On demand	**1,360**	1,319
1 - 6 months	**2,450**	1,913
6 - 12 months	**1,894**	1,804
1 - 5 years	**2,248**	2,615
Over 5 years	**29**	84
	7,981	7,735

Exposure (after applying credit conversion factor) and ECL by stage

	2022				
	Stage 1	**Stage 2**	**Stage 3**	**POCI**	**Total**
Credit commitments and contingencies	**3,495**	**71**	**39**	**-**	**3,605**
ECL allowances	**7**	**9**	**28**	**-**	**44**

	2021				
	Stage 1	Stage 2	Stage 3	POCI	Total
Credit commitments and contingencies	2,941	127	75	-	3,143
ECL allowances	12	9	41	-	62



Notes to the Consolidated Financial Statements

31 December 2022 (All figures in US$ Million)

22 CREDIT COMMITMENTS AND CONTINGENT ITEMS (CONTINUED)

An analysis of changes in the ECL allowances are as follows:

	2022				
	Stage 1	**Stage 2**	**Stage 3**	**POCI**	**Total**
As at 1 January	**12**	**9**	**41**	**-**	**62**
Transfers to stage 1	**-**	**-**	**-**	**-**	**-**
Transfers to stage 1	**(3)**	**3**	**-**	**-**	**-**
Transfers to stage 1	**-**	**(1)**	**1**	**-**	**-**
Net transfers between stages	**(3)**	**2**	**1**	**-**	**-**
Additions	**1**	**-**	**3**	**-**	**4**
Recoveries / write back	**-**	**-**	**(4)**	**-**	**(4)**
Charge for the year - net	**1**	**-**	**(1)**	**-**	**-**
Amounts written-off	**-**	**-**	**-**	**-**	**-**
Exchange adjustments and other movements	**(3)**	**(2)**	**(13)**	**-**	**(18)**
As at 31 December	**7**	**9**	**28**	**-**	**44**

	2021				
	Stage 1	Stage 2	Stage 3	POCI	Total
As at 1 January	12	13	32	-	57
Transfers to stage 1	2	(2)	-	-	-
Additions	-	(1)	16	-	15
Recoveries / write back	-	-	-	-	-
Charge for the year - net	-	(1)	16	-	15
Exchange adjustments and other movements	(2)	(1)	(7)	-	(10)
As at 31 December	12	9	41	-	62

The Group expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments.

The Group is engaged in litigation in various jurisdictions. The litigation involves claims by and against the Group 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.

23 SIGNIFICANT NET FOREIGN CURRENCY EXPOSURES

Significant net foreign currency exposures, arising mainly from investments in subsidiaries, are as follows:

	2022		2021	
Long (short)	Currency	US$ equivalent	Currency	US$ equivalent
Brazilian Real	3,366	637	2,920	524
Pound Sterling	(5)	(6)	21	29
Egyptian Pound	8,886	359	8,458	538
Jordanian Dinar	87	123	104	147
Algerian Dinar	22,828	166	22,340	161
Tunisian Dinar	83	27	124	43
Euro	83	89	37	42
Bahraini Dinar	14	37	(17)	(44)
Omani Riyal	2	5	21	55

24 FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table provides the fair value measurement hierarchy of the Group's financial assets and financial liabilities.

24.1 31 December 2022

Quantitative disclosure of fair value measurement hierarchy for assets as at 31 December 2022:

Financial assets measured at fair value (net of ECL):

	Level 1	Level 2	Total
Trading securities	590	-	590
Non-trading investments	5,757	911	6,668
Loans and advances	-	726	726
Derivatives held for trading	324	541	865
Derivatives held as hedges	-	103	103

Quantitative disclosure of fair value measurement hierarchy for liabilities as at 31 December 2022:

Financial liabilities measured at fair value:

	Level 1	Level 2	Total
Derivatives held for trading	323	482	805
Derivatives held as hedges	-	4	4

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24 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

24.1 31 December 2022 (continued)

Fair values of financial instruments not carried at fair value

Except for the following, the fair value of financial instruments which are not carried at fair value are not materially different from their carrying value.

	Carrying value	Fair value
Financial assets		
Non-trading investments at amortised cost - gross (level 1 and level 2)	**1,397**	**1,354**
Financial liabilities		
Borrowings - perpetual (level 1)	**92**	**97**

24.2 31 December 2021

Quantitative disclosure of fair value measurement hierarchy for assets as at 31 December 2021:

Financial assets measured at fair value (net of ECL):

	Level 1	Level 2	Total
Trading securities	902	-	902
Non-trading investments	5,905	762	6,667
Loans and advances	-	621	621
Derivatives held for trading	396	259	655
Derivatives held as hedges	-	11	11

Quantitative disclosure of fair value measurement hierarchy for liabilities as at 31 December 2021:

Financial liabilities measured at fair value:

	Level 1	Level 2	Total
Derivatives held for trading	403	203	606
Derivatives held as hedges	-	87	87

Fair values of financial instruments not carried at fair value

Except for the following, the fair value of financial instruments which are not carried at fair value are not materially different from their carrying value.

	(Restated)	
	Carrying value	Fair value
Financial assets		
Non-trading investments at amortised cost - gross (level 1 and level 2)	1,723	1,704
Financial liabilities		
Borrowings - perpetual (level 1)	85	87

Financial instruments in level 1

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting 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 2022 (31 December 2021: none).

25 RISK MANAGEMENT

25.1 Introduction

Risk is inherent in the Group's activities and is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. The Group is exposed to credit risk, liquidity risk, operational risk, market risk, legal risk and strategic risk as well as other forms of risk inherent in its financial operations.

The Group continues to invest to strengthen its comprehensive and robust risk management infrastructure. This includes risk identification processes under credit, market and operational risk spectrums, risk measurement models and rating systems as well as a strong business process to monitor and control these risks.

25.2 Risk management structure

Executive Management is responsible for implementing the Group's Risk Appetite and Policy Guidelines set by the Board Risk Committee (BRC), including the identification and evaluation on a continuous basis of all material risks to the business and the design and implementation of appropriate internal controls to mitigate them. This is done through the Board Committees, Senior Management Committees, the Credit & Risk Group, Compliance and Balance Sheet Management Group functions at Head Office.

Within the broader governance framework, the Board Committees carry out the main responsibility for best practice of risk management and oversight. The BRC oversees the establishment of the risk appetite framework, risk capacity and risk appetite statement. BRC is supported by two management level committees – Group Risk Committee (GRC) and Group Asset Liability Committee (GALCO). The Board Compliance Committee ("BCC") assists the Board in discharging its governance and oversight responsibilities for the compliance risk management framework of the Bank and of the Bank's compliance with applicable laws and regulations on a group wide basis. The Board Compliance Committee is supported by Group Compliance Oversight Committee (GCOC).

The Board Audit Committee is responsible to the Board for ensuring that the Group maintains an effective system of financial, accounting and risk management controls and for monitoring compliance with the requirements of the regulatory authorities in various countries in which the Group operates.

The GRC defines, develops and monitors the Group's overarching risk management framework considering the Group's strategy and business plans. The GRC is responsible for initiating, discussions and monitoring of key regulations, both local and international, as applicable to the businesses and geographies in which the Group operates. The GRC is assisted by specialised sub-committees to manage Credit Risk (Group Credit Committee), Operational Risk (Group Operational Risk Committee), Model Risk (Group Risk Governance and Analytics Committee) and Operational Resilience (Group Operational Resilience Committee) etc.

The GALCO is responsible for defining Asset and Liability management policy, which includes capital, liquidity & funding and market risk in line with the risk appetite framework. GALCO monitors the Group's capital, liquidity, funding and market

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25 RISK MANAGEMENT (CONTINUED)

25.2 Risk management structure (continued)

risks, stress testing and the Group's risk profile in the context of economic outlook and market developments. GALCO is assisted by technical sub-committees for Capital & Liquidity Management.

The GCOC has the oversight responsibilities relating to maintaining and enforcing a strong and sustainable compliance culture, regulatory compliance, AML and mitigating financial crime. It is also responsible for establishing the operating framework and the processes to support a permanent and an effective compliance function. Reputational risk is managed by the Reputational Risk Committee which is a sub-committee of the GCOC.

The above management structure, supported by teams of risk & credit analysts, and compliance officers, provide a coherent infrastructure to carry out credit, risk, balance sheet management and compliance responsibilities in a seamless manner.

Each subsidiary is responsible for managing its own risks and has its own Board Risk Committee and Management Committees with responsibilities generally analogous to the Group Committees.

25.3 Risk mitigation techniques

25.3.1 Risk mitigation

As part of its overall risk management, the Group uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, equity risks, credit risks, and exposures arising from forecast transactions.

Group Treasury and Financial Markets (GTFM) regularly enters into hedge transactions to manage market risks within its portfolios that are within its delegated authority, and each hedging strategy is approved by appropriate level of committee within the Group. Also, if a hedge becomes ineffective, the Group may decide to accept the risk (and profit or loss volatility) rather than enter into a new hedge relationship.

The Group uses collaterals to reduce its credit risk.

25.3.2 Excessive credit risk concentration

Concentration risk arises when the quantum of exposure to a single obligor or obligor group through ownership, control or interconnectedness is judged to be excessive. Risk concentration can also occur across economic activity, geographic areas or bank products. High levels of concentration in the event of a negative event e.g. changes in economic, political or other conditions may cause the Group to suffer higher than expected losses.

To avoid excessive concentrations of risk, the Group policies and standards include specific guidelines for country, industry, product and single obligor limits aimed at maintaining a diversified portfolio. Where a concentration of risk is identified, action is taken to reduce or mitigate the concentration as appropriate.

25.4 Credit risk

Credit risk occurs when the Group's obligors fail to discharge contractual obligation between it and the Group as expected causing the Group to incur a financial loss. The Group controls credit risk by setting limits on the amount of risk it is willing to accept for an individual obligor within the limit framework described in more detail above under the heading Excessive credit risk concentration. The credit limit assigned to an obligor is based on its risk rating, the collateral posted in support of the facility and the facility maturity. Credit limits are approved at credit committees within a delegated authority framework.

Credit risk is managed by the Group Credit Committee ("GCC"), which is the main credit risk decision-making forum of the Group. GCC has the following roles and responsibilities:

- Review and decision credit proposals in line with its delegated authorities.
- Review and approve Internal Risk Ratings (IRR) and any overrides as applicable.
- Review and approve credit impairment provisions.
- Credit portfolio reviews.
- Review of credit resources and infrastructure.
- Review and recommend the Credit Policies to the BRC for approval.

The first level of protection against undue credit risk is through country, industry single obligor and other risk threshold limits, together with customer credit limits, set by the BRC and the GCC and allocated between the Bank and its

banking subsidiaries. Credit exposure to individual customers or customer groups is then controlled through a tiered hierarchy of delegated approval authorities based on the risk rating of the customer under the Group's internal credit rating system. Where unsecured facilities sought are considered to be beyond prudential limits, the Group's policies require collateral to mitigate the credit risk in the form of cash, securities, legal charges over the customer's assets or third-party guarantees. The Group also employs Risk Adjusted Return on Capital (RAROC) as a measure to evaluate the risk/reward relationship at the transaction approval stage.

25.4.1 Credit risk assessment and mitigation

Exposure at default (EAD)

The exposure at default (EAD) represents the gross carrying amount of the financial instruments subject to the impairment calculation. EAD for unfunded facilities is calculated by multiplying the outstanding exposure with the credit conversion factor (CCF) ranging from 20% to 100%.

To calculate the EAD for a Stage 1 loan, the Group assesses the possible default events and the cash flows within 12 months for the calculation of the 12 months ECL. For Stage 2, Stage 3 and POCI, the EAD is considered for events over the lifetime of the instruments.

Internal Risk Rating (IRR) and the Probability of Default (PD) estimation process

The Group assigns an IRR to each obligor which maps to the Group's assessment of PD for the obligor. The IRR scale is aligned to that of the international rating agencies (see below). An obligor's IRR is reviewed at least annually.

The Group uses internal rating models tailored to the various categories of counterparties that consider an obligor's financial standing, geographic location, its industry plus additional relevant information added through selective qualitative inputs to derive the IRR.

The credit grades are calibrated such that the risk of default increases exponentially as the credit quality weakens.

Credit Risk Rating Scale

The Group's rating method comprises 20 rating levels covering Stages 1 & 2 (1 to 8) and three default classes covering Stage 3 (9 to 11). The master scale maps the internal risk rating (IRR) to a percentage point which indicates a probability of default. The strongest credits are rated '1' as the credit quality weakens so the IRR increases in value. Obligors with an IRR of 4- or better are investment grade, whilst IRR of 5+ or weaker are non-investment grade.

Rating models and process is subject to periodic validation and recalibration in order to ensure that the PD accurately reflects current market default experience

The Group's internal credit rating grades along with the respective TTC PDs are as below:

Internal rating grades	Internal rating grade description	PD range (%)
01 to 04-	Superior	>= 0.00% to <0.49%
05+ to 05-	Satisfactory	>= 0.49% to <1.52%
06+ to 06-	Satisfactory	>= 1.52% to <5.02%
07+ to 07-	Marginal	>= 5.02% to <17.32%
08	Watchlist	>= 17.32%

The PDs obtained as above are then adjusted for IFRS 9 ECL calculations to incorporate forward looking information. This is repeated for each economic scenario as appropriate.

Loss given default (LGD)

The credit risk mitigation assessment is based on a standardised LGD framework. The Group uses models to calculate the LGD values based on the collateral type and value, obligor rating, economic scenarios, seniority of tranche, industry and country of the borrower, etc.

The Group segments its retail lending products into smaller homogeneous portfolios, based on key characteristics that are relevant to the estimation of future cash flows. The applied data is based on historically collected loss data and involves a wider set of transaction characteristics (e.g., product type, wider range of collateral types) as well as borrower characteristics.

Definition of default and cure

The Group considers a contract to be in default, if the terms of that contract have not been met. If the contractual repayments on a facility are 90 days past due the facility is moved to Stage 3 and specific ECL is recorded.

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25 RISK MANAGEMENT (CONTINUED)

25.4 Credit risk (continued)

25.4.1 Credit risk assessment and mitigation (continued)

The 90 days past due is rebutted only if there is reasonable and supportive information demonstrating that this does not meet the impairment definition requirements. For example, this may include:

- Non-payment was an administrative oversight or technical fault instead of resulting from the obligor's financial difficulty (or) the management at the Group has strong evidence, that there is no dispute regarding payments and the obligor is likely to pay its outstanding amount, without any loss to the Group.

- For direct loan to the government or the contractors directly working for a government entity and the repayment of the loan is contingent on payment from government entity even though all prerequisite conditions for the payment have been complied with.

As a part of a qualitative assessment of whether a customer is in default, the Group also considers a variety of instances that may indicate unlikeliness to pay. When such events occur, the Group carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate. Such events include:

- Principal and/or interest and / or fees are past due for more than 90 days after the last billing date and/or scheduled payment date, ignoring technical defaults and / or data errors. However, the Group can rebut 90 days past due assumption on a case-by-case basis, only upon prior approval from Group Chief Credit Officer (GCCO) / Group Chief Credit and Risk Officer (GCCRO) (at Head Office level) / Chief Risk Officer (CRO) or CRO (at Subsidiary level), as applicable;

- Any account put on non-accrual status i.e. interest suspended;

- A loan is classified as "Substandard", "Doubtful" or "Loss";

- A covenant breach not waived by the Group;

- Bankruptcy, liquidation, administration, insolvency or similar proceedings have been filed by or against the customer;

- The purchase or origination of a financial asset at a deep discount that reflects an incurred loss;

- Other cases where the assessment of the Bank's GCC / GCCRO / GCCO suggests customers unlikeliness to pay;

The above criteria have been applied to all financial instruments held by the Group and are consistent with the definition of default used for internal credit risk management purposes. The default definition has been applied consistently to model the PD, EAD and LGD throughout the Group's expected loss calculations.

It is the Group's policy to consider a facility as 'cured' when none of the criteria that caused the initial default have been present for at least 12 consecutive months and the existing contract is not in default.

The Bank employs 'cooling-off' periods when moving a cured account from Stage 3 (12 month) to Stage 2 (6 months) to Stage 1. In cases, where the financial assets are originated or purchased at deep discount which reflects the incurred credit loss, the financial asset is classified under POCI and is not eligible for transfers to other stages.

Credit risk grading and PD estimation process

The following are additional considerations for each type of portfolio held by the Group:

Wholesale portfolio

The wholesale portfolio includes obligors across sovereigns, banks, corporates, non-bank financial institutions and small and medium enterprises (SME) sub-sectors.

At the request of the obligor the Bank's first line of defense generates a paper to be considered at a business acceptance committee to confirm the facility is in line with the Bank's strategy and meets the Bank's profitability criteria. If approved at the business acceptance committee, a credit application form (CAF), is presented to the second line of defense which confirms that the request is factually correct and in line with the Bank's policies and standards relating to the risk being underwritten.

The credit risk units of the Group validate the IRR being proposed. The CAF is then presented to a credit committee appropriate to the geography, product, IRR and amount requested for approval.

At a minimum the CAF contains the following information:

- Description of the facility request, the amount, its structure/risk mitigation, its purpose, terms and conditions, source of repayment and a commentary outlining the risks and mitigants to the repayment of the facility.
- Profitability analysis.
- Identification of the model inputs for expected credit loss (ECL) calculation namely, IRR, LGD of the facility through consideration and analysis of:
    - Historical and forecast financial information.
    - Any available relevant economic, sectorial, market, regulatory, reputational, or financial information on the obligor from third parties.
    - Collateral assessment.

Relationship managers in the first line of defence are responsible for day-to-day management of existing credit exposures, and for periodic review of the client and associated risks.

The centralised credit unit in the second line of defence is responsible for:

- Independent credit review of the clients;
- Monitoring and maintaining oversight of the credit portfolio through client reviews, portfolio management information (MI) and key risk indicators (KRIs); and
- Supporting the GCC with reference to its roles and responsibilities.

Retail portfolio

The Group runs its retail lending via a series of product programs which are approved by the relevant credit committees. The Group uses the 'roll rate' methodology for ongoing assessment of the ECL across the retail portfolio. The roll rate methodology uses statistical analysis of historical data on delinquency levels to estimate the amount of ECL that might reasonably be incurred. Management overlays are applied to ensure that the estimate of ECL is appropriate given the prevailing economic conditions at the reporting date.

Treasury portfolio

For debt securities in the non-trading portfolio, external rating agency credit grades are used unless the Bank has a different view on the IRR. These published credit ratings are continuously monitored and updated. The external ratings are mapped to the Group's internal ratings scale and the PD's associated with each grade are used for the ECL computation.

Significant increase in credit risk (SICR)

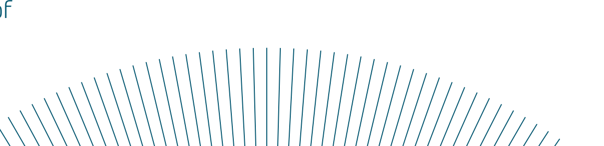
Obligors or specific facilities (or financial instruments) that have experienced an SICR since initial recognition are moved to Stage 2. The Group monitors its portfolio to determine if an SICR event has occurred. The monitoring is undertaken in two ways:

- Through the annual and ad-hoc thematic review process and the regrading of the IRR and staging as appropriate;
- Mechanical observation of past due (see below) or notch movement of the IRR from inception to date; and
- Other qualitative factors such as obligors assigned to close monitoring, restructured / forbearance facilities, etc.

Further, the Group has used the low credit risk (LCR) expedient which includes all exposures meeting the following criteria:

- All local currency sovereign exposures funded in local currency;
- All local currency exposures to the government of the Kingdom of Bahrain or Central Bank of Bahrain; and
- All exposures with external rating A- or above.

A backstop is applied, and the financial instrument is considered to have experienced SICR if the borrower is more than 30 days past due on its contractual payments.



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25 RISK MANAGEMENT (CONTINUED)

25.4 Credit risk (continued)

25.4.1 Credit risk assessment and mitigation (continued)

ECL measurement

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarised below:

- A financial instrument that is not credit-impaired on initial recognition or where the credit risk has not significantly increased since initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the Group.

- If a SICR since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired. Please refer above for a description of how the Group determines when a SICR has occurred.

- If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'.

- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis.

- A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward-looking information.

The following diagram summarises the impairment requirements under IFRS 9 (other than purchased or originated credit-impaired financial assets):

Change in credit quality since initial recognition

Stage 1	Stage 2	Stage 3
(Initial recognition)	Significant increase in credit risk (since initial recognition)	(Default or credit-impaired assets)
12-month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses (specific provisions)

Measuring ECL – Explanation of inputs, assumptions and estimation techniques

The ECL is measured on either a 12-month (12m) or lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. Expected credit losses are the discounted product of PD, EAD and LGD, defined as follows:

The PD represents the likelihood of a borrower defaulting on its financial obligation (as per "Definition of default" above), either over the next 12 months (12m PD), or over the remaining lifetime (Lifetime PD) of the obligation.

EAD is based on the amounts the Group expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD). For example, for a revolving commitment, the Group includes the current drawn balance plus any further amount that is expected to be drawn up to the current contractual limit by the time of default, should it occur.

LGD represents the Group's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim, availability of collateral or other credit support, geography and industry. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD). LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be made if the default occurs in the next 12 months and Lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

The ECL is determined by projecting the PD and LGD for each future month and for each individual exposure. The three components (PD, LGD and EAD) are multiplied together and the projected PD is adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in an earlier month). This effectively calculates an ECL for each future month, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

The Lifetime PD is developed by applying the forward-looking information on 12-month PD over the maturity of the loan. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band.

For amortising products and bullet repayment loans, this is based on the contractual repayments owed by the borrower over a 12 month or lifetime basis.

For revolving products, the exposure at default is predicted by taking current drawn balance and adding a "credit conversion factor" which allows for the expected drawdown of the remaining limit by the time of default. These assumptions vary by product type.

For secured products, this is primarily based on collateral values after applying approved haircuts depending on the collateral type. Further, the Group has applied LGD floors with respect to the fully secured portion of the portfolio depending on the collateral type.

For unsecured products, LGD's are computed based on models which consider several factors such as country, industry, PD, etc. which consider the recoveries made post default.

Forward-looking economic information is also included in determining the 12-month and lifetime PD and LGD. These assumptions vary by country of exposure. Refer to note 4 and below for an explanation of forward-looking information and its inclusion in ECL calculations.

The assumptions underlying the ECL calculation – such as how the maturity profile of the PDs and how collateral values change, etc., are monitored and reviewed on a quarterly basis. The calculation of ECL involves significant accounting judgements, estimates and assumptions. These are set out in note 4.19 and note 4.33. There have been no significant changes in the ECL methodology during the year.

Assessment and calculation of ECL in the current macroeconomic environment

Considering the current scenario, the Group has applied management overlays on the model ECL estimates considering the impacts of Russia-Ukraine conflict on the oil prices, rising interest rate environment led by the Fed, and the global inflation. As with any economic forecasts, the projections and likelihoods of the occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected.

The Group's models have been constructed and calibrated using historical trends and correlations as well as forward looking economic scenarios. The complexity caused by the various support schemes and regulatory guidance across the main regions in which the Group operates present modelling challenges for the time being. As a consequence, the existing models may generate results that are either overly conservative or overly optimistic depending on the specific portfolio / segment. As a result, post-model adjustments maybe needed. Given model changes take a significant amount of time to develop and test and the data limitation issues noted above, the Group expects that post model adjustments will be applied where relevant.

Additional information and sensitivity analysis in respect of the inputs to the ECL model under multiple economic scenarios is provided under economic variable assumptions below:

Economic variable assumptions

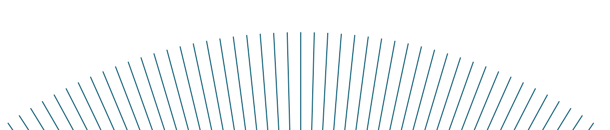
An overview of the approach to estimating ECLs is set out above and in note 4.19. The Bank uses independent third party data (Moody's and IMF) as inputs in its ECL calculation process. The Group's Credit Risk Department verifies the accuracy of inputs to the Group's ECL models including determining the weights attributable to the multiple scenarios.

The most significant assumptions affecting the ECL allowance are as follows:

(i) GDP, given the significant impact on companies' performance and collateral valuations;

(ii) Oil price, given its impact on the region's economies in which the Bank and the majority of the Group's subsidiaries are domiciled and operated; and

(iii) Equity index, given its impact on the economy and co-relation to ECL where relevant.



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25 RISK MANAGEMENT (CONTINUED)

25.4 Credit risk (continued)

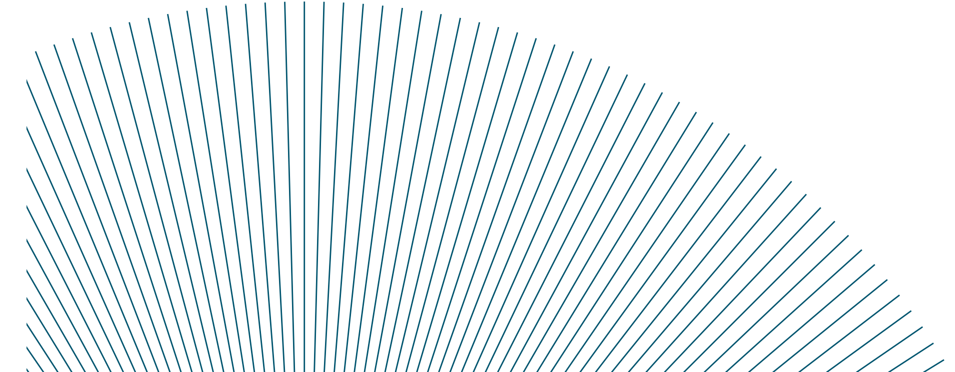
25.4.1 Credit risk assessment and mitigation (continued)

Economic variable assumptions (continued)

The following table sets out the key macroeconomic variables of ECL calculation and weightages used for scenarios showing increase /decrease in comparison to 2022 as base year (2021 as base year for assumptions used in 2021):

Assumptions used in 2022

Key macroeconomic variables used	ECL scenario and assigned weightage	2023	2024	2025	2026	2027
GDP growth rate*	Base (40%)	[- 0.8%, 5.8%]	[0.4%, 11.1%]	[1.8%, 16.6%]	[3%, 22.2%]	[4.4%, 28.1%]
	Upside (30%)	[1.9%, 8.4%]	[3.1%, 13.9%]	[4.3%, 19.5%]	[- 5.5%, 25.3%]	[7.2%, 31.3%]
	Downside (30%)	[- 9.6%, 0.7%]	[- 6.3%, 5.7%]	[- 3.3%, 11.9%]	[- 2.1%, 18.1%]	[- 0.9%, 24.4%]
Oil price	Base (40%)	-11.1%	-24.5%	-25.6%	-24.7%	-23.6%
	Upside (30%)	-8.7%	-24.4%	-25.6%	-24.7%	-23.6%
	Downside (30%)	-33.8%	-36.0%	-27.8%	-27.0%	-25.3%
Equity index*	Base (40%)	[- 2.7%, 31.6%]	[- 3%, 35.2%]	[- 1.9%, 38.7%]	[- 0.4%, 42.2%]	[2.1%, 51%]
	Upside (30%)	[3.3%, 49.8%]	[0.5%, 46.2%]	[0.3%, 45.9%]	[0.3%, 47.9%]	[2.9%, 56.3%]
	Downside (30%)	[- 34.7%, -15.3%]	[- 29.9%, 9.6%]	[-12.9%, 28.7%]	[- 4.5%, 32.5%]	[-0.8%, 41.2%]



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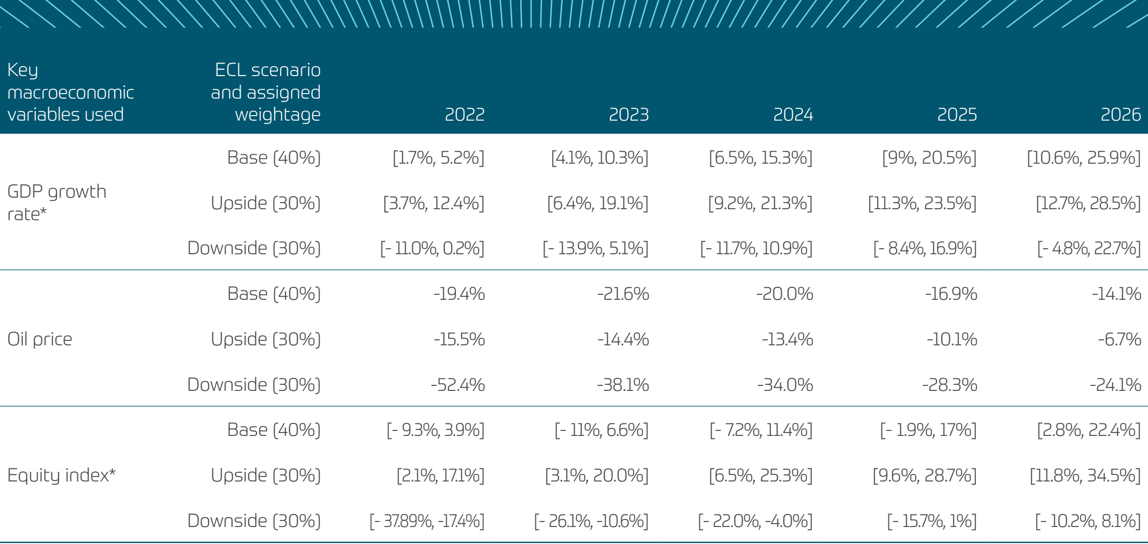
Assumptions used in 2021



Key macroeconomic variables used	ECL scenario and assigned weightage	2022	2023	2024	2025	2026
GDP growth rate*	Base (40%)	[1.7%, 5.2%]	[4.1%, 10.3%]	[6.5%, 15.3%]	[9%, 20.5%]	[10.6%, 25.9%]
	Upside (30%)	[3.7%, 12.4%]	[6.4%, 19.1%]	[9.2%, 21.3%]	[11.3%, 23.5%]	[12.7%, 28.5%]
	Downside (30%)	[- 11.0%, 0.2%]	[- 13.9%, 5.1%]	[- 11.7%, 10.9%]	[- 8.4%, 16.9%]	[- 4.8%, 22.7%]
Oil price	Base (40%)	-19.4%	-21.6%	-20.0%	-16.9%	-14.1%
	Upside (30%)	-15.5%	-14.4%	-13.4%	-10.1%	-6.7%
	Downside (30%)	-52.4%	-38.1%	-34.0%	-28.3%	-24.1%
Equity index*	Base (40%)	[- 9.3%, 3.9%]	[- 11%, 6.6%]	[- 7.2%, 11.4%]	[- 1.9%, 17%]	[2.8%, 22.4%]
	Upside (30%)	[2.1%, 17.1%]	[3.1%, 20.0%]	[6.5%, 25.3%]	[9.6%, 28.7%]	[11.8%, 34.5%]
	Downside (30%)	[- 37.89%, -17.4%]	[- 26.1%, -10.6%]	[- 22.0%, -4.0%]	[- 15.7%, 1%]	[- 10.2%, 8.1%]

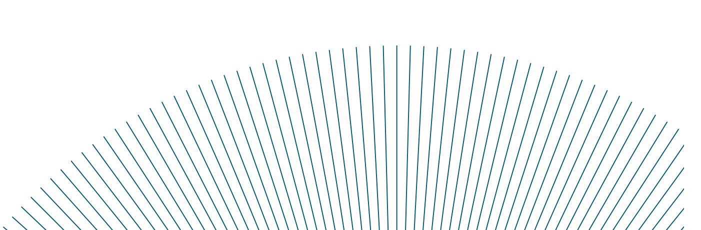
* GDP and equity index are represented as range as they cover the indices of multiple countries the Group operates in.

The above macroeconomic variables are selected based on the regression analysis between the macroeconomic variables and the PD. These economic variables and their associated impact on the PD and LGD vary by country and industry. Forecasts of these economic variables (for all scenarios) are provided by Moody's on a quarterly basis and provide the best estimate view of the economy over future years.

As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The Group considers these forecasts to represent its best estimate of the possible outcomes and has analysed the non-linearities and asymmetries within the Group's different geographies to establish that the chosen scenarios are appropriately representative of the range of possible scenarios.

Sensitivity analysis

Based on the above significant assumptions and changes in each economic variable by +5% and -5% while keeping other key variables constant will result in a change in the ECL (stage 1 and 2) in the range of decrease by -11.2% (2021: decrease by 11.3%) to an increase by 10.7% (2021: increase by 13.9%.)



Notes to the Consolidated Financial Statements

31 December 2022 (All figures in US$ Million)

25 RISK MANAGEMENT (CONTINUED)

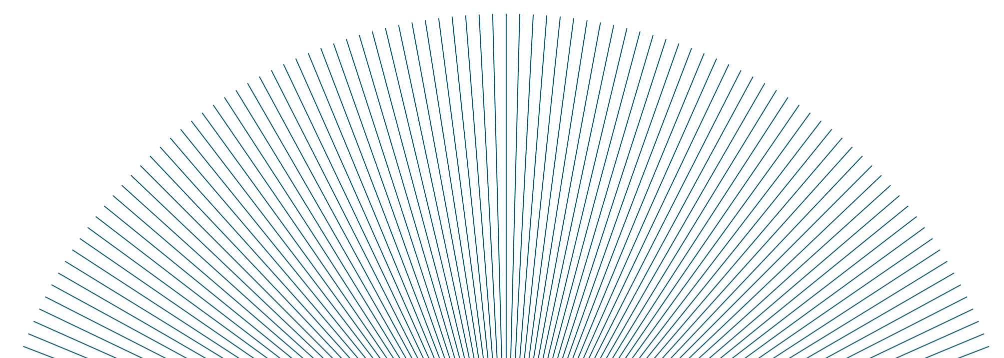
25.4 Credit risk (continued)

25.4.2 Maximum exposure to credit risk without taking account of any collateral and other credit enhancements

The Group's concentration of risk is managed by geographical region and by industry sector. The table below shows the maximum exposure to credit risk for the components of the consolidated statement of financial position, including credit commitments and contingent items. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements.

	Gross maximum exposure	
	2022	(Restated) 2021
Liquid funds	**2,806**	2,580
Trading debt securities	**576**	884
Placements with banks and other financial institutions	**2,226**	3,031
Securities bought under repurchase agreements	**1,386**	698
Non-trading debt investments	**8,065**	8,373
Loans and advances	**18,190**	16,716
Other credit exposures	**2,538**	1,721
	35,787	34,003
Credit commitments and contingent items (note 21)	**7,981**	7,735
Total	**43,768**	41,738

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.



25.4.3 Risk concentration of the maximum exposure to credit risk

The Group's assets (before taking into account any cash collateral held or other credit enhancements) can be analysed by the following geographical regions:

	Assets 2022				
	Stage 1	**Stage 2**	**Stage 3**	**POCI**	**Total**
Western Europe	**3,598**	**196**	**-**	**-**	**3,794**
Arab World	**14,336**	**249**	**102**	**-**	**14,687**
Asia	**841**	**-**	**-**	**-**	**841**
North America	**5,445**	**45**	**-**	**-**	**5,490**
Latin America	**8,836**	**179**	**91**	**-**	**9,106**
Other	**1,869**	**-**	**-**	**-**	**1,869**
Total	**34,925**	**669**	**193**	**-**	**35,787**

	Assets 2021				
	Stage 1	Stage 2	Stage 3	POCI	Total
Western Europe	3,234	180	1	-	3,415
Arab World	15,884	373	70	1	16,328
Asia	1,179	-	-	-	1,179
North America	3,774	69	-	-	3,843
Latin America	7,514	117	38	-	7,669
Other	1,568	1	-	-	1,569
Total	33,153	740	109	1	34,003

The Group's liabilities and equity can be analysed by the following geographical regions:

	Liabilities and equity	
	2022	2021
Western Europe	**3,019**	2,060
Arab World	**23,204**	24,426
Asia	**492**	357
North America	**2,672**	1,147
Latin America	**6,721**	5,635
Other	**531**	1,276
Total	**36,639**	34,901

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31 December 2022 (All figures in US$ Million)

25 RISK MANAGEMENT (CONTINUED)

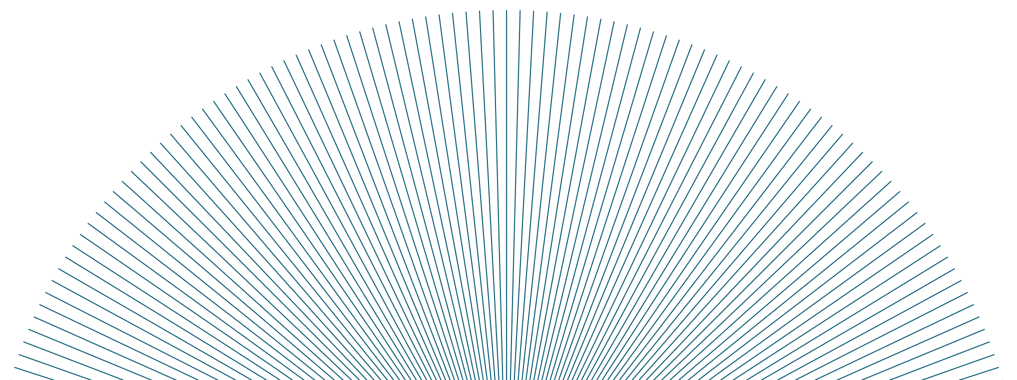
25.4 Credit risk (continued)

25.4.3 Risk concentration of the maximum exposure to credit risk (continued)

The Group's commitments and contingencies can be analysed by the following geographical regions:

	Credit commitments and contingent items				
	2022				
	Stage 1	**Stage 2**	**Stage 3**	**POCI**	**Total**
Western Europe	**1,131**	**46**	**5**	**-**	**1,182**
Arab World	**3,195**	**39**	**36**	**-**	**3,270**
Asia	**135**	**-**	**3**	**-**	**138**
North America	**707**	**37**	**-**	**-**	**744**
Latin America	**2,466**	**9**	**6**	**-**	**2,481**
Other	**146**	**20**	**-**	**-**	**166**
Total	**7,780**	**151**	**50**	**-**	**7,981**

	Credit commitments and contingent items				
	2021				
	Stage 1	Stage 2	Stage 3	POCI	Total
Western Europe	916	54	3	-	973
Arab World	3,284	52	21	-	3,357
Asia	129	1	4	-	134
North America	845	2	-	-	847
Latin America	2,243	5	6	-	2,254
Other	167	3	-	-	170
Total	7,584	117	34	-	7,735



An industry sector analysis of the Group's financial assets (after taking risk transfer into account), before taking into account cash collateral held or other credit enhancements, is as follows:

	Gross maximum exposure 2022				
	Stage 1	**Stage 2**	**Stage 3**	**POCI**	**Total**
Financial services	**12,660**	**15**	**-**	**-**	**12,675**
Government	**7,741**	**-**	**-**	**-**	**7,741**
Other services	**2,458**	**56**	**81**	**-**	**2,595**
Manufacturing	**2,629**	**94**	**17**	**-**	**2,740**
Agriculture, fishing and forestry	**1,544**	**21**	**4**	**-**	**1,569**
Construction	**1,583**	**192**	**14**	**-**	**1,789**
Utilities	**884**	**12**	**-**	**-**	**896**
Energy	**1,093**	**2**	**-**	**-**	**1,095**
Distribution	**1,021**	**33**	**-**	**-**	**1,054**
Personal / consumer finance	**1,434**	**12**	**6**	**-**	**1,452**
Transport	**538**	**69**	**9**	**-**	**616**
Commercial real estate financing	**251**	**70**	**-**	**-**	**321**
Technology, media and telecommunications	**540**	**1**	**4**	**-**	**545**
Trade	**216**	**60**	**53**	**-**	**329**
Retailers	**235**	**20**	**-**	**-**	**255**
Mining and quarrying	**61**	**12**	**5**	**-**	**78**
Residential mortgage	**37**	**-**	**-**	**-**	**37**
Total	**34,925**	**669**	**193**	**-**	**35,787**

	Gross maximum exposure 2021				
	Stage 1	Stage 2	Stage 3	POCI	Total
Financial services	11,550	19	1	-	11,570
Government	5,905	-	-	-	5,905
Other services	4,125	44	31	-	4,200
Manufacturing	2,741	110	23	-	2,874
Agriculture, fishing and forestry	1,283	13	2	-	1,298
Construction	1,245	219	12	-	1,476
Utilities	1,169	-	-	-	1,169
Energy	1,122	22	-	-	1,144
Distribution	891	8	1	-	900
Personal / consumer finance	884	59	6	1	950
Transport	587	13	11	-	611
Commercial real estate financing	517	59	-	-	576
Technology, media and telecommunications	473	-	18	-	491
Trade	299	121	1	-	421
Retailers	245	37	-	-	282
Mining and quarrying	75	16	3	-	94
Residential mortgage	42	-	-	-	42
Total	33,153	740	109	1	34,003

Notes to the Consolidated Financial Statements

31 December 2022 (All figures in US$ Million)

25 RISK MANAGEMENT (CONTINUED)

25.4 Credit risk (continued)

25.4.3 Risk concentration of the maximum exposure to credit risk (continued)

An industry sector analysis of the Group's financial assets, after taking into account cash collateral held or other credit enhancements, is as follows:

	Net maximum exposure	
	2022	2021
Financial services	**11,557**	10,339
Government	**7,712**	5,814
Other services	**2,625**	4,126
Manufacturing	**2,722**	2,822
Agriculture, fishing and forestry	**1,561**	1,291
Construction	**1,782**	1,430
Utilities	**896**	1,168
Energy	**1,095**	1,144
Distribution	**1,054**	892
Personal / consumer finance	**1,452**	869
Transport	**610**	610
Commercial real estate financing	**321**	576
Technology, media and telecommunications	**544**	490
Trade	**319**	418
Retailers	**255**	281
Mining and quarrying	**78**	94
Total	**34,583**	32,364

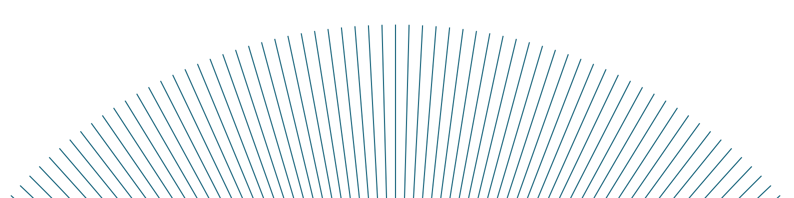
An industry sector analysis of the Group's credit commitments and contingent items, before taking into account cash collateral held or other credit enhancements, is as follows:

	Gross maximum exposure 2022				
	Stage 1	Stage 2	Stage 3	POCI	Total
Financial services	2,813	47	2	-	2,862
Government	64	-	-	-	64
Other services	669	2	-	-	671
Manufacturing	867	40	7	-	914
Agriculture, fishing and forestry	117	-	-	-	117
Construction	1,073	53	28	-	1,154
Utilities	698	-	1	-	699
Energy	264	-	1	-	265
Distribution	115	6	1	-	122
Personal / consumer finance	341	1	-	-	342
Transport	380	-	6	-	386
Commercial real estate financing	24	-	-	-	24
Technology, media and telecommunications	151	-	2	-	153
Trade	101	2	2	-	105
Retailers	68	-	-	-	68
Mining and quarrying	35	-	-	-	35
Total	7,780	151	50	-	7,981

	Gross maximum exposure				
	2021				
	Stage 1	Stage 2	Stage 3	POCI	Total
Financial services	2,645	49	-	-	2,694
Government	57	-	-	-	57
Other services	698	1	2	-	701
Manufacturing	941	37	3	-	981
Agriculture, fishing and forestry	154	-	-	-	154
Construction	980	6	16	-	1,002
Utilities	802	3	4	-	809
Energy	234	-	1	-	235
Distribution	101	1	-	-	102
Personal / consumer finance	84	-	-	-	84
Transport	412	13	6	-	431
Commercial real estate financing	51	-	-	-	51
Technology, media and telecommunications	142	-	2	-	144
Trade	118	5	-	-	123
Retailers	139	2	-	-	141
Mining and quarrying	26	-	-	-	26
Total	7,584	117	34	-	7,735

An industry sector analysis of the Group's credit commitments and contingent items, after taking into account cash collateral held or other credit enhancements, is as follows:

	Net maximum exposure	
	2022	2021
Financial services	**2,697**	2,550
Government	**56**	50
Other services	**666**	694
Manufacturing	**908**	974
Agriculture, fishing and forestry	**114**	152
Construction	**1,117**	974
Utilities	**698**	804
Energy	**262**	233
Distribution	**120**	100
Personal / consumer finance	**342**	84
Transport	**380**	424
Commercial real estate financing	**24**	51
Technology, media and telecommunications	**152**	143
Trade	**99**	114
Retailers	**68**	141
Mining and quarrying	**35**	26
Total	**7,738**	7,514



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31 December 2022 (All figures in US$ Million)

25 RISK MANAGEMENT (CONTINUED)

25.4 Credit risk (continued)

25.4.4 Credit quality per class of financial assets

The credit quality of financial assets is managed by the Group using internal credit ratings. The table below shows the credit quality by class of financial asset, based on the Group's credit rating system.

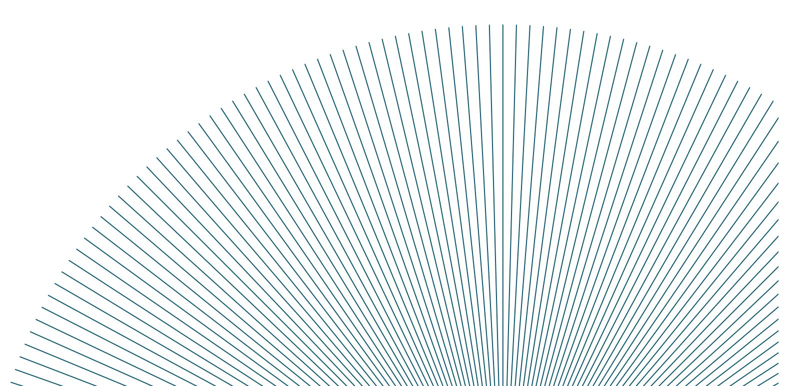
31 December 2022	Neither past due nor impaired		Past due but not impaired	Past due and individually impaired	Total
	High grade	Standard grade			
Liquid funds	2,411	395	-	-	2,806
Trading debt securities	271	305	-	-	576
Placements with banks and other financial institutions	705	1,521	-	-	2,226
Securities bought under repurchase agreements	-	1,386	-	-	1,386
Non-trading debt investments	4,501	3,564	-	-	8,065
Loans and advances	3,859	14,006	133	192	18,190
Other credit exposures	2,175	362	-	1	2,538
	13,922	21,539	133	193	35,787

31 December 2021 (Restated)	Neither past due nor impaired		Past due but not impaired	Past due and individually impaired	Total
	High grade	Standard grade			
Liquid funds	2,117	463	-	-	2,580
Trading debt securities	538	346	-	-	884
Placements with banks and other financial institutions	813	2,218	-	-	3,031
Securities bought under repurchase agreements	-	698	-	-	698
Non-trading debt investments	4,713	3,657	-	3	8,373
Loans and advances	3,672	12,874	64	106	16,716
Other credit exposures	1,509	211	-	1	1,721
	13,362	20,467	64	110	34,003

The table below shows the credit quality by class of financial asset net ECL, based on internal credit ratings.

31 December 2022	Liquid funds	Trading debt securities	Placements with banks and other financial institutions	Securities bought under repurchase agreements	Non-trading debt investments	Loans and advances
Stage 1 (12-month ECL)						
Rating grades 1 to 4-	2,409	271	705	-	4,501	3,852
Rating grades 5+ to 5-	115	301	259	868	1,431	7,234
Rating grades 6+ to 6-	275	4	1,210	518	2,069	5,529
Rating grade 7+ to 7-	5	-	52	-	64	712
Carrying amount (net)	2,804	576	2,226	1,386	8,065	17,327
Stage 2 (Lifetime ECL but not credit-impaired)						
Rating grades 1 to 4-	2	-	-	-	-	7
Rating grades 5+ to 5-	-	-	-	-	-	29
Rating grades 6+ to 6-	-	-	-	-	-	179
Rating grade 7+ to 7-	-	-	-	-	-	145
Rating grade 8	-	-	-	-	-	311
Carrying amount (net)	2	-	-	-	-	671
Stage 3 (Lifetime ECL and credit-impaired)						
Rating grades 9 to 11	-	-	-	-	-	192
Carrying amount (net)	-	-	-	-	-	192
POCI	-	-	-	-	-	-
Total	2,806	576	2,226	1,386	8,065	18,190

Other credit exposures are not internally rated, hence, not included in the above table.



Notes to the Consolidated Financial Statements

31 December 2022 (All figures in US$ Million)

25 RISK MANAGEMENT (CONTINUED)

25.4 Credit risk (continued)

25.4.4 Credit quality per class of financial assets (continued)

31 December 2021 (Restated)	Liquid funds	Trading debt securities	Placements with banks and other financial institutions	Securities bought under repurchase agreements	Non-trading debt investments	Loans and advances
Stage 1 (12-month ECL)						
Rating grades 1 to 4-	2,117	538	813	-	4,713	3,672
Rating grades 5+ to 5-	237	332	293	79	1,066	6,788
Rating grades 6+ to 6-	225	14	1,899	619	2,546	5,388
Rating grade 7+ to 7-	-	-	19	-	45	30
Carrying amount (net)	2,579	884	3,024	698	8,370	15,878
Stage 2 (Lifetime ECL but not credit-impaired)						
Rating grades 1 to 4-	-	-	-	-	-	-
Rating grades 5+ to 5-	-	-	-	-	-	43
Rating grades 6+ to 6-	1	-	7	-	-	221
Rating grade 7+ to 7-	-	-	-	-	-	201
Rating grade 8	-	-	-	-	-	267
Carrying amount (net)	1	-	7	-	-	732
Stage 3 (Lifetime ECL and credit-impaired)						
Rating grades 9 to 11	-	-	-	-	3	105
Carrying amount (net)	-	-	-	-	3	105
POCI	-	-	-	-	-	1
Total	2,580	884	3,031	698	8,373	16,716

Other credit exposures are not internally rated, hence, not included in the above table.

It is the Group's policy to maintain accurate and consistent risk ratings across the credit portfolio through a risk rating system. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of credit risk. All internal ratings are tailored to the various categories and are derived in accordance with the Group's credit policy. The attributable risk ratings are assessed and updated regularly. Each risk rating class has grades equivalent to Moody's, S&P, Fitch and CI rating agencies.

24.4.5 Carrying amount per class of financial assets whose terms have been renegotiated as at year-end

	2022	2021
Loans and advances*	**351**	527

* This includes loans deferrals granted on account of COVID-19 amounting to US$ nil (2021: US$ 108 million).

25.4.6 Overview of modified or forborne loans

From a risk management point of view, once an asset is forborne or modified, the Group's Remedial Loan Unit (RLU) continues to monitor the exposure until it is completely and ultimately derecognised.

Due to COVID-19, central banks of various jurisdictions, where the Group operates, either required or recommended the Group to voluntarily provide payment deferrals or other forms of customer support in prior years. Accordingly, the Group provided obligors seeking forbearance in the form of a deferral of repayments or interest as a result of the impact of COVID-19 in line with local regulatory guidelines in each jurisdiction. The staging and ECL estimation for such customers and any associated reporting are also done in line with regulatory guidance. The Group assessed the deferral requests received on a case-by-case basis in compliance with the CBB circulars relating to Covid-19. As the Group has not granted any interest waiver requests, no modification loss has been recognised during the years ended 31 December 2022 and 2021. Further, forbearances granted were approved by appropriate governance and local regulatory guidelines were applied for staging and ECL purposes. The Group provided forbearances to its Stage 1 customers in relation to reliefs allowed by the CBB with respect to COVID-19, with a corresponding outstanding of nil as on 31 December 2022 (2021: US$ 396 million).

25.4.7 Collateral and other credit enhancements

The amount and type of collateral depends on an assessment of the credit risk of the counterparty. The types of collateral mainly include cash, guarantees from banks, movable and immovable assets.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses. The Group also makes use of master netting agreements with counterparties.

Credit exposure loan to value ratios of real estate portfolio

The real estate credit exposure of the Group amounts to US$1,576 million (2021: US$1,428 million). The average loan to value ratios for this exposure is 47% (2021 average: 49%).

Notes to the Consolidated Financial Statements

31 December 2022 (All figures in US$ Million)

25 RISK MANAGEMENT (CONTINUED)

25.4.8 Maximum exposure to credit risk – Financial instruments not subject to impairment

The following table contains an analysis of the maximum credit risk exposure from financial assets not subject to impairment (i.e. FVTPL):

	Maximum exposure to credit risk	
	2022	2021
Trading securities		
- Debt Securities	**576**	884
Trading derivatives	**865**	655
Hedging derivatives	**103**	11
Financial assets designated at FVTPL		
- Loans and advances to customers	**95**	152

25.5 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 through a settlement agent to ensure that a trade is settled only when both parties fulfil their settlement obligations. Settlement approvals form a part of credit approval and limit monitoring procedure.

25.6 Market risk

Market risk is the risk that the Group's earnings or capital, or its ability to support business strategy, will be impacted by the change in market rates or prices related to interest rates, equity prices, credit spreads, foreign exchange rates, and commodity prices.

The Group has established risk management policies and limits within which exposure to market risk is monitored and measured by the Risk Management Department (RMD) with strategic oversight exercised by GALCO. The RMD's Market Risk (MR) unit is responsible for developing and implementing market risk policy, risk measuring/monitoring methodology and product limits prior to GALCO approval. The unit also has the responsibility to measure and report market risk against limits throughout the Group.

The Group manages market risk by classifying into two types: a) trading market risk; and b) investment market risk. Trading market risk arises primarily from positions held in the trading books from market-making to support client activities. This involves the management of client originated exposures in interest rates, equities, corporate and sovereign debt, foreign exchange rates, commodities and derivatives of these asset classes, such as forwards, futures, options and swaps. Trading market risk may also arise from positions originated by the Bank subject to the market risk appetite and limits defined by the GALCO and BRC.

Investment market risk arises from market factors affecting securities held in high quality liquid assets (HQLA) portfolio and liquid marketable securities which are held under its FVOCI portfolio and where the impact of the changes in fair value due to market factors is through FVOCI.

The trading and investment market risks are managed by MR using a full suite of market risk limits including Value at Risk, sensitivity limits on key market parameters, notional limits on the size of investment portfolios, stop-loss limits and also stress testing to monitor the impact of significant market moves. These limits are monitored by MR and reported daily to business lines and management.

25.7 Interest rate risk in the banking book

Interest rate risk in the banking book refers to current or prospective risk to the Group's capital and earnings arising from adverse movements in interest rates that affect future profitability or the fair values of financial instruments . The Group is exposed to interest rate risk as a result of mismatches of interest rate re pricing of assets and liabilities. This risk is minimised as the Group's rate sensitive assets and liabilities are mostly floating rate, where the duration risk is lower. The Group has set risk limits for both earnings at risk (EAR) and economic value of equity (EVE) for interest rate risk in the banking book (IRRBB). In general, the Group uses matched currency funding and translates fixed rate instruments to floating rate to better manage the duration in the asset book.

The sensitivity of the consolidated statement of profit or loss is the effect of the assumed changes in interest rates on the net interest income for one year, based on financial assets and financial liabilities held at 31 December, including the effect of hedging instruments. The sensitivity of equity is calculated by revaluing fixed rate FVOCI financial assets, including the effect of any associated hedges and swaps. Substantially all the FVOCI non-trading securities held by the Group are floating rate assets. Hence, the sensitivity to changes in equity due to interest rate changes is minimal.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's consolidated statement of profit or loss.

	2022			
	Increase in basis points	**Sensitivity consolidated statement of profit or loss**	**Decrease in basis points**	**Sensitivity consolidated statement of profit or loss**
US Dollar	**25**	**-**	**25**	**-**
Euro	**25**	**1**	**25**	**(1)**
Pound Sterling	**25**	**-**	**25**	**-**
Brazilian Real	**25**	**2**	**25**	**(2)**
Others	**25**	**1**	**25**	**(1)**

	2021			
	Increase in basis points	Sensitivity consolidated statement of profit or loss	Decrease in basis points	Sensitivity consolidated statement of profit or loss
US Dollar	25	4	25	-
Euro	25	-	25	-
Pound Sterling	25	1	25	(1)
Brazilian Real	25	2	25	(2)
Others	25	1	25	(1)

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25 RISK MANAGEMENT (CONTINUED)

25.7 Interest rate risk in the banking book (continued)

Managing interest rate benchmark reform and associated risks

The IBOR reforms exposes the Group to risks including risks relating to interest rate basis, pricing, operations and information system.

The Group has, in accordance with the recommendations issued by the regulatory authorities in the United States of America (USA) and United Kingdom (UK), ensured readiness to enter into new contracts referencing the Alternative Reference Rates (ARRs) that are replacing LIBOR in loans, deposits and derivatives including hedge transactions. The Bank has updated core banking systems across its network to support LIBOR transition prioritising three key interest rate methodologies which are anticipated to be the methodologies adopted in the majority of new contracts. The Group has compiled an inventory of existing LIBOR referencing deals on its books and engaged through its client facing RMs in a deal-by-deal contract review to plan for the remediation of these existing contracts to ARRs over the course of next 6 months. The Group established a project team and a steering committee to manage the transition from LIBOR to recommended ARRs such as SONIA and SOFR.

On 5 March 2021 the administrator of LIBOR, the ICE Benchmark Administration, announced that publication of overnight, one-month, three-month, six-month, and 12-month USD LIBOR will cease immediately following the LIBOR publication on 30 June 2023, and that publication of all other currency and tenor variants of LIBOR will cease immediately following the LIBOR publication on 31 December 2021.

On 29 September 2021, the Financial Conduct Authority (FCA) in the UK announced that it will compel the ICE Benchmark Administration to continue to publish one-month, three-month, and six-month Sterling LIBOR and Japanese Yen LIBOR after 31 December 2021, using a “synthetic” methodology that is not based on panel bank contributions. The FCA has indicated that it may also require the ICE Benchmark Administration to publish one-month, three-month, and six-month USD LIBOR after 30 June 2023, using a similar synthetic methodology. These synthetic GBP LIBORs, synthetic JPY LIBORs, and synthetic USD LIBORs are expected to be published for a limited period of time and would not be used in new contracts.

The Group applies temporary reliefs available under phase 1 and 2 amendments which enable its hedge accounting to continue during the period of uncertainty, before the replacement of an existing interest rate benchmark with an ARR. These are explained in note 4.

The Group’s substantial part of the financial instruments is subject to IBOR reforms and the

	2022			2021		
	Change in currency rate in %	**Effect on profit before tax**	**Effect on equity**	Change in currency rate in %	Effect on profit before tax	Effect on equity
Currency						
Brazilian Real	**+/- 5%**	**-**	**+/-31**	+/- 5%	-	+/-26
Pound Sterling	**+/- 5%**	**-**	**-**	+/- 5%	+/-1	-
Egyptian Pound	**+/- 5%**	**-**	**+/-18**	+/- 5%	-	+/-27
Jordanian Dinar	**+/- 5%**	**+/-4**	**+/-10**	+/- 5%	+/-3	+/-10
Algerian Dinar	**+/- 5%**	**-**	**+/-8**	+/- 5%	-	+/-8
Tunisian Dinar	**+/- 5%**	**-**	**-**	+/- 5%	-	+/-1
Bahrain Dinar	**+/- 5%**	**+/-2**	**-**	+/- 5%	+/-2	-
Omani Riyal	**+/- 5%**	**-**	**-**	+/- 5%	+/-3	-
Euro	**+/- 5%**	**+/-1**	**-**	+/- 5%	-	-

Group has already started transitioning these to ARR frameworks. As of 31 December 2022, majority of exposures are either in the process of transitioning or are expected to be transitioned during 2023.

25.8 Currency risk

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

The table below indicates the currencies to which the Group had significant exposure at 31 December 2022 and 31 December 2021 on its monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the US$, with all other variables held constant on the consolidated statement of profit or loss (due to the fair value of currency sensitive trading and non-trading monetary assets and liabilities) and equity (due to the change in fair value of currency swaps and forward foreign exchange contracts used as fair value hedges) and the effect of the impact of foreign currency movements on the structural positions of the Bank in its subsidiaries. A negative amount in the table reflects a potential net reduction in the consolidated statement of profit or loss or equity, while a positive amount reflects a potential net increase.

25.9 Equity price risk

Equity price risk is the risk that the fair values of equities decrease as the result of changes in the levels of equity indices and the value of individual stocks. The non-trading equity price risk exposure arises from the Group's securities portfolio.

The effect on equity (as a result of a change in the fair value of trading equity instruments and equity instruments held at FVOCI) due to a reasonably possible change in equity indices or the net asset values, with all other variables held constant, is as follows:

	2022 Change in		2021 Change in	
	% Change in equity price	Effect on consolidated statement of profit or loss/ equity	% Change in equity price	Effect on consolidated statement of profit or loss/ equity
Trading equities	+/- 5%	+/-1	+/- 5%	+/-1
Equity securities at FVOCI	+/- 5%	+/-1	+/- 5%	+/-1

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25 RISK MANAGEMENT (CONTINUED)

25.10 Operational risk

Operational Risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems including internal frauds, or from external events including external frauds risk.

The Group adheres to the three lines of defence model for the management of operational risk. The business (first line of defence) is supported by independent Operational Risk Management Departments reporting to the local Chief Risk Officers or local Heads of Risk (second line of defence). The management of Operational Risk is subject to independent review by Internal Audit (third line of defence).

The Group Operational Risk Committee (GORCO), as a sub-committee of Group Risk Committee (GRC) assists with the management of Operational Risks across the Group to ensure that the Operational Risk Policy as approved by the BRC, is implemented and monitored across the Group.

The GORCO:

- Defines the policy for the management of Operational Risks and recommends for approval by the GRC and BRC.
- Review and recommend the Operational Risk Appetite and Group Risk Taxonomy.
- Monitors and reviews the Operational Risk losses across various Group businesses and its subsidiaries.
- Defines the various components of the Operational Risk Management Framework at the Group and oversees the implementation of the framework across the Group.
- Oversees the actions taken to maintain losses are in line with the Operational Risk Appetite.

The implementation of the Operational Risk Management Framework is governed by the GORCO. Respective Local Operational Risk Committees oversee the implementation of the Operational Risk Management Framework and the management of Operational Risk across all subsidiaries and branches of the Group. The Group Operational Risk Management Department at Head Office is responsible for the development of the group-wide methodology, quality control and system support.

The Group has implemented the following for the management of Operational Risks:

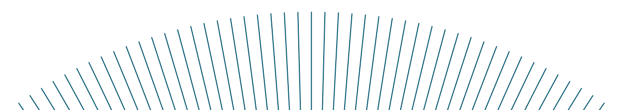
- Operational Risk Appetite, as part of the Group Risk Appetite Statement;
- Standardised Operational Risk Taxonomy
- Incident management;
- Risk & Control Self-Assessments;
- Issue and Action management; and
- Key Risk Indicators.
- Risk Register

All loss events and relevant incidents are captured in a group-wide incident database. The Group has implemented a group-wide Governance, Risk and Compliance solution, GRC platform. This group-wide solution is being used by Audit, Risk and Compliance.

A wide range of management information reports have been tailored to meet the needs of different stakeholders, these also provide information on the Operational Risk profile of the Bank and its subsidiaries.

Operational risk appetite

The Group has its Operational Risk appetite defined to measure Cumutlative Gross and Net Operational Risk Losses and Single Operational Loss Events. In addition a set of Early Warning Indicators are used to monitor different sub risk categories related to operational risk.



In line with the Board-led Group Risk Appetite Statement, Operational Risk metrics are set and monitored by the Board Risk Committee.

25.10.1 Operational resilience

Operational resilience is the ability of the Bank to prevent disruption occurring, to the extent practicable; adapt systems and processes to continue to provide services and functions in the event of an incident; return to normal running promptly when a disruption is over; and learn and evolve from both incidents.

The Bank adheres to the three lines of defense model for the management of operational resilience risk. The business (first line of defence) is supported by an independent Cyber and IT Risk Management Departments (second line of defence). The management of operational resilience risk is subject to independent review by Internal Audit (third line of defence).

The Group Operational Resilience Committee ("GORC") assists GRC with the oversight of the Bank's Operational resilience framework, by such it oversees:

- Information security, including Cyber security
- Information Technology
- Business Continuity, Disaster Recovery and Crisis Management
- Bank's compliance with Privacy laws (Personal Data Protection)
- Outsourcing and Vendor Management (External dependencies)

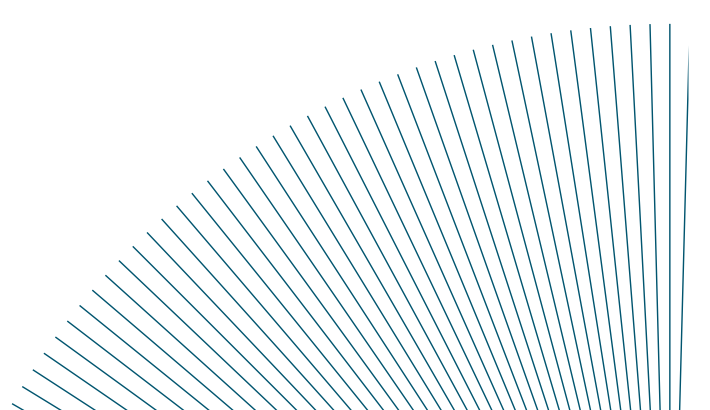
The GORC meets 4 times a year and reviews and recommends to GRC, the Bank's business resilience for each area it oversees.

25.11 Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress conditions. To mitigate this risk, the Group seeks to fund its assets from diversified funding sources. In order to mitigate the liquidity risk, in addition to its core deposit base, maintains an adequate pool of high-quality liquid assets (HQLA) that can be monetised within a short timeframe to meet potential outflows arising from stress. The Group monitors its future cash flows and liquidity daily. This incorporates an assessment of expected cash flows and the availability of high-grade collateral which could be used to secure additional funding if required.

The Group maintains a highly liquid balance sheet with positive asset-liability mismatches. As such, the Group is generally in a position of surplus liquidity, its principal sources of liquidity being its deposit base, liquidity derived from its operations and interbank borrowings. The Liquidity Survival Horizon (LSH) represents the number of days the Group can survive the combined contractual outflow of deposits and loan drawdowns, under severe but plausible stress scenarios.

The Group is required to comply with the liquidity requirements as stipulated by its regulator, the CBB. These requirements relate to maintaining a minimum of 100% for liquidity coverage ratio (LCR) and net stable funding ratio (NSFR). LCR is calculated as a ratio of its stock of high quality liquid assets (HQLA) and net outflows over the next 30 calendar days. NSFR is calculated as a ratio of 'available stable funding' to 'required stable funding'. As at 31 December 2022, the Group's LCR and NSFR were at 225% (31 December 2021: 228%) and 124% (31 December 2021: 128%) respectively.



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31 December 2022 (All figures in US$ Million)

25 RISK MANAGEMENT (CONTINUED)

25.11 Liquidity risk (continued)

	31 December 2022					31 December 2021				
	Unweighted Values (i.e. before applying relevant factors)					Unweighted Values (i.e. before applying relevant factors)				
	No specified maturity	Less than 6 months	Over 6 months and less than one year	Over one year	Total weighted value	No specified maturity	Less than 6 months	Over 6 months and less than one year	Over one year	Total weighted value
Available Stable Funding (ASF):										
Capital:										
Regulatory Capital	3,995	-	-	-	3,995	4,132	-	-	-	4,132
Other Capital Instruments	470	-	-	290	760	82	-	-	265	347
Retail deposits and deposits from small business customers:										
Stable deposits	-	-	91	-	86	-	-	122	-	116
Less stable deposits	-	1,526	241	280	1,871	-	1,500	315	203	1,836
Wholesale funding:										
Operational deposits										
Other wholesale funding	-	16,403	4,056	7,393	12,863	-	16,197	4,402	6,821	12,888
Other liabilities:										
NSFR derivative liabilities	-	-	-	-	-	-	27	-	-	-
All other liabilities not included in the above categories	-	1,084	-	-	-	-	137	-	-	-
Total ASF (A)					19,575					19,319

	31 December 2022					31 December 2021				
	Unweighted Values (i.e. before applying relevant factors)					Unweighted Values (i.e. before applying relevant factors)				
	No specified maturity	**Less than 6 months**	**Over 6 months and less than one year**	**Over one year**	**Total weighted value**	No specified maturity	Less than 6 months	Over 6 months and less than one year	Over one year	Total weighted value
Required Stable Funding (RSF):										
Total NSFR high-quality liquid assets (HQLA)	**7,744**	**88**	**-**	**-**	**452**	8,307	140	-	-	526
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 HQLA and unsecured performing loans to financial institutions	**-**	**4,099**	**819**	**693**	**1,677**	-	3,242	880	972	1,885
Performing loans to non- financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which:	**-**	**7,281**	**2,128**	**5,729**	**9,574**	-	6,372	1,735	5,618	8,829
With a risk weight of less than or equal to 35% as per the CBB Capital Adequacy Ratio guidelines	**-**	**-**	**-**	**100**	**65**	-	-	-	141	92
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	**-**	**231**	**444**	**854**	**1,064**	-	274	626	1,950	2,108
Other assets:										
Physical traded commodities, including gold	**-**	**-**	**-**	**-**	**-**	-	-	-	-	-
Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs	**-**	**-**	**-**	**-**	**-**	-	-	-	-	-
NSFR derivative assets	**-**	**-**	**-**	**-**	**-**	-	-	-	-	-
NSFR derivative liabilities before deduction of variation margin posted	**-**	**-**	**-**	**-**	**-**	-	5	-	-	5
All other assets not included in the above categories	**2,772**	**327**	**18**	**2,214**	**2,504**	2,508	264	68	1,016	1,298
OBS items	**-**	**8,130**	**-**	**-**	**406**	-	7,266	-	-	363
Total RSF (B)					**15,742**					15,106
NSFR (A/B)					**124%**					128%

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25 RISK MANAGEMENT (CONTINUED)

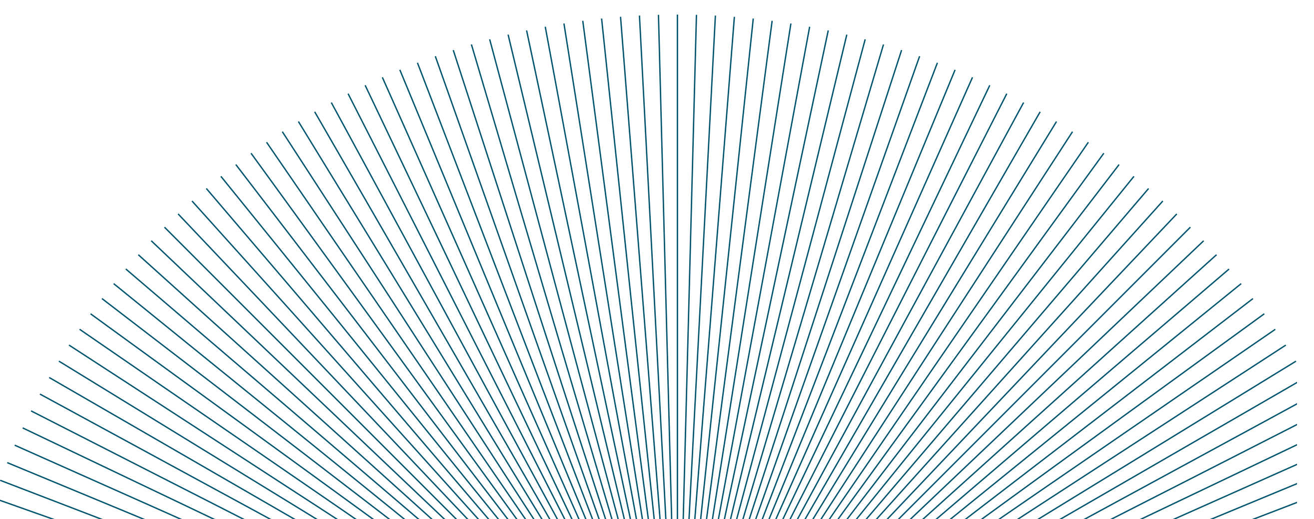
25.11 Liquidity risk (continued)

In addition, the internal liquidity/maturity profile is generated to summarise the actual liquidity gaps versus the revised gaps based on internal assumptions.

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2022 based on contractual undiscounted repayment obligations. See the next table for the expected maturities of these liabilities. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Group's deposit retention history.

At 31 December 2022	Within 1 month	1 - 3 months	3 - 6 months	6 - 12 months	1 - 5 years	5-10 years	Over 10 years and undated	Total
Financial liabilities								
Deposits from customers	7,416	4,534	1,766	3,349	5,310	239	168	22,782
Deposits from banks	1,809	983	548	361	114	2	-	3,817
Certificates of deposits	92	104	16	54	177	-	-	443
Securities sold under repurchase agreements	1,320	379	262	181	882	-	-	3,024
Interest payable and other liabilities	693	-	-	-	-	-	1,571	2,264
Borrowings	-	-	43	84	879	478	100	1,584
Total non-derivative undiscounted financial liabilities on statement of financial position	11,330	6,000	2,635	4,029	7,362	719	1,839	33,914
ITEMS OFF STATEMENT OF FINANCIAL POSITION								
Gross settled foreign currency derivatives	4,239	3,808	1,670	5,651	1,847	1,520	30	18,765
Guarantees	2,738	-	-	-	-	-	-	2,738

At 31 December 2021	Within 1 month	1 - 3 months	3 - 6 months	6 - 12 months	1 - 5 years	5-10 years	Over 10 years and undated	Total
Financial liabilities								
Deposits from customers	6,974	4,383	1,783	3,402	4,582	140	73	21,337
Deposits from banks	2,589	793	416	456	400	2	-	4,656
Certificates of deposits	260	49	56	84	378	1	-	828
Securities sold under repurchase agreements	607	352	140	226	703	-	-	2,028
Interest payable and other liabilities	270	-	-	-	-	-	1,182	1,452
Borrowings	-	-	38	75	296	941	93	1,443
Total non-derivative undiscounted financial liabilities on statement of financial position	10,700	5,577	2,433	4,243	6,359	1,084	1,348	31,744
ITEMS OFF STATEMENT OF FINANCIAL POSITION								
Gross settled foreign currency derivatives	3,216	1,489	1,293	3,757	4,398	329	52	14,533
Guarantees	2,546	-	-	-	-	-	-	2,546



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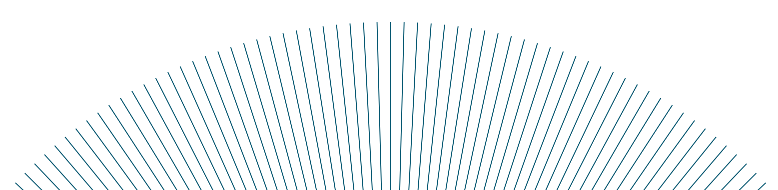
25 RISK MANAGEMENT (CONTINUED)

25.11 Liquidity risk (continued)

The maturity analysis of assets and liabilities analysed according to when they are expected to be recovered or settled or when they could be realised.

At 31 December 2022	Within 1 month	1 - 3 months	3 - 6 months	6 - 12 months	Total within 12 months	1 - 5 years	5-10 years	10 - 20 years	Over 20 years	Undated	Total over 12 months	Total
ASSETS												
Liquid funds	2,848	38	-	-	2,886	-	-	-	-	-	-	2,886
Trading securities	33	279	5	3	320	107	79	70	-	14	270	590
Placements with banks and other financial institutions	1,556	319	20	331	2,226	-	-	-	-	-	-	2,226
Securities bought under repurchase agreements	969	383	34	-	1,386	-	-	-	-	-	-	1,386
Non-trading investments	3,239	486	616	562	4,903	1,880	1,136	127	19	15	3,177	8,080
Loans and advances	3,096	3,433	2,579	2,773	11,881	5,145	1,012	152	-	-	6,309	18,190
Others	-	-	-	-	-	-	-	-	-	3,281	3,281	3,281
Total assets	11,741	4,938	3,254	3,669	23,602	7,132	2,227	349	19	3,310	13,037	36,639
LIABILITIES, SHAREHOLDERS' EQUITY AND NON-CONTROLLING INTERESTS												
Deposits from customers	6,785	3,121	1,327	5,286	16,519	4,647	141	24	65	-	4,877	21,396
Deposits from banks	1,538	808	500	352	3,198	564	2	-	-	-	566	3,764
Certificates of deposit	91	102	16	53	262	173		-	-	-	173	435
Securities sold under repurchase agreements	301	178	111	-	590	2,288	-	-	-	-	2,288	2,878
Borrowings	-	-	2	1	3	725	478	-	-	91	1,294	1,297
Others	-	-	-	-	-	-	-	-	-	2,348	2,348	2,348
Shareholders' equity and non-controlling interests	-	-	-	-	-	-	-	-	-	4,521	4,521	4,521
Total liabilities, shareholders' equity and non-controlling interests	8,715	4,209	1,956	5,692	20,572	8,397	621	24	65	6,960	16,067	36,639
Net liquidity gap	3,026	729	1,298	(2,023)	3,030	(1,265)	1,606	325	(46)	(3,650)	(3,030)	-
Cumulative net liquidity gap	3,026	3,755	5,053	3,030		1,765	3,371	3,696	3,650	-		

Within 1 month are primarily liquid securities that can be sold under repurchase agreements. Deposits are continuously replaced with other new deposits or rollover from the same or different counterparties, based on available lines of credit.



At 31 December 2021	Within 1 month	1 - 3 months	3 - 6 months	6 - 12 months	Total within 12 months	1 - 5 years	5-10 years	10 - 20 years	Over 20 years	Undated	Total over 12 months	Total
ASSETS												
Liquid funds	2,586	-	-	-	2,586	40	-	-	-	-	40	2,626
Trading securities	31	554	3	76	664	90	107	19	4	18	238	902
Placements with banks and other financial institutions	2,520	384	47	80	3,031	-	-	-	-	-	-	3,031
Securities bought under repurchase agreements	344	111	100	143	698	-	-	-	-	-	-	698
Non-trading investments	558	837	434	642	2,471	4,480	1,270	144	8	17	5,919	8,390
Loans and advances	2,308	3,359	2,198	2,539	10,404	5,220	1,001	90	1	-	6,312	16,716
Others	-	-	-	-	-	-	-	-	-	2,538	2,538	2,538
Total assets	8,347	5,245	2,782	3,480	19,854	9,830	2,378	253	13	2,573	15,047	34,901
LIABILITIES, SHAREHOLDERS' EQUITY AND NON-CONTROLLING INTERESTS												
Deposits from customers	5,591	3,187	1,678	2,961	13,417	7,169	98	49	1	-	7,317	20,734
Deposits from banks	1,754	562	413	452	3,181	1,205	2	-	-	-	1,207	4,388
Certificates of deposit	260	46	50	74	430	294	1	-	-	-	295	725
Securities sold under repurchase agreements	606	351	139	224	1,320	691	-	-	-	-	691	2,011
Borrowings	-	-	1	2	3	182	941	-	-	85	1,208	1,211
Others	-	-	-	-	-	-	-	-	-	1,597	1,597	1,597
Shareholders' equity and non-controlling interests	-	-	-	-	-	-	-	-	-	4,235	4,235	4,235
Total liabilities, shareholders' equity and non-controlling interests	8,211	4,146	2,281	3,713	18,351	9,541	1,042	49	1	5,917	16,550	34,901
Net liquidity gap	136	1,099	501	(233)	1,503	289	1,336	204	12	(3,344)	(1,503)	-
Cumulative net liquidity gap	136	1,235	1,736	1,503		1,792	3,128	3,332	3,344	-		

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26 OPERATING SEGMENTS

For management purposes, the Group is organised into five operating segments which are based on business units and their activities. The Group has accordingly been structured to place its activities under the distinct divisions which are as follows:

- **MENA subsidiaries** cover retail, corporate and treasury activities of subsidiaries in North Africa and Levant;
- **International wholesale banking** encompasses corporate and structured finance, trade finance, Islamic banking services and syndications;
- **Group treasury** comprises treasury activities of Bahrain Head Office, New York and London;
- **ABC Brasil** primarily reflects the commercial banking and treasury activities of the Brazilian subsidiary Banco ABC Brasil S.A., focusing on the corporate and middle market segments in Brazil and its related holding Company; and
- Other includes activities of Arab Financial Services Company B.S.C. (c) and ila Bank.

	2022					
	MENA subsidiaries	International wholesale banking	Group treasury	Banco ABC Brasil	Other	Total
Net interest income	218	172	59	287	50	786
Other operating income	47	77	35	119	37	315
Total operating income	265	249	94	406	87	1,101
Total operating expenses	(147)	(117)	(30)	(169)	(89)	(552)
Net operating profit (loss) before credit loss expense, taxation and unallocated operating expenses	118	132	64	237	(2)	549
Credit loss expense	(34)	(42)	4	(47)	-	(119)
Profit (loss) before taxation and unallocated operating expenses	84	90	68	190	(2)	430
Taxation expense on foreign operations	(42)	2	-	(43)	-	(83)
Unallocated operating expenses						(138)
Profit for the year						209
Operating assets as at 31 December 2022	5,653	8,954	12,035	9,628	369	36,639
Operating liabilities as at 31 December 2022	4,939	-	18,145	8,544	490	32,118

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	2021					
	MENA subsidiaries	International wholesale banking	Group treasury	Banco ABC Brasil	Other	Total
Net interest income	165	183	68	174	2	592
Other operating income	41	71	38	91	21	262
Total operating income	206	254	106	265	23	854
Total operating expenses	(121)	(116)	(27)	(110)	(74)	(448)
Net operating profit (loss) before credit loss expense, taxation and unallocated operating expenses	85	138	79	155	(51)	406
Credit loss expense	(32)	(36)	-	(37)	(1)	(106)
Profit (loss) before taxation and unallocated operating expenses	53	102	79	118	(52)	300
Taxation (expense) credit on foreign operations	(27)	(5)	(1)	(18)	-	(51)
Unallocated operating expenses						(121)
Loss for the year						128
Operating assets as at 31 December 2021 (Restated)	6,831	9,124	10,886	7,740	320	34,901
Operating liabilities as at 31 December 2021 (Restated)	5,975	-	17,635	6,779	277	30,666

Geographical information

The Group operates in six geographic markets: Middle East and North Africa, Western Europe, Asia, North America, Latin America and others. The following table show the external total operating income of the major units within the Group, based on the country of domicile of the entity for the years ended 31 December 2022 and 2021:

	Bahrain	**Europe**	**Brazil**	**Other**	**Total**
2022					
Total operating income	**250**	**116**	**406**	**329**	**1,101**
2021					
Total operating income	207	118	265	264	854

There were no revenues derived from transactions with a single external customer that amounted to 10% or more of the Group's revenue (2021: none).

Notes to the Consolidated Financial Statements

31 December 2022 (All figures in US$ Million)

27 REPURCHASE AND RESALE AGREEMENTS

Proceeds from assets sold under repurchase agreements at the year-end amounted to US$ 2,878 million (2021: US$ 2,011 million). The carrying value of securities sold under repurchase agreements at the year-end amounted to US$ 2,984 million (2021: US$ 2,035 million).

Amounts paid for assets purchased under resale agreements at the year-end amounted to US$ 1,386 million (2021: US$ 698 million), net of ECL allowance, and relate to customer product and treasury activities. The market value of the securities purchased under resale agreements at the year-end amounted to US$ 1,559 million (2021: US$ 698 million).

28 TRANSACTIONS WITH RELATED PARTIES

Related parties represent the ultimate parent, major shareholders, associates, directors and key management personnel of the Group and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Group's management.

The year-end balances in respect of related parties included in the consolidated financial statements are as follows:

	Ultimate parent	Major shareholder	Directors	2022	2021
Deposits from customers	3,173	-	6	3,179	4,269
Borrowings	1,115	-	-	1,115	1,115
Additional / perpetual tier-1 capital*	390	-	-	390	-
Short-term self-liquidating trade and transaction-related contingent items	387	-	-	387	347

* During the year, the Group has paid interest on additional / perpetual tier-1 capital amounting to US$ 9 million which has been charged to the consolidated statement of changes in equity.

The income and expenses in respect of related parties included in the consolidated financial statements are as follows:

	2022	2021
Commission income	8	12
Interest expense	119	72

Compensation of the key management personnel is as follows:

	2022	2021
Short term employee benefits	20	17
Post employment benefits	8	4
	28	21

29 FIDUCIARY ASSETS

Funds under management at the year-end amounted to US$ 17,018 million (2021: US$ 18,240 million). These assets are held in a fiduciary capacity and are not included in the consolidated statement of financial position.

30 ISLAMIC DEPOSITS AND ASSETS

Deposits from customers, banks and borrowings include Islamic deposits of US$ 2,618 million (2021: US$ 2,395 million). Loans and advances, non-trading investments and placements include Islamic assets of US$ 984 million (2021: US$ 887 million), US$ 882 million (2021: US$ 864 million) and US$ 8 million (2021: US $19 million).

31 ASSETS PLEDGED AS SECURITY

At the reporting date, in addition to the items mentioned in note 27, assets amounting to US$ 265 million (2021: US$ 302 million) have been pledged as security for borrowings and other banking operations.

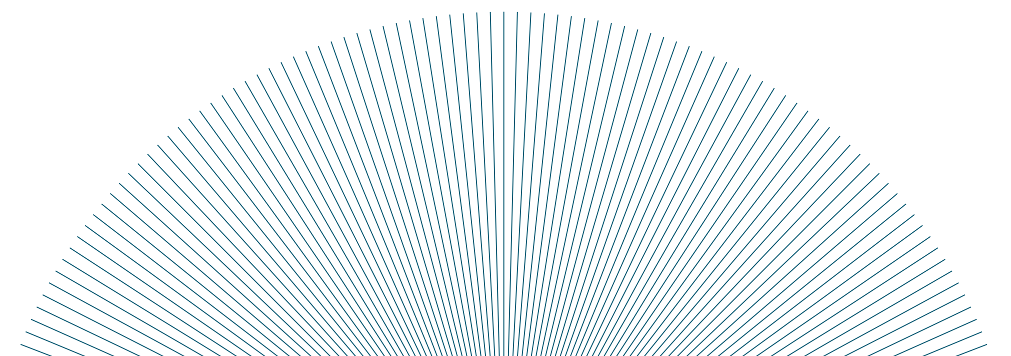
32 BASIC AND DILUTED EARNINGS PER SHARE AND PROPOSED DIVIDENDS AND TRANSFERS

32.1 Basic and diluted earnings per share

Basic earnings per share is calculated by dividing the profit attributable to shareholders of the parent for the year by the weighted average number of shares during the year. Diluted EPS is calculated by dividing the profit attributable to shareholders of the parent by the weighted average number of shares outstanding during the year plus the weighted average number of shares that would be issued on conversion of all the dilutive potential shares into shares.

The Group's earnings for the year (before proposed dividends) are as follows:

	2022	2021
Profit attributable to the shareholders of the parent	**154**	100
Net profit attributable to the shareholders of the parent after adjusting for interest paid on additional / perpetual tier-1 capital (for basic and diluted earnings per share)	**145**	100
Weighted average number of shares outstanding during the year (millions) for basic and diluted earnings per share	**3,094**	3,086
Basic and diluted earnings per share (US$)	**0.05**	0.03



Notes to the Consolidated Financial Statements

31 December 2022 (All figures in US$ Million)

32 BASIC AND DILUTED EARNINGS PER SHARE AND PROPOSED DIVIDENDS AND TRANSFERS (CONTINUED)

32.2 Proposed dividends and transfers

A cash dividend of US$ 0.01 per share amounting to US$ 31 million for the year 2021 was paid as per approval in the Annual General Meeting held on 23 March 2022.

33 CAPITAL ADEQUACY

The primary objectives of the Group's capital management policies are to ensure that the Group complies with externally imposed capital requirements and that the Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

The risk asset ratio calculations as at 31 December 2022 are based on standardised measurement methodology and in accordance with the CBB Basel III guidelines.

		2022	2021
CAPITAL BASE			
CET 1	[a]	**3,866**	3,977
AT 1		**470**	82
Total Tier 1 capital	[b]	**4,336**	4,059
Tier 2		**290**	265
Total capital base	[c]	**4,626**	4,324

		2022	2021
RISK-WEIGHTED EXPOSURES			
Credit risk weighted assets and off balance sheet items		**25,003**	23,017
Market risk-weighted assets and off balance sheet items		**866**	974
Operational risk-weighted assets		**1,677**	1,604
Total risk-weighted assets	[d]	**27,546**	25,595
CET 1 ratio	[a/d*100]	**14.0%**	15.5%
Tier 1 ratio	[b/d*100]	**15.7%**	15.9%
Risk asset ratio	[c/d*100]	**16.8%**	16.9%
Minimum requirement for Risk asset ratio		**12.5%**	12.5%

The Group's capital base primarily comprises:

(a) Tier 1 capital: share capital, treasury shares, reserves, retained earnings, non controlling interests, profit for the year and cumulative changes in fair value;

(b) Additional Tier 1 Capital: eligible portion of a perpetual financial instrument issued by the Bank's subsidiary; and

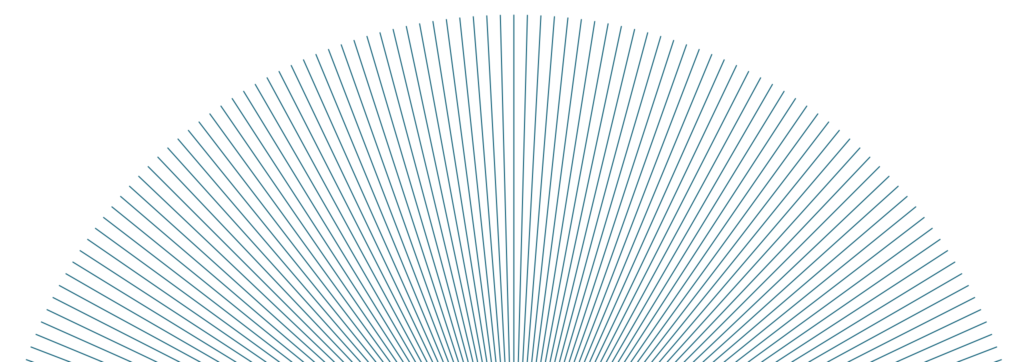
(c) Tier 2 capital: eligible non controlling interests and expected credit losses.

The Group has complied with all the capital adequacy requirements as set by the Central Bank of Bahrain.

34 CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES

	1 January 2022	Cash flow, net	Foreign exchange movement	31 December 2022
Certificates of deposit	**725**	**(187)**	**(103)**	**435**
Borrowings	**1,211**	**75**	**11**	**1,297**
Total liabilities from financing activities	**1,936**	**(112)**	**(92)**	**1,732**

	1 January 2021	Cash flow, net	Foreign exchange movement	31 December 2021
Certificates of deposit	494	234	(3)	725
Borrowings	1,795	(581)	(3)	1,211
Total liabilities from financing activities	2,289	(347)	(6)	1,936



Notes to the Consolidated Financial Statements

31 December 2022 (All figures in US$ Million)

35 BUSINESS COMBINATION ON ACQUISTION

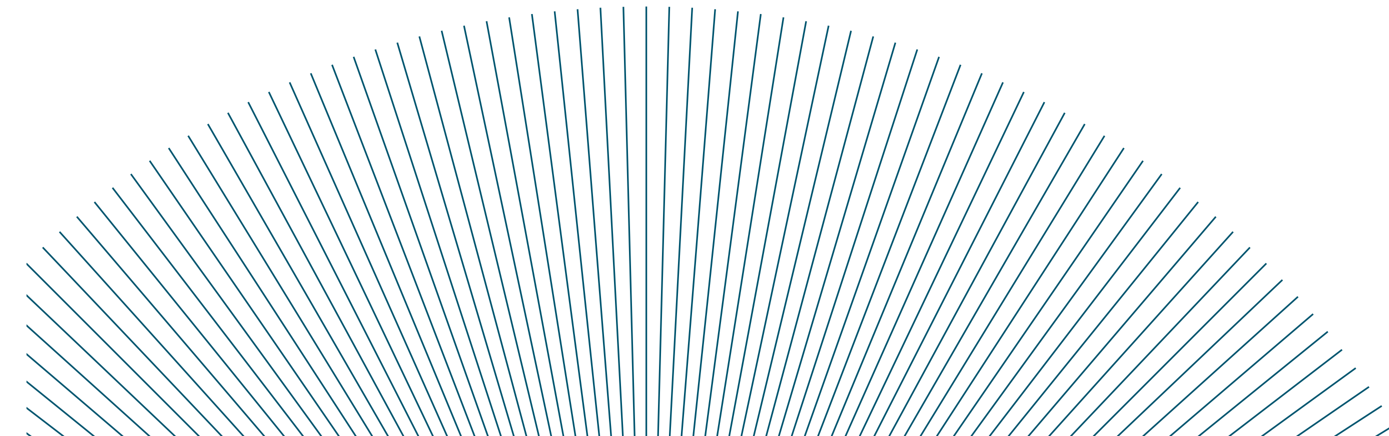
35.1 Acquisition of BLOM Bank Egypt

On 15 January 2021, the Bank entered into a sale and purchase agreement with BLOM Bank SAL, Lebanon, to acquire its 99.5% stake (including stake bought through mandatory tender offer) of BLOM Bank Egypt [S.A.E] (BLOM Bank Egypt) at a proposed cash consideration valuing the BLOM Bank Egypt's 100% ownership at EGP 6,700 million. As part of the agreement, there were various conditions for the completion of acquisition, obtaining control and appointment of the Bank's representatives on the Board of Directors of BLOM Bank Egypt. These conditions included, amongst others, various regulatory approvals in the Kingdom of Bahrain, Egypt and Lebanon and completion of authorised capital increase of BLOM Bank Egypt. All the regulatory approvals and relevant completion conditions were fulfilled and the Group completed the acquisition transaction during 2021. The Group's subsidiaries in Egypt namely Arab Banking Corporation Egypt [S.A.E] and BLOM Bank Egypt continued to operate as separate entities until the legal merger was completed on January 2023.

This transaction has been accounted for using the acquisition method under IFRS 3 Business combinations (IFRS 3), with the Group being the acquirer and BLOM Bank Egypt being the acquiree. As required by IFRS 3, the Bank has accounted for this acquisition using provisional fair values of the acquired assets and assumed liabilities as at the acquisition date which have been disclosed in the consolidated financial statements of the Group for the year ended 31 December 2021. IFRS 3 requires the completion of purchase price allocation (PPA) within 12 months of acquisition date. Accordingly, the Group finalised the purchase price allocation (PPA) and has allocated the purchase consideration to identifiable assets and liabilities during September 2022 and other intangible assets and goodwill arising on acquisition.

35.2 Purchase consideration

	Cash flow on acquisition
Net cash acquired with the subsidiary	141
Cash paid	(426)
	(285)



35.3 Acquisition related costs

During 2022, the Group incurred acquisition related costs on account of fees to third parties for legal, valuation and transaction services as well as costs of third party consultants working on the acquisition amounting to US$ 9 million (2021: US$ 12 million).

35.4 Assets acquired and liabilities assumed

Following table summarises the fair values of assets and liabilities assumed as at the date of acquisition:

	Fair value recognised on acquisition
	(Restated)
ASSETS	
Liquid funds	141
Trading securities	2
Placements with banks and other financial institutions	897
Securities bought under repurchase agreements	46
Non-trading investments	1,084
Loans and advances	717
Other assets	58
Premises and equipment	100
TOTAL ASSETS	**3,045**

	Fair value recognised on acquisition
	(Restated)
LIABILITIES	
Deposits from customers	2,262
Deposits from banks	5
Certificates of deposit	372
Securities sold under repurchase agreements	19
Taxation	4
Other liabilities	54
Borrowings	3
Total liabilities	**2,719**
Group's share of total identifiable net assets at fair value	324
Goodwill	80
Other intangibles	22
Total purchase consideration	**426**

Notes to the Consolidated Financial Statements

31 December 2022 (All figures in US$ Million)

35 BUSINESS COMBINATION ON ACQUISTION (CONTINUED)

35.5 Acquired receivables

For each class of acquired receivables, the fair value, gross contractual amounts and the best estimate of the contractual cash flows not expected to be collected are as follows:

	Fair value of the acquired receivables	Gross contractual amount receivable	Contractual cash flows not expected to be collected
Liquid funds	141	141	-
Trading securities	2	2	-
Placements with banks and other financial institutions	897	897	-
Securities bought under repurchase agreements	46	46	-
Non-trading investments	1,084	1,081	(1)
Loans and advances	717	839	(95)
Other financial assets	49	49	-
Total	2,936	3,055	(96)

35.6 Goodwill

Goodwill calculated based on a provisional purchase price allocation (PPA) had been included in the consolidated financial statements as at 31 December 2021. Subsequent adjustments during the measurement period occured as the Group completed its estimation of fair values of assets acquired and liabilities assumed and finalised PPA. The goodwill recognised is primarily attributable to the expected future earnings of the acquired business and synergies created. Below is the movement in goodwill:

As at 31 December 2021 (as previously reported)	96
Adjustments due to finalisation of PPA	(16)
As at 31 December 2021 (restated)	80
Exchange rate movement	(29)
As at 31 December 2022	51

Notes to the Consolidated Financial Statements

31 December 2022 (All figures in US$ Million)

35.7 Valuation approach and methodologies – other intangibles

Core Deposits Intangible (CDI)

The Group has adopted the discounted cost savings approach, a variant of the income approach, in valuation of the core deposit intangible (CDI). Under this approach, CDI is valued as the difference between the cost of BLOM Bank Egypt's core deposits under each deposit category and currency, and the cost of the alternative source of funds specific to the relevant currency and tenure for each deposit category. The above spread between BLOM Bank Egypt's all in cost of funding and alternate cost of funding is then discounted to present value using a risk adjusted discount rate.

The analysis has considered current and savings account. The assumed attrition and referral fee and assumptions for fees and commissions are based on a historical analysis of deposit balances from existing customers.

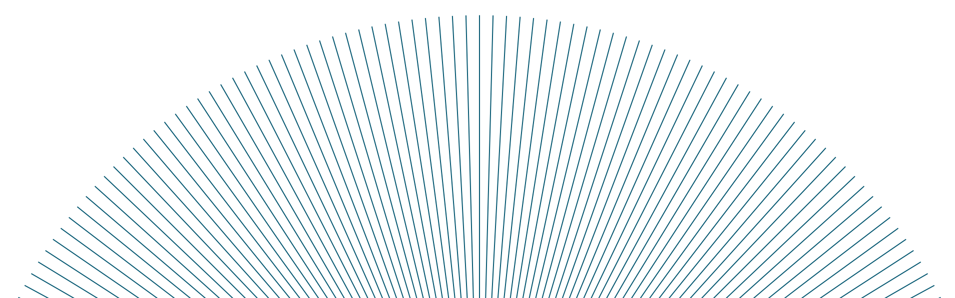
35.8 Purchase price allocation

The Bank has completed a comprehensive purchase price allocation during September 2022 focusing on, but not limited to, valuation adjustments to the following:

- recognition of intangible assets (core deposits intangible);
- non-trading investments;
- loans and advances;
- premises and equipment; and
- other recognised financial and non-financial assets and liabilities.

The completion of the PPA exercise within twelve months from the acquisition date, including restatement of provisional fair values at which the net assets were acquired from BLOM Bank Egypt, has had the following impact on the line items of the consolidated statement of financial position as at 31 December 2021:

Description	Previously reported as at 31 December 2021	Effect of restatement	Restated - 31 December 2021
Non-trading investments	8,350	40	8,390
Loans and advances	16,768	(52)	16,716
Other assets	2,213	6	2,219
Premises and equipment	309	10	319
Total assets	34,897	4	34,901
Taxation	79	4	83
Total liabilities	30,662	4	30,666



Notes to the Consolidated Financial Statements

31 December 2022 (All figures in US$ Million)

35 BUSINESS COMBINATION ON ACQUISTION (CONTINUED)

35.9 Impairment testing of Goodwill and CDI acquired

The goodwill acquired through business combination is reviewed annually for impairment. At each reporting period, an assessment is made for indicators of impairment. If indicators exist, an impairment test is required. The impairment test compares the estimated recoverable amount of the Bank's CGUs that carry goodwill, as determined through a Value-In-Use (VIU) model, with the carrying amount of net assets of each CGU. The goodwill has been allocated to the cash generating unit (CGU), MENA subsidiaries, which is also operating and reportable segment.

The recoverable amount of the CGU has been determined based on residual income approach. The VIU model used projected cash flows in perpetuity through a 8-year forward period of projections, and thereafter applying a (long-term) terminal growth rate. Significant assumptions used in the residual income model for impairment assessment are:

- Discount rate of 21%, which is derived using a capital asset pricing model and comparing it with cost of capital rates produced by external sources.
- Long-term profit growth rate of 7%, adjusted for expected changes in benchmark interest rates and sector growth rates over time, applied to projected periods beyond 2030.

The calculation of VIU in the CGU is most sensitive to the following assumptions:

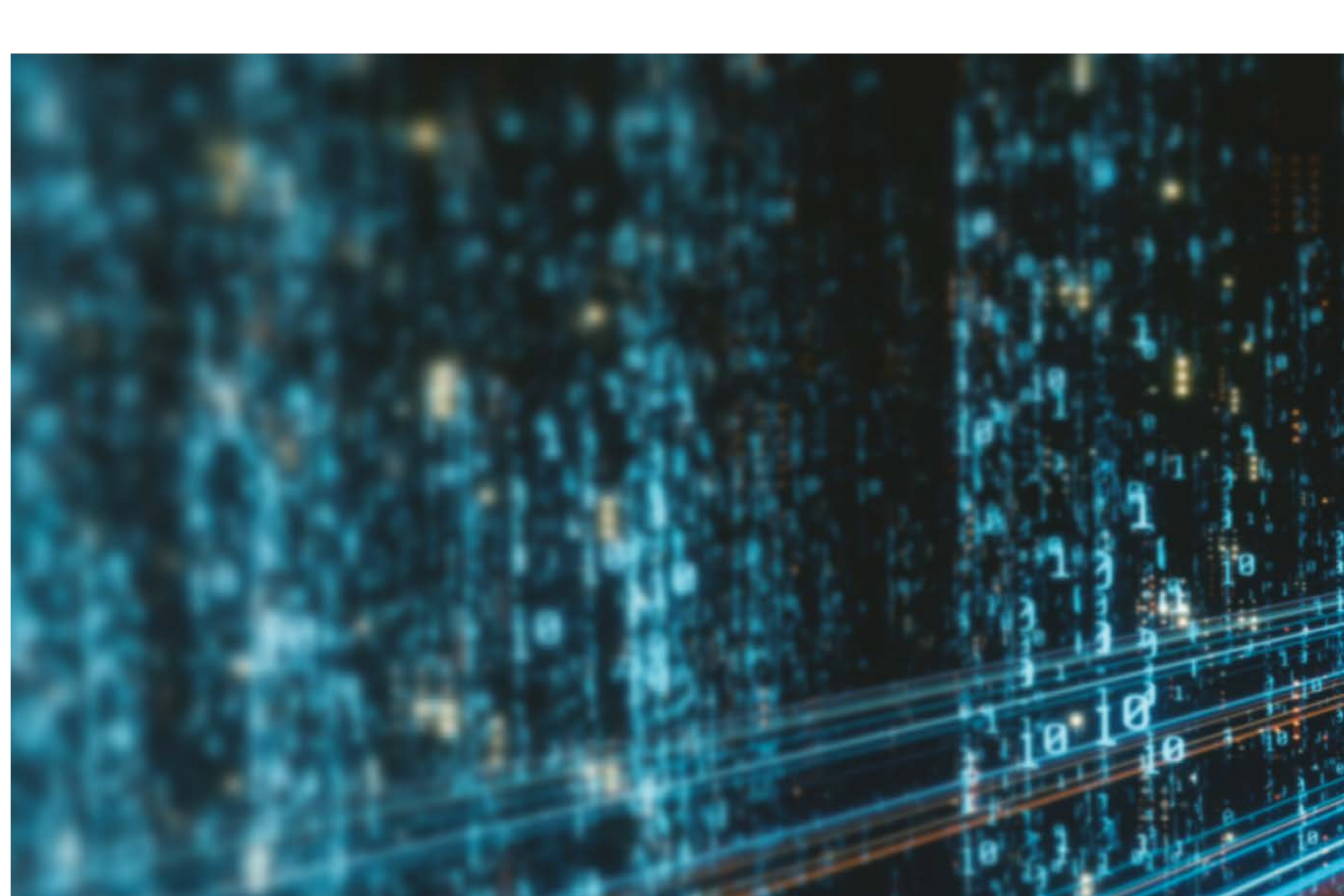
- interest margins;
- discount rates;
- projected growth rates used to extrapolate cash flows beyond the projection period; and

Interest margins

Interest margins are based on prevailing market rates at the start of the budget period. These are changed over the budget period for anticipated market conditions.

Discount rates

Discount rates reflect management's estimate of Return on Capital Employed ('ROCE') required



in each business. This is the benchmark used by management to assess operating performance and to evaluate future investment proposals. Discount rates are calculated by using a capital asset pricing model.

Projected growth rates used to extrapolate cash flows beyond the projection period

Assumptions are based on published industry research. At 31 December 2022, the goodwill impairment test determined there was no impairment required to the CGU allocated to MENA subsidiaries.

The forecast cash flows have been discounted using the discount rate mentioned above. A 1% point increase in the discount rate or decrease in the terminal growth rate keeping other factors constant would reduce the recoverable amount of the CGU and will result in a goodwill impairment.

Other intangibles

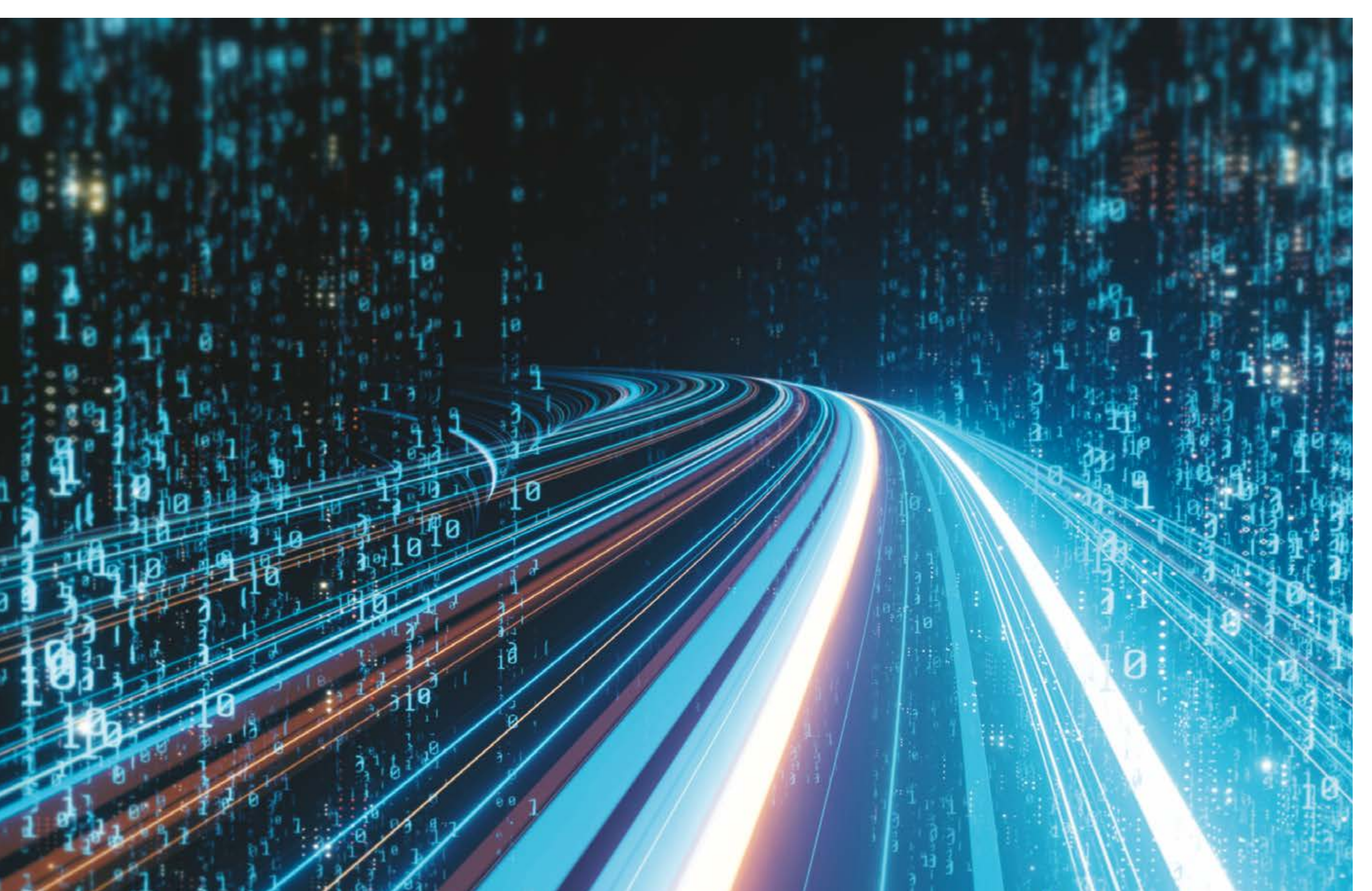
Acquired other intangibles are recognised at their 'fair value' upon initial recognition. The specific criteria which needs to be satisfied for an intangible asset to be recognised separately from goodwill in an acquisition is that the intangible asset must be clearly identifiable, in that it either;

- be separable, that is, be capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or liability; or
- arise from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

The Bank identified CDI's as other intangibles which are being amortised using the straight-line method over the useful life of the asset, which is estimated to be 10 years. If an indication of impairment arises, the recoverable amount is estimated and an impairment loss is recognised if the recoverable amount is lower than the carrying amount. There were no indicators of impairment identified with respect to CDI.

36 SUBSEQUENT EVENTS

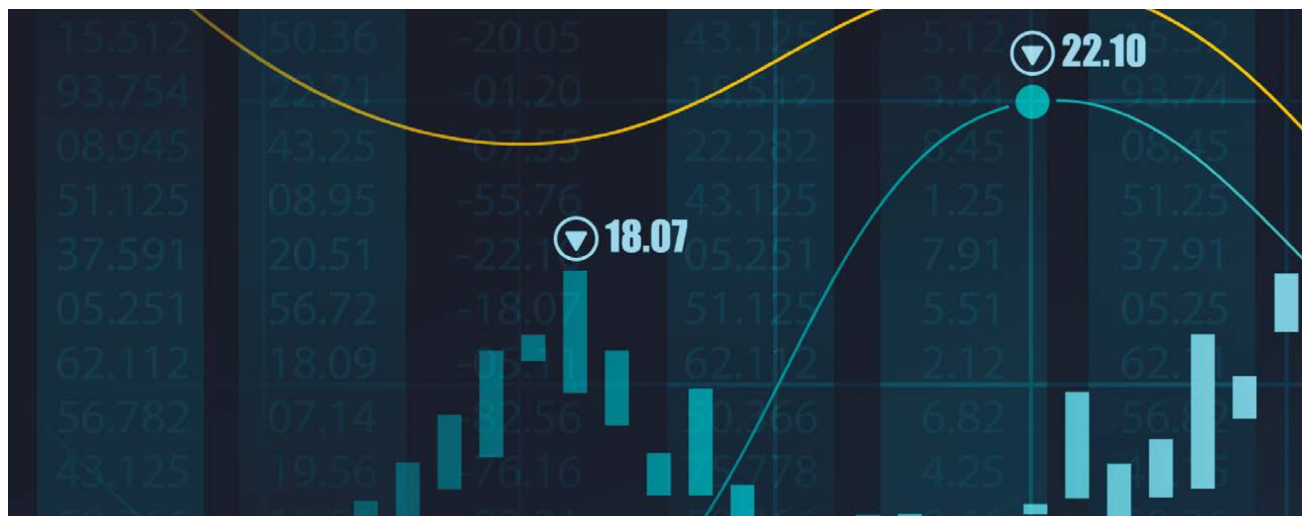
There were no subsequent events through 12 February 2023, the date the consolidated financial statements were approved by the Board of Directors which may impact the consolidated financial statements.



Appendicies

05

ESG KPI Disclosures for Bahrain Bourse



	2022	Unit of measurement
GHG emissions		
Scope 1	122	tCO2
Scope 2	8443	tCO2
Scope 3 (travel-related)	956	tCO2
GHG emisions intensity		
Total GHG emissions/$m revenue	8.65	tCO2 per $m revenue
Energy use		
Energy indirectly consumed	22,580	MWh
Energy intensity	20.51	MWh per $m revenue
Water use		
Total amount of water consumed	43,704	m3
Environmental operations		
Does the company follow a formal environmental policy?	Yes	
Does the company have a waste, water, energy and recycling policy?	Yes	
Does the company use a recognised energy management system?	Yes	
Environmental oversight		
Does the Board oversee/manage climate-related risks?	Yes	
Gender diversity		
Female employees as % of total employees	36%	
Global health and safety		
Does the company follow a global health & safety policy?	Yes	
Child & forced labour		

	2022	Unit of measurement
Does the company have a child/ forced labour policy that covers suppliers?	Yes	
Human rights		
Does the company have a human rights policy that covers suppliers?	Yes	
Board diversity		
% of board occupied by women	11%	
Board independence		
Do you prohibit CEO from serving as Chairman?	Yes	
% of board seats occupied by independents	44%	
Supplier code of conduct		
Suppliers required to follow a code of conduct?	Yes	
% of suppliers to formally certify compliance to the code	100%	
Ethics & anti-coruption		
Does the company follow an ethics &/or anti-corruption policy?	Yes	
% of workforce certified complied with policy	100%	
Data privacy		
Do you have a data privacy policy?	Yes	
Has the company taken steps to comply with GDPR rules?	Yes	

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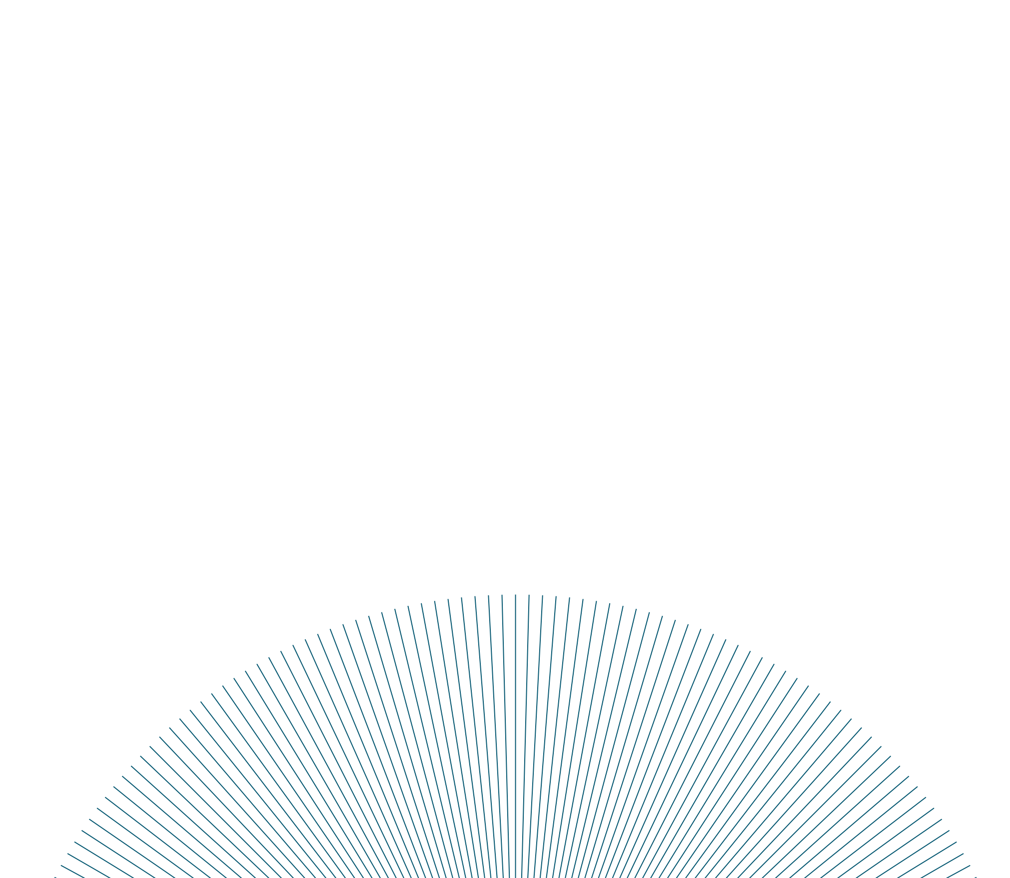

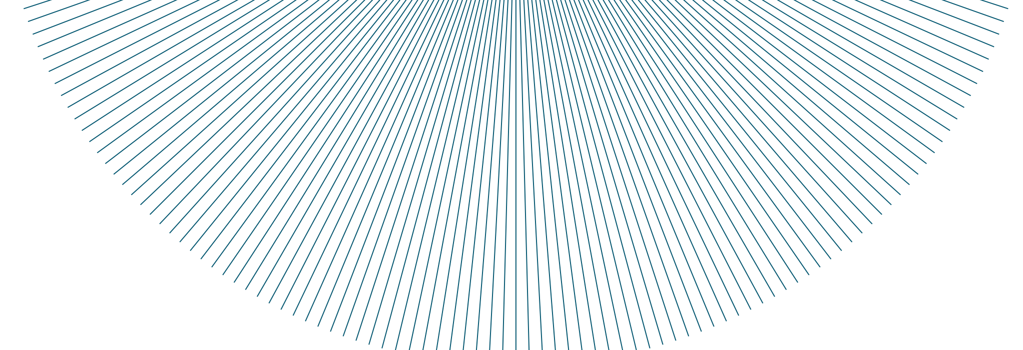

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