Bank ABC

Annual General Meeting Booklet

19 March 2023

Kingdom of Bahrain

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Bank ABC
P.O. Box 5698, Manama, Kingdom of Bahrain (CR: 10299)
Bank ABC (Arab Banking Corporation B.S.C.) is licensed as a conventional wholesale bank by the Central Bank of Bahrain

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CONTENT

Agenda

1. To approve the minutes of the past Ordinary General Meetings of the Bank dated 23 March 2022.
2. To consider and acknowledge the Report of the Auditors concerning the Consolidated Financial Statements for the financial year ended 31 December 2022.
3. To discuss and approve the Report of the Board of Directors about the activities of the Bank for the financial year ended 31 December 2022.
4. To discuss and approve the Consolidated Financial Statements for the financial year ended 31 December 2022.
5. To approve the recommendation of the Board of Directors for appropriation of profits for the financial year ended 31 December 2022 as follows:
   - 5.1 The transfer of US$ 15.4 million to the legal reserve;
   - 5.2 Cash payment of 1.5% dividend or US$1.5 cents for each outstanding share (net of treasury shares) for approximately a total of US$ 46.4 million. The Cum-Dividend Date is 20 March 2023, Ex-Dividend Date is 21 March 2023, Record Date is 22 March 2023, Payment Date is 5 April 2023; and
   - 5.3 Transfer of the remaining balance of approximately US$ 92.2 million to the retained earnings.
6. To discuss and approve the Corporate Governance Report for the year 2022 as per the requirements of the Central Bank of Bahrain.
7. To ratify a remuneration of US$1,199,167 to the Members of the Board of Directors for the for the year 2022, subject to approval of the Ministry of Industry and Commerce.
8. To absolve the Directors from liability for the financial year ended 31 December 2022.
9. Subject to approval of the Central Bank of Bahrain, to re-appoint Messrs Ernst & Young as auditors of the Bank for the financial year ending 31 December 2023, and to authorise the Board of Directors to fix their remuneration.
10. Update on related party transactions pursuant to Article 189 (c) of the Commercial Companies Law and as set out in note 28 of the Consolidated Financial Statements for the financial year ended 31 December 2022.
11. Any other business under article 207 of the Commercial Companies Law.

Important notice to shareholders

- Shareholders whose names are registered in the Bank's share register on the date of the meeting are entitled to attend the AGM or to appoint a proxy to attend and vote on the Shareholder's behalf, provided that such proxy is not the chairman, a director, or an employee of the Bank.
- If a shareholder is an institutional shareholder, the representative attending the meeting must submit a letter of authorization from the institutional shareholder, signed by an authorized signatory of the company. The proxy must be sealed by the institutional shareholder's stamp.
- Proxy forms can be obtained from the Bank's website www.bank-abc.com, Bahrain Bourse's website: www.bahrainbourse.com, or from Bank ABC Head Office in Diplomatic Area in Manama.
- Proxy forms should be submitted **at least 24 hours prior to the meeting** to Bank ABC's registrar, Kfin Technologies W.L.L. PO Box 514, Manama, Bahrain, or by email to ShareholderRelations@bank-abc.com Proxy forms submitted after the deadline will be considered void and will not be accepted.
- The documents relating to the meeting can be obtained from the Bank's website: www.bank-abc.com and Bahrain Bourse's website: www.bahrainbourse.com.
- For any inquiries, you may contact the Shareholders Relations on +973 17543222 or email ShareholderRelations@bank-abc.com

Minutes of the previous meeting

(Arabic only)

محضر اجتماع الجمعية العامة العادية
للمؤسسة العربية المصرفية (ش.م.ب)
البحرين ٢٣ مارس ٢٠٢٢م

عقدت الجمعية العامة لمساهمي المؤسسة العربية المصرفية (ش.م.ب) اجتماعها السنوي العادي **الكترونيا عبر منصة الاجتماعات الافتراضية زوم** في **يوم الأربعاء الموافق ٢٣ مارس ٢٠٢٢م** عند تمام الساعة **الثانية عشرة وعشر دقائق ظهرا** في المقر الرئيسي للمؤسسة بمملكة البحرين وذلك للنظر في **جدول أعمالها** التالي: -

(١) التصديق على **محضر الاجتماع السابق** للجمعية العامة العادية الذي عقد بتاريخ ٢١ مارس ٢٠٢١م.

(٢) مناقشة **تقرير مجلس الإدارة** عن نشاط البنك خلال السنة المالية المنتهية في ٢٠٢١/١٢/٣١م والتصديق عليه.

(٣) الاستماع إلى **تقرير السادة مراقبي الحسابات** عن القوائم المالية الموحدة للسنة المالية المنتهية في ٢٠٢١/١٢/٣١م.

(٤) مناقشة **البيانات المالية** للسنة المنتهية في ٢٠٢١/١٢/٣١م والمصادقة عليها.

(٥) **المصادقة** على **توصية مجلس الإدارة بتخصيص صافي أرباح السنة المالية** المنتهية في ٢٠٢١/١٢/٣١م على النحو التالي: -

٥-١ تحويل مبلغ ٩,٩٦ مليون دولار أمريكي للاحتياطي القانوني.

٥-٢ توزيع أرباح نقدية على المساهمين بواقع ١٪ عن كل سهم متداول (من دون أسهم الخزانة) قدرها ٠,٠١ سنت أمريكي للسهم الواحد، والبالغة إجمالياً حوالي ٣١ مليون دولار أمريكي. آخر يوم تداول لاستحقاق الأرباح ٢٤ مارس ٢٠٢٢م، تاريخ تداول السهم بدون استحقاق ٢٧ مارس ٢٠٢٢م، يوم الاستحقاق ٢٨ مارس ٢٠٢٢م، ويوم الدفع ١١ أبريل ٢٠٢٢م.

٥-٣ تحويل الرصيد المتبقي وهو حوالي ٥٨,٦٧ مليون دولار أمريكي إلى حساب الأرباح المبقاة.

(٦) مناقشة **تقرير حوكمة الشركات لسنة ٢٠٢١م** والتزام البنك بمتطلبات مصرف البحرين المركزي والمصادقة عليه.

(٧) المصادقة على **مكافأة أعضاء مجلس الإدارة** لسنة ٢٠٢١م البالغة ١,٢٢٠,٠٠٠ **دولار أمريكي**، وذلك بعد أخذ موافقة السادة وزارة الصناعة والتجارة والسياحة.

(٨) إبراء **ذمة أعضاء مجلس الإدارة** عن تصرفاتهم خلال السنة المالية المنتهية في ٢٠٢١/١٢/٣١م.

(٩) **النظر في إعادة تعيين السادة (أرنست ويونغ) كمدققين لحسابات البنك** للسنة المنتهية في ٣١ ديسمبر ٢٠٢٢م بعد أخذ موافقة السادة مصرف البحرين المركزي وتخويل مجلس الإدارة بتحديد أتعابهم.

(١٠) **المصادقة** على **تعيين السيدة/ هدى الموسى (ممثلة الهيئة العامة للاستثمار)** كعضو مجلس إدارة في مجلس إدارة البنك.

(١١) **انتخاب أعضاء لمجلس الإدارة** عن دورته الرابعة **عشرة لفترة جديدة مدتها ثلاث سنوات.**

(١٢) إطلاع الجمعية العامة على **المعاملات مع الأطراف ذات العلاقة** حسب المادة ١٨٩(ج) من قانون الشركات التجارية وكما هو وارد في الإيضاح رقم ٢٧ من القوائم المالية الموحدة للسنة المالية المنتهية في ٢٠٢١/١٢/٣١م.

(١٣) **ما يستجد من أعمال طبقاً** لنص **المادة ٢٠٧** من قانون الشركات التجارية.

عملا بأحكام **المادة ٤٢/أ** من النظام الأساسي للمؤسسة، تولى **رئاسة الاجتماع السيد/ الصديق عمر الكبير بصفته رئيسا لمجلس الإدارة**، كما تم تكليف السيد/ **عبد الخالق شايب** بمهام **أمين سر الجمعية العامة** بناء على اقتراح من السيد رئيس الجمعية وموافقة الجمعية وذلك في حضور كل من: -

السيد/ محمد عبدالرضا سليم	نائب رئيس مجلس الإدارة
د. فاروق عبد الباقي العقدة	عضو مجلس الإدارة
السيد/ علي سعد الاشهب	" " "
السيد/ بشير أبو القاسم عمر	" " "
د. طارق يوسف المقريف	" " "
السيدة/ هدى الموسى	" " "
د. يوسف عبدالله العوضي	" " "
د. خالد سعيد كعوان	الرئيس التنفيذي للمجموعة
السيد/ صائل الوعري	نائب الرئيس التنفيذي للمجموعة
السيد/ عيسى المتوج	عن **مصرف البحرين المركزي**

السيدة/ فاطمة عبد الرحمن	" " " "
السيدة/ علياء عمران	" " " "
السيد/ حسين محمد	" " " "
السيدة/ مريم خالد الجبن	**عن وزارة الصناعة والتجارة والسياحة**
السيدة/ نوف الدوسري	" " " "
السيد/ أحمد سليمان	" " " "
السيدة/ مريم خالد الكواري	**عن بورصة البحرين**
السيد/ عيسى الجودر	السادة **أرنست و يونغ** (مدققي الحسابات)
السيد/ كاظم ميرشانت	" " " "
السيد/ جواد صديقي	" " " "
السيد/ هاني الشيخ	عن **مسجلي الأسهم** كفين تيكنولوجيز (البحرين) ذ.م.م
السيد/ محمد أمير	" " " "

بعد أن **رحب السيد رئيس الجمعية** بالأصالة عن نفسه ونيابة عن مجلس الإدارة والمؤسسة بالسادة المساهمين ومندوبي الجهات الرسمية وبقية السيدات والسادة الحضور، شاكـرا لهـم حسن تلبية الدعوة ... تـم التأكد من **توافر النصاب القانوني** لصحة الاجتماع بحضـور عـدد مـن السـادة المساهمين الممثلين أصالـة أو نيابة **بنسبة** بلغت ٩٥,١٥٪ من رأس المال المدفوع.

شرعت الجمعية العامة على إثر ذلك في **مداولة بنود جدول أعمالها**، حيث انتهت منه إلـى اتخاذ جملة القرارات والإجراءات التالية: -

البند الأول :- <u>التصديق علـى محضـر الاجتمـاع السـابق للجمعيـة العامـة العاديـة الـذي عقـد بتاريخ ٢١ مارس ٢٠٢١م.</u>

أفادت الجمعية العامة العادية باطلاعها على محضر اجتماعها السابق والذي عقد بتـاريخ ٢١ مارس ٢٠٢١م بحسب الوارد في كتيب الجمعية الموزع على السادة المساهمين، حيث **أخـذت علما بمحتوياته وصادقت عليه** كما تم تقديمه.

البند الثاني :- <u>مناقشة تقرير مجلس الإدارة عن نشاط البنك خلال السنة المالية المنتهية فـي ٢٠٢١/١٢/٣١م والتصديق عليه.</u>

أفادت الجمعية العامة **باطلاعها** على تقرير مجلس الإدارة عن نشاط مجموعة المؤسسة خلال السنة المالية المنتهية في ٢٠٢١/١٢/٣١م بحسب الوارد في كتيب الجمعية الموزع على السادة المساهمين، حيث **أخذت علما بمحتوياته وصادقت عليه.**

البند الثالث :- **<u>الاستماع إلى تقرير السادة مراقبي الحسابات عن القوائم المالية الموحدة للسنة المالية المنتهية في ٢٠٢١/١٢/٣١م.</u>**

استمعت الجمعية العامة لتقرير السادة مراقبي الحسابات (السادة ارنست ويونغ) عن نشاط مجموعة المؤسسة خلال السنة المالية المنتهية في ٢٠٢١/١٢/٣١م، حيث **أخذت علما بمحتوياته.**

البند الرابع :- **<u>مناقشة البيانات المالية للسنة المنتهية في ٢٠٢١/١٢/٣١م والمصادقة عليها.</u>**

طلب السيد رئيس الجمعية من الرئيس التنفيذي للمجموعة **عرض البيانات المالية** للسنة المنتهية في ٣١ ديسمبر ٢٠٢١م **(أ)** ليفتح بعدها **باب النقاش** أمام السادة المساهمين **(ب).**

أ- <u>عرض الرئيس التنفيذي</u>: -

١- **ذكر** الرئيس التنفيذي للمجموعة السادة المساهمين **بالعوامل الرئيسية** التي أسهمت في تراجع النتائج المالية النهائية للمؤسسة في عام ٢٠٢٠م، والتي نتجت في أساسها عن عمليات الاحتيال التي أضحت بعض قروض المؤسسة ضحيتها، الأمر الذي فاقمته ظروف خارجية أفرزتها تداعيات الجائحة... ليوضح أنه خلال عام ٢٠٢١م، وبعد أن استطاعت المؤسسة التعامل مع تبعات سنة ٢٠٢٠م، بدأت الأوضاع تستعيد بشكل تدريجي وتيرتها الطبيعية في ظل انتعاش بطئ صحبه حفاظ على الهوامش عند مستويات معقولة، مع ارتفاع لأسعار الفائدة في بعض الأسواق (مثل البرازيل) وان كان النمو المتوقع لم يحصل بسبب استمرار أسعار الفائدة المتدنية في الأسواق الهامة وكذلك تداعيات متحور كورونا... لافتا أن **السمة الأبرز بالنسبة للمؤسسة تمثلت في الاستحواذ على بنك بلوم مصر** في أغسطس ٢٠٢١م، والذي ان لم يكن ليساهم في عام ٢٠٢١م الا بشكل محدود (حوالي خمسة أشهر فقط في أداء المؤسسة)، الا أنه مع أداء طيب ساهمت فيه كل وحدات المؤسسة مستفيدة من انتعاش أنشطة البنك في أسواقه العالمية، بالذات الأساسية وانخفاض مخصصات القروض المتعثرة الى مستوياتها المعتادة، فضلا على الحرص على ترشيد التكاليف **مكن من عودة جيدة للربحية وصلت إلى ١٠٠ مليون دولار أمريكي** (مقارنة بخسارة صافية قدرها ٨٩ مليون دولار أمريكي في ٢٠٢٠م)، وذلك في ضوء تمكن المؤسسة من تنمية محفظة اقراضها بواقع حوالي ٧٪ في ٢٠٢١م بالمقارنة إلى ٢٠٢٠م ، في معدل تطابق مع متوسط نمو الأسواق في المنطقة.

٢- **أوضح** الرئيس التنفيذي للمجموعة أنه على الرغم من أن **الفرضيات كلها كانت توحي بأن الاقتصاد العالمي بدء في استشراف آفاق جديدة بعد التعافي العالمي التدريجي من جائحة كورونا**، مما أدى لتحسن توقعات النمو، لا سيما خلال الربع الأول من ٢٠٢١م، الا أن ارتفاع نسبة التضخم، وأزمة الطاقة إضافة إلى اضطراب الإمدادات، كان لها تأثير

مباشر على نمو الاقتصاد العالمي مما دفع بتحقيق معدلات نمو أقل، مقارنة بتوقعات سابقة كانت تتحدث عن تعافٍ بوتيرة أسرع... لافتا الى أن التوقعات الخاصة بالنمو السريع في العام ٢٠٢١م تغيرت لجهة توقعات بنمو أبطأ في ضوء عدم تعافي الاقتصاد العالمي بشكل تام من تداعيات كورونا.

٣- وعلى الرغم من بطء وتيرة التعافي الاقتصادي الا أن **المؤسسة استمرت في المنافسة في أسواق الدين والقروض المجمعة**، وهي سوق عادة ما تنافس فيه المصارف الدولية (بالإضافة للبنك المحلي الرئيسي في الدولة ذات العلاقة)... حيث نجحت المؤسسة خلال عام ٢٠٢١م في انجاز حوالي **ثلاثين صفقة سندات وصكوك** لعبت فيهم المؤسسة الدور الرائد كـ Joint Lead Manager و Bookrunner، مما عزز من تكامل **مزايا المؤسسة الإستراتيجية** في إدارة القروض وسجلات الاكتتاب التي ركزت عليها خلال السنوات القليلة الماضية من خلال دعمها المستمر لقطاع أسواق رأس مال الديون (DCM) والقـــروض المشتركة (Syndicated Loan).

٤- بالمقابل أكد الرئيس التنفيذي للمجموعة على محافظة الميزانية العمومية للبنك على قوتها حيث بلغ **إجمالي الموجودات ٣٤,٩ مليار دولار أمريكي في نهاية** ٢٠٢١م، بارتفاع بنسبة ١٤,٨٪ مقارنة مع ٣٠,٤ مليار دولار المسجلة في نهاية عام ٢٠٢٠، ويرجع ذلك بشكل رئيسي إلى دمج موجودات بقيمة ٣ مليار دولار أمريكي تابعة لبنك بلوم مصر، أما **مستوى الودائع** فقد حافظ على استقراره مما يؤكد ثقة عملائنا، اذ بلغ حجم الودائع ٢٥,٨ مليار دولار أمريكي بما في ذلك ٢,٦ مليار دولار أمريكي تابعة لبنك بلوم مصر، مقارنة مع ٢١,٣ مليار دولار أمريكي المسجلة في نهاية العام ٢٠٢٠ مع استمرار جهود المجموعة في تنويع وتحسين جودة قاعدة الودائع لديها. كما حافظت **مستويات كفاية رأس المال** على قوتها، إذ بلغت نسبة كفاية الفئة الأولى للمجموعة من المستوى ١ نحو ١٥,٩٪، والتي تتألف بالأساس من حقوق ملكية رئيسية من المستوى الأول بنسبة ١٥,٥٪، فضلا عن تعزيز هذه المصادر القوية برأسمال AT1 إضافي بعد موافقة الجمعية العامة غير العادية لترتفع نسب كفاية رأسمال إلى ١٧٪.

٥- أما على صعيد **التحوّل الرقمي**، فقد تم إطلاق برنامج رقمي بالكامل لتهيئة العملاء الجدد من الشركات والمؤسسات المالية، ومنصة تمويل سلاسل التوريد الجديدة، وذلك إدراكًا منا للزيادة في الطلب على الخدمات المصرفية الرقمية والمدفوعات التي غذتها أزمة جائحة كورونا، وبالإضافة إلى ذلك فقد استمر البنك الرقمي الذي قدمناه والمتاح عبر الهاتف المحمول فقط - بنك "إلى" - في التميز، مع اكتساب الزخم اللازم لانطلاقته القادمة في أسواق أخرى في منطقة الشرق الأوسط وشمال إفريقيا، مع وضع أسس متينة تمهيداً لإطلاق البنك في الأردن خلال الربع الثاني من عام ٢٠٢٢.

٦- وبشأن **محافظة المؤسسة على جدارتها الائتمانية من وكالات التصنيف الدولية**، بالرغم مما واجهته المؤسسة من صعوبات وتحديات في أسواقها الرئيسية خلال سنة ٢٠٢١م جراء تداعيات جائحة كورونا، ذكّر الرئيس التنفيذي للمجموعة السادة المساهمين بأن **وكالة التصنيف الائتماني "فيتش" كانت قد عدلت في العام السابق المنظور المستقبلي للتصنيف الائتماني للبنك من "سلبي" إلى "مستقر"**، كما ثبتت التصنيف الائتماني طويل الأجل لسداد الإصدارات بالعملة الأجنبية بدرجة (BB+) وتصنيف القدرة الذاتية

بدرجة (+BB)، لافتا الى أن تغيير المنظور المستقبلي لتصنيف المؤسسة إلى مستقر وقتها **جاء مباشرةً بعد قيام وكالة "فيتش" بمراجعتها السنوية** للتصنيف وانخراط فريق الإدارة التنفيذية في نقاشات مكثفة، حيث تم تعديل منظور التصنيف المستقبلي طويل الأجل لسداد الإصدارات بالعملة الأجنبية من (سلبي -BB) (بعد تغيير التصنيف الائتماني السيادي لمملكة البحرين) الى (+B) ، حيث أوضحت الوكالة حينها لفريق المؤسسة أن تصنيف القدرة الذاتية للبنك ليس مقيداً بتصنيف البحرين السيادي ولكنه محكوم بالسقف الأعلى المسموح به للتصنيف وهو ثلاث درجات فوق التصنيف السيادي.

أما بالنسبة **لوكالة التصنيف الائتماني ستاندرد آند بورز**، أوضح الرئيس التنفيذي للمجموعة أن الوضع مختلف، حيث وضعت الوكالة المؤسسة تحت الرقابة الائتمانية (Credit Watch) في يناير ٢٠٢١م بعد الإعلان عن عملية الاستحواذ على بلوم مصر... إذ مع إقرار الوكالة بالمزايا الإستراتيجية التي يمكن أن تعود على المؤسسة من هذا الاستحواذ كون السوق المصرية كبيرة وتتمتع بإمكانات نمو هامة، لا سيما وان الصفقة سوف تضيف حوالي ٣٠٪ إلى صافي أرباح المجموعة، الا أن الوكالة ترى مع ذلك أن الاستثمار في سوق ناشئة كمصر له أثاره السلبية على زيادة مخاطر المؤسسة وبالتالي متانة قاعدتها الرأسمالية... الأمر الذي قد يتطلب من المؤسسة تعزيز مواردها الرأسمالية بالقدر المطلوب للتعامل مع هذه الخطورة الطارئة إذا ما أرادت المحافظة على تصنيفها الاستثماري وهو ما تسعى اليه المؤسسة من خلال اتفاقية إصدار لأوراق مالية من فئة رأس المال الأولى مع مصرف ليبيا المركزي كما هو معروض لاحقا أمام الجمعية العامة غير العادية.

٧- وبعد أن **أثنى الرئيس التنفيذي للمجموعة على دعم كبار المساهمين** للبنك والعلاقة المهنية الطيبة مع السلطات الرقابية في أسواق عمل المؤسسة، أوضح أن جهود المؤسسة لاقت أيضا الاعتراف من المراقبين خاصة في مجال الابتكار وتمويل التجارة الدولية، أساس برامج المؤسسة الاستراتيجية، حيث حصلت مبادرات المؤسسة في هذا المجال على **العديد من الجوائز** بما في ذلك "**أفضل مختبر للابتكار المالي**" و جائزة "**أفضل بنك رقمي للعملاء**" وجائزة "**أفضل تطبيق للخدمات المصرفية الرقمية**" بالنسبة لبنك "إلى"، خلال **حفل جوائز "جلوبال فايننانس" Global Finance Innovators**، إضافة إلى جائزة "**أفضل بنك لتمويل التجارة الدولية في البحرين**" ضمن جوائز مجلة جي تي آر GTR Leaders in Trade Awards، وجائزة مجلة جلوبال فاينانس لأفضل بنك للخزينة وإدارة النقد في العالم لعام ٢٠٢٢م لكونه "أفضل بنك شامل لإدارة النقد" في البحرين وتونس.

٨- أكد الرئيس التنفيذي للمجموعة أن جهود المؤسسة لم تتوقف عند شركائها في العمل انما امتدت إلى الجمهور، حيث التزمت المؤسسة بالدفع بمبادراتها الساعية لإعطاء دور أكبر **للمرأة من خلال التنوع Diversity**، وأيضا مشاركة المؤسسة في مقاومة أثار **التغير المناخي**، ليعطي الرئيس التنفيذي للمجموعة **لمحة على مبادرات المؤسسة الرئيسية في هذين المجالين الهامين خلال سنة ٢٠٢١م...** والتي استمعت الجمعية العامة لتفاصيلها.

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٩- أفاد الرئيس التنفيذي للمجموعة أخيرا أنه من المتوقع أن يساعد التعافي الاقتصادي الحذر في ٢٠٢٢م مع انحسار آثار الجائحة وارتفاع أسعار الفائدة الى عودة مجريات الأمور الى وتيرة المؤسسة على أهبة الاستعداد للاستفادة منها.

ب- <u>نقاش المساهمين</u>: -

فتح **باب النقاش** أمام السادة المساهمين، حيث **طرحت مجموعة من الاسئلة والمقترحات** تناولت في أهمها الاستحواذ على بنك بلوم مصر، تركز محفظة المؤسسة، ونسبة الدخل مقارنة بالنفقات، وقواعد الإفصاح التي تتبعها **مجموعة العمل المعني بالإفصاح المالي المتعلق بالمناخ** (TCFD)، ثم فرص الترتيب لعرض تحليل مالي ربع سنوي للمساهمين، بالإضافة الى بنك "الى" وذلك كما يلي: -

١- **تساءل أحد السادة المساهمين** عن أهمية الاستحواذ على بنك بلوم مصر وما يعنيه ذلك لربحية المؤسسة على المدى البعيد، حيث **أجاب** الرئيس التنفيذي للمجموعة أنه من **الناحية الإستراتيجية**، فأن الاستحواذ على بنك بلوم في مصر يتسق مع معايير مجلس الإدارة السابق اقرارها في هذا الخصوص، سواء من حيث السوق المختارة، أو طبيعة المنتجات الرئيسية للبنك، أو حجمه والسعر المطلوب للاستحواذ، حيث أن الاستحواذ خلق حالة تحول نوعية في عمل بنك المؤسسة التابع في مصر بوضعه في مصاف الـ ٢٠ بنك الأولى وساعد في زيادة حصته السوقية مقارنة بترتيبه السابق في السوق المصرية، مع ما يتيحه من فرصة لإطلاق منصة جديدة في مصر للاستفادة من مقدرات التكنولوجيا المالية التي تتمتع بها كل من شركة الخدمات المالية العربية وبنك "الى" الرقمي. **أما من الناحية المالية**، فالمتوقع أن يساهم هذا الاستحواذ في **القفز بربحية** بنك المؤسسة التابع في مصر الى معدلات عالية من شأنه الرفع من العائد على حقوق الملكية، كما أن الاستحواذ جنب بنك المؤسسة التابع في مصر تبعات قرارات البنك المركزي المصري الأخيرة الخاصة بزيادة رأس المال للبنوك العاملة في مصر، مما كان يتطلب من مجموعة المؤسسة ضخ مبلغ ٢٠٠ مليون دولار أمريكي إضافية في البنك استجابة لهذه المتطلبات الرقابية والذي سيقود بدوره إلى زيادة نسبة كفاية رأس المال إلى حوالي ٨٥٪ فيما لو لم تتم عملية الاستحواذ... مختتما أن بنك بلوم مصر يُعد من البنوك الرائدة في مصر مع تواجد محلي من خلال ٤١ فرعًا، وسيسهم دمج بنك بلوم مصر مع بنك ABC الحالي في إطلاق استراتيجية جديدة لبناء مركز نفوذ مصرفي في هذا السوق ذو الأهمية الجوهرية في منطقة الشرق الأوسط وشمال إفريقيا بالاعتماد على نقاط القوة في المصرفين.

٢- وفي **سؤال لمساهم آخر** حول **تركز محفظة المؤسسة في قطاعات بعينها (٦٢٪** ضمن ٣ قطاعات فقط هي البنوك والمؤسسات الحكومية وقطاع غير البنوك**)** وإذا ما كانت المؤسسة تتطلع إلى تنويع محفظتها لتشمل قطاعات أخرى، **أجاب** الرئيس التنفيذي للمجموعة أن محفظة المؤسسة التي تتكون من غير البنوك نسبتها أكبر إذا ما قورنت بالقطاعين الآخرين مجتمعين، فضلاً عن تنوع هذه القطاعات عبر أنشطة اقتصادية مختلفة تتفرع من محفظة قطاع غير البنوك تشمل كل مناحي الاقتصاد... وان كان الاشتغال في قطاع المؤسسات الحكومية بشكل جدي يتوائم مع طبيعة تركيبة المؤسسة كبنك جملة ويحقق قدراً من التحفظ الائتماني أيضاً.

وفي **سؤال لذات المساهم** حول **أسباب ارتفاع نسبة الدخل مقارنة بالنفقات، أجاب** الرئيس التنفيذي للمجموعة أن هنالك عوامل رئيسية تؤثر على فعالية جهود المؤسسة في اتجاه خفض النفقات، أهمها افتقار المؤسسة لسوق محلية في البحرين (Home Market)، مما ينعكس بشكل مباشر على ارتفاع نسبة التكلفة الى الدخل إذا ما قورنت المؤسسة ببنوك أخرى لديها نشاط محلي طبيعي يستطيع أن يستوعب النفقات، مؤكدا على أهمية احتفاظ المؤسسة بمركز رئيسي مساند للمجموعة بالمؤسسة دون أن تكون له بالضرورة مصادر نشاط محلية لتغطية نفقاته غير مصدر الدخل المتأتي من منطقة الخليج عموما في مجال صيرفة الجملة فقط... مختتما أن نسبة الدخل مقارنة بالنفقات وإن كانت مرتفعة في الوقت الراهن (٦٥٪) الا أنها تظل (حتى مع استثمارات التحول الرقمي الضرورية لمستقبل المجموعة) معقولة بالمقارنة مع بنوك مماثلة في البحرين والمنطقة وأيضا عالميا... فضلا عن أن الارتفاعات المسجلة فيها خلال السنتين الماضيتين جاءت دون نسبة التضخم بشكل ملحوظ.

وفي سؤال أخير لاحد **المساهمين حول الأوضاع في تونس ومدى استعداد المؤسسة للتعامل مع تراجع جدارتها الائتمانية**، أفاد الرئيس التنفيذي للمجموعة أن المؤسسة تتابع عن قرب تطور الأوضاع الاقتصادية في تونس وأيضا مشروع استقرارها السياسي، ملاحظا أن الأوضاع المالية الحالية في تونس ما تزال قادرة على التعامل مع التحديات القائمة، على أمل التوصل مع صندوق النقد الدولي الى اتفاق يسمح لتونس بالخروج من أزمتها الحالية... حيث تعمل المؤسسة في هذه الأثناء على ترشيد انكشافها على تونس... لافتا إلى أن بنك المؤسسة التابع في تونس يتمتع بمحافظ نظيفة وربحية جيدة خلال السنوات الماضية مما من شأنه المساعدة على تجاوز هذه الفترة بسلام.

٣- وفي **مجموعة من النقاط التي أثارها المساهم علي جعفر علي عبد الله طريف**، حامل رقم ٨١٠١١١٥٢٧، أجاب عليها الرئيس التنفيذي للمجموعة على النحو الآتي: -

- إذا كانت المؤسسة لا تتبع ما تقوم به بعض البنوك الأخرى في البحرين من فتح باب النقاش على بنود جدول الأعمال ذات الطابع المالي، مفضلة عرضها بعد تقرير الرئيس التنفيذي للمجموعة، فذلك لإتاحة أكبر مساحة ممكنة أمام المساهمين للتعامل مع هذه الجوانب المترابطة في اتساق في ضوء عروض الإدارة التنفيذية المفصلة، والتي ربما تكون قد أجابت أي أسئلة قد تخطر على المساهمين... علما أن هذا التقليد في المؤسسة الذي يعود الى عشرات السنين لم يتم التحفظ عليه مسبقاً.

- فيما يتعلق **باتباع المؤسسة لقواعد الإفصاح التي تضعها مجموعة العمل المعنية بالإفصاح المالي المتعلق بالمناخ** (TCFD)، أوضح الرئيس التنفيذي للمجموعة ان هنالك العديد من قواعد الإفصاح الخاصة بالتغير المناخي الا أن المؤسسة تتبع قواعد الإفصاح الصادرة من الـ TCFD، والتي تضع إطارا لمكونات المخاطر المناخية وتأثيراتها المالية على الشركات وتم اعدادها في ظل شح المعلومات المالية المرتبطة بالتغير المناخي وعدم وجود متطلبات رقابية في هذا الشأن، علما أن معظم المصارف العالمية اتفقت على الركون اليها، كما أن مصرف البحرين المركزي يشجع على تبنيها.

- وبشأن **فرص الترتيب لعرض تحليل مالي ربع سنوي للمساهمين**، أفاد الرئيس التنفيذي للمجموعة بأن هذا الطلب تم تقديمه في اجتماع الجمعية العامة السابق، مذكرا بأن المؤسسة يمكن لها الترتيب لعرض ربع سنوي للمساهمين إذا وجدت الرغبة الكافية من المساهمين... موضحا أن الشروحات المالية التي يتم نشرها بشكل ربع سنوي للمساهمين تعتبر وافية لأغراض المساهمين... كما أن المؤسسة لم تتأخر في إجابة أي مساهم طلب مناقشتها، حيث هناك حالات فردية فعلية مسجلة على هذا الصعيد.

- وبخصوص **الأداء المالي لبنك "الى"**، أوضح الرئيس التنفيذي للمجموعة أن النتائج المالية لبنك "الى" سوف يتم نشرها بنهاية هذا الشهر ويمكن الاطلاع عليها للوقوف على الأداء المالي لهذا البنك الجديد.

- فيما يتعلق **بالاهتمام بالحرف "E" في الـ "ESG" دون الحرف "G"** ، **أو أيضا اسقاط الحرف "E" في "D&I"**، أوضح الرئيس التنفيذي للمجموعة أن جانب الحوكمة لم يتم إغفاله حيث تمت تغطيته في عرض الرئيس التنفيذي للمجموعة من خلال الامتثال والحماية ضد السيبرانية مثلا... كما أن حرف "E" في "D&I" لم يسقط وانما فضلت المؤسسة الالتزام في برامج تنوعها بما درجت عليه كل المصارف المركزية الرائدة وان كانت بعض المصادر الأخرى تذكر حرف "E" كما أورده المساهم وان لم يكن ذلك نهج المؤسسة.

- فيما يتعلق **بتأثير ارتفاع أسعار الفائدة على محافظ المؤسسة القصيرة المدى والبعيدة المدى**، أفاد الرئيس التنفيذي للمجموعة بأنه بحسب اختبارات الضغط التي تقوم بها المؤسسة، فان أي ارتفاع في أسعار الفائدة لن يكون له أي تأثيرات سلبية مباشرة أو طويلة المدى على محافظ المؤسسة بحسب تحليلات لجنة بازل... مطمئنا أن الأغلبية العظمى لمحافظ المؤسسة ذات أسعار فائدة متغيرة، وبالتالي تتوقع المؤسسة أن يكون لارتفاع أسعار الفائدة مردودا إيجابيا على محافظها، حيث إن تقديراتنا الأولية لسنة ٢٠٢٢م تضعه في حدود ٢٠ مليون دولار أمريكي.

- أما **بشأن خطط التعاقب الوظيفي بالمؤسسة على صعيد الإدارة التنفيذية**، فأكد الرئيس التنفيذي للمجموعة أنها موضع متابعة مستمرة من مجلس الإدارة وأيضا مصرف البحرين المركزي، لافتا إلى أن وجود لجنة إدارة متماسكة بالمؤسسة أفضل وسيلة لضمان تعاقب وظيفي فعال.

وفي النهاية، **شكر السادة المساهمون الإدارة التنفيذية** للمؤسسة على تميز العرض وشمول الإجابات، متمنين لهم دوام التوفيق.

وبعد هذه النقاشات والمداولات **صادقت الجمعية العامة** على البيانات المالية عن السنة المالية المنتهية في ٣١ ديسمبر ٢٠٢١م كما **تم تقديمها**.

البند الخامس :- المصادقة على توصية مجلس الإدارة بتخصيص صافي أرباح السنة المالية

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المنتهية في ٢٠٢١/١٢/٣١م على النحو التالي: -

٥-١ تحويل مبلغ ٩,٩٦ مليون دولار أمريكي للاحتياطي القانوني.

٥-٢ توزيع أرباح نقدية على المساهمين بواقع ١٪ عن كل سهم متداول (من دون أسهم الخزانة) قدرها ٠,٠١ سنت أمريكي للسهم الواحد، والبالغة إجمالياً حوالي ٣١ مليون دولار أمريكي. آخر يوم تداول لاستحقاق الأرباح ٢٤ مارس ٢٠٢٢م، تاريخ تداول السهم بدون استحقاق ٢٧ مارس ٢٠٢٢م، يوم الاستحقاق ٢٨ مارس ٢٠٢٢م، ويوم الدفع ١١ أبريل ٢٠٢٢م.

٥-٣ تحويل الرصيد المتبقي وهو حوالي ٥٨,٦٧ مليون دولار أمريكي إلى حساب الأرباح المبقاة.

اطلعت الجمعية العامة على الأرباح الصافية للسنة المالية المنتهية في ٢٠٢١/١٢/٣١م والبالغة ١٠٠ مليون دولار أمريكي، وكذلك التوصية المرفوعة إليها من مجلس الإدارة **بتوزيع أرباح نقدية على المساهمين عن السنة المالية المنتهية في ٢٠٢١/١٢/٣١ بواقع ١٪ عن كل سهم متداول (من دون أسهم الخزانة)، ما يمثل تقريباً ٣١٪ من صافي الأرباح**، حيث أوضح السيد رئيس مجلس الإدارة أنه التزاما بسياسة التوزيعات التي اعتمدتها المؤسسة خلال السنوات الثلاث الماضية، يوصي مجلس الإدارة بتوزيع أرباح نقدية بنسبة ١٪ (٠,٠١ دولار أمريكي لكل سهم من دون أسهم الخزانة)، بما يعادل تقريباً ٣١٪ من صافي الأرباح للعام ٢٠٢١م العائدة إلى مساهمي الشركة الأم، أي حوالي ٣١ مليون دولار أمريكي، بحيث لا تمس بمتانة كفاية رأسمال المؤسسة العالية والتي تبقى حتى بعد التوزيع في حدود ١٥،٩٪ ... وفي ذلك مراعاة للتوازن بين مصلحة المساهمين وأداء المؤسسة وصلابة مركزها المالي.

وبعد نقاش أكدت فيه الإدارة التنفيذية بالأخص على أن هذه الصيغة لا تضحي بمصالح أقلية المساهمين لأهمية التوزيع المقترح بحكم مجاراته للتوزيعات في السوق، وإثر المداولة: -

"قررت الجمعية العامة: -

١- المصادقة على تحويل مبلغ ٩,٩٦ مليون دولار أمريكي للاحتياطي القانوني.

٢- توزيع أرباح نقدية على المساهمين بواقع ١٪) ما يمثل تقريباً ٣١٪ من صافي الأرباح) عن كل سهم متداول (من دون أسهم الخزانة) بمبلغ إجمالي قدره حوالي ٣١ مليون دولار أمريكي ابتداء من تاريخ ١١ أبريل ٢٠٢٢م.

٣- تحويل الرصيد المتبقي وهو حوالي ٥٨,٦٧ مليون دولار أمريكي إلى حساب الأرباح المبقاة.

البند السادس :- مناقشة تقرير حوكمة الشركات لسنة ٢٠٢١م والتزام البنك بمتطلبات مصرف البحرين المركزي والمصادقة عليه.

١- **طلب السيد رئيس مجلس الإدارة** من أمين سر الجمعية إطلاع الجمعية العامة على ملخص بنظام الحكم المؤسسي بالمؤسسة العربية المصرفية ومدى التزام المؤسسة بأحكامه، حيث قام أمين سر الجمعية باطلاع السادة أعضاء الجمعية العامة **بالجهود** المبذولة من المؤسسة للامتثال لأفضل مبادئ الحكم المؤسسي المعتمدة عالميا، بما في ذلك القواعد النافذة بمملكة البحرين في هذا الخصوص، مؤكدا أن المؤسسة العربية المصرفية تتبع أفضل إرشادات الحكم المؤسسي ومبادئ الممارسات المعتمدة عالميا ولديها نظام للحكم المؤسسي يوفر إطارا يتسم بالفعالية والشفافية في ممارسة الرقابة الداخلية على نحو منصف.

٢- **أضاف** أمين سر الجمعية بأن المؤسسة تحرص على الافصاح عن المعلومات الهامة بدقة ووضوح إلى المساهمين وأصحاب المصالح المعنيين عن طريق عدة قنوات تشمل الموقع الالكتروني الذي يتم تحديثه بصورة منتظمة مع إصدارها لتقارير سنوية ونصف سنوية وفصلية بشأن الأرباح والأداء المالي.

٣- أما على صعيد **أهم التغييرات الأخيرة** التي تمت خلال العام ٢٠٢١م في هذا الشأن أفاد أمين سر الجمعية بما يلي: -

- في عام ٢٠٢١م، لم تكن هناك تغييرات جوهرية على ميثاق الحكم المؤسسي. ومع ذلك، كانت هناك بعض التغييرات على ميثاق لجنة التدقيق، وميثاق لجنة الامتثال، وميثاق لجنة المخاطر.

- تم تعديل ميثاق لجنة مخاطر في مايو ٢٠٢١م ليعكس عددًا من التغييرات على صلاحيات لجنة المخاطر، على النحو الموصى به من قبل لجنة المخاطر، والتي هدفت بشكل أساسي على مواءمة فترة عضوية الأعضاء لتتزامن مع عضوية أعضاء مجلس الإدارة وتمكين لجنة مخاطر من عقد اجتماعاتها عن طريق الهاتف أو الفيديو.

- إضافةً إلى ذلك، في نوفمبر ٢٠٢١م، وكجزء من المراجعة السنوية لميثاق لجنة التدقيق، تم تحديث ميثاق لجنة التدقيق ليعكس المتطلبات الداخلية لعرض القضايا القانونية الرئيسية المعلقة على لجنة التدقيق بشكل نصف سنوي على النحو الموصى به من قبل لجنة التدقيق.

- أيضًا، في ديسمبر ٢٠٢١م، تم تحديث ميثاق لجنة الامتثال للنص على أن يتم تعيين سكرتير اللجنة من قبل لجنة الامتثال.

٤- **وفي الختام** احال أمين سر الجمعية السادة المساهمين الكرام الى تقرير المؤسسة للحكم المؤسسي الموجود ضمن وثائق الجمعية العامة والذي تم توزيعه ويمكن الرجوع اليه في الصفحة ١٤٢ من الكتيب.

البند السابع :- المصادقة على مكافأة أعضاء مجلس الإدارة لسنة ٢٠٢١م البالغة ١,٢٢٠,٠٠٠ دولار أمريكي، وذلك بعد أخذ موافقة السادة وزارة الصناعة والتجارة والسياحة.

أوضح السيد الرئيس للجمعية العامة ان مبلغ مكافأة اعضاء مجلس الادارة **معروض في هذا البند للمصادقة فقط بعد أن تم الكتابة للسادة وزارة التجارة والصناعة بهذا الشأن،** وهو مفصح عنه في تقرير مجلس الإدارة وفي تقرير الحكم المؤسسي (والواردين في الصفحات ٣٦ و١٤٨ من كتيب الجمعية)، حيث بلغت مكافآت أعضاء مجلس الإدارة خلال ٢٠٢١م **١,٢٢٠,٠٠٠ دولار أمريكي...** مذكرا أن **مكافآت أعضاء مجلس الإدارة تم صرفها وفقًا لسياسة المؤسسة الخاصة بمكافآت أعضاء مجلس الإدارة ("سياسة المكافآت")**، والتي تم اعتمادها من قبل الجمعية العامة في ٢١ مارس ٢٠٢١م وفقًا لأحكام المادة ٢٨ (ب) من النظام الأساسي للمؤسسة على أن تظل سارية لمدة أربع سنوات إلى حين انعقاد اجتماع الجمعية العامة العادية للبنك في ٢٠٢٥م، حيث قررت الجمعية العامة الموافقة على اعتماد سياسة مكافآت أعضاء مجلس إدارة البنك بتفاصيلها المعروضة في الصفحات ١٣٢-١٣٤ من كتيب الجمعية السابق، وذلك بعد أن تم تعديل أحكام المادة ٢٨ من النظام الأساسي للمؤسسة، وموافقة السادة وزارة التجارة والصناعة والسياحة على هذا التعديل... مختتما أن المؤسسة **أخذت موافقة الوزارة المسبقة في استمرار هذا التوزيع واتفاقه مع الإجراءات المعتمدة بحسب ما تم ذكره... وبعد المداولة:**

"**قررت الجمعية العامة** المصادقة على مكافأة أعضاء مجلس الإدارة لسنة ٢٠٢١م البالغة ١,٢٢٠,٠٠٠ دولار أمريكي، وذلك بعد أن تم أخذ موافقة السادة وزارة الصناعة والتجارة والسياحة".

البند الثامن :- ابراء ذمة أعضاء مجلس الإدارة عن تصرفاتهم خلال السنة المالية المنتهية في ٢٠٢١/١٢/٣١م.

قررت الجمعية العامة إبراء ذمة أعضاء مجلس الإدارة عن تصرفاتهم خلال السنة المالية المنتهية في ٢٠٢١/١٢/٣١م.

البند التاسع النظر في إعادة تعيين السادة ارنست ويونغ كمدققين لحسابات البنك للسنة المالية المنتهية في ٣١ ديسمبر ٢٠٢٢م، بعد اخذ موافقة السادة مصرف البحرين المركزي وتخويل مجلس الإدارة بتحديد أتعابهم.

قررت الجمعية العامة إعادة تعيين السادة (ارنست ويونغ) كمدققين لحسابات المؤسسة للسنة المالية المنتهية في ٢٠٢٢/١٢/٣١م مع تخويل مجلس الإدارة الحق في تحديد أتعابهم، وذلك بعد ملاحظتها عدم ممانعة مصرف البحرين المركزي في هذا التعيين.

البند العاشر :- المصادقة على تعيين السيدة/ هدى الموسى (ممثلة الهيئة العامة

للاستثمار) كعضو مجلس إدارة في مجلس إدارة البنك.

طلب السيد رئيس مجلس الإدارة من الجمعية العامة المصادقة على تعيين السيدة/ هدى الموسى (ممثلة الهيئة العامة للاستثمار) كعضو مجلس إدارة في مجلس إدارة البنك (والواردة نبذه من سيرتها الذاتية في الصفحة ١٦٢ من كتيب الجمعية)، والتي انضمت الى مجلس إدارة البنك في يوليو ٢٠٢١م لتكمل مدة سلفها وفقا لأحكام المادة ٢٠ من النظام الأساسي للمؤسسة، حيث **أفادت الجمعية العامة** بمصادقتها على تعيين السيدة/ هدى الموسى (ممثلة الهيئة العامة للاستثمار) كعضو مجلس إدارة في مجلس إدارة البنك.

البند الحادي عشر :- انتخاب أعضاء لمجلس الإدارة عن دورته الرابعة عشرة لفترة جديدة مدتها ثلاث سنوات.

أشار السيد رئيس مجلس الادارة الى **النشرة الواردة في الصفحات ١٦٤-١٦٥ من كتيب الجمعية العامة** والخاصة بانتخاب أعضاء مجلس الادارة للدورة الرابعة عشرة للمجلس، حيث ذكر أن مجلس الادارة قرر الموافقة على توصية لجنة الحكم المؤسسي بالموافقة على أسماء المرشحين لعضوية مجلس الادارة للدورة القادمة و الواردة أسماؤهم أدناه، علما أن عدد المرشحين لعضوية المجلس لشغل تسعة مقاعد لا يتجاوز عدد العضويات الحالية للمجلس، و الأمر معروض على الجمعية العامة الموقرة للموافقة بالتزكية على تعين أو انتخاب السادة المرشحين للدورة الرابعة عشر للمجلس بحسب صفاتهم وهم:

أ- مصرف ليبيا المركزي: -

السيد الصديق عمر الكبير
السيد طارق يوسف المقريف
السيد أشرف مختار

ب- الهيئة العامة للاستثمار – دولة الكويت: -

السيد محمد عبدالرضا سليم
السيدة هدى الموسى

وفيما يتعلق بممثلي المساهمين من شريحة الجمهور المكتتبين بأسهم البنك يوصي مجلس الإدارة (في ضوء مشورة لجنة الحكم المؤسسي) بانتخاب كل من السادة **الدكتور فاروق العقدة، والسيد/ خليل نور الدين، والسيد/ عبد الله الحميضي، والدكتور إبراهيم الدنفور** لعضوية مجلس الادارة.

أولا: - الأعضاء المعينون المطلوب تعينهم وفقا لأحكام المادة ١٩ من النظام الأساسي للمؤسسة.

١. السيد الصديق عمر الكبير
٢. السيد طارق يوسف المقريف
٣. السيد أشرف مختار
٤. السيد محمد عبدالرضا سليم

٥. السيدة هدى الموسى

ثانيا: - الأعضاء المستقلون من شريحة الجمهور.

١. الدكتور فاروق العقدة
٢. السيد/ خليل نور الدين
٣. السيد/ عبد الله الحميضي
٤. الدكتور إبراهيم الدنفور

ثالثا:- في ضوء انحسار المرشحين في عدد ٩ بالمساواة لعدد أعضاء مجلس الإدارة **قررت الجمعية العامة انتخاب مجلس إدارتها كما يلي: -**

أ- **المعينون من كبار المساهمين: -**
السيد/ الصديق عمر الكبير
الدكتور طارق يوسف
السيد/ أشرف مختار
السيدة/ هدى الموسى
السيد/ محمد عبدالرضا سليم

ب- **المنتخبون من مساهمي شريحة الجمهور: -**
الدكتور فاروق العقدة
السيد/ عبد الله الحميضي
السيد/ خليل نور الدين
الدكتور إبراهيم الدنفور.

البند الثاني عشر :- **اطلاع الجمعية العامة على المعاملات مع الاطراف ذات العلاقة حسب المادة ١٨٩ (ج) من قانون الشركات التجارية وكما هو وارد في الايضاح رقم ٢٧ من القوائم المالية الموحدة للسنة المالية المنتهية في ٢٠٢١/١٢/٣١م.**

طلب السيد رئيس **مجلس الإدارة** من الجمعية العامة الإفادة باطلاعها على الايضاح رقم ٢٧ من القوائم المالية الموحدة للسنة المالية المنتهية في ٢٠٢١/١٢/٣١م (ص ١٢٧ من كتيب الجمعية العامة) كما تم توزيعها على السادة المساهمين قبل اجتماع الجمعية العامة.

حيث **افادت الجمعية العامة باطلاعها** على الايضاح رقم ٢٧ من القوائم المالية الموحدة للسنة المالية المنتهية في ٢٠٢١/١٢/٣١م.

البند الثالث عشر :- **ما يستجد من أعمال طبقا لنص المادة ٢٠٧ من قانون الشركات التجارية.**

سجلت الجمعية العامة **عدم وجود** أي بنود مستجدة طبقا لنص المادة ٢٠٧م من قانون الشركات التجارية.

وفي ختام أعمال الجمعية العامة غير العادية، أعرب السادة المساهمون عن شكرهم لمجلس الإدارة وكبار المساهمين، مجددين ثقتهم في مسيرة المؤسسة، كما سجل السيد رئيس الجمعية شكره الجزيل لصاحب الجلالة **الملك حمد بن عيسى آل خليفة** ملك مملكة البحرين **وصاحب السمو الملكي الأمير سلمان بن حمد بن عيسى آل خليفة** ولي العهد رئيس الوزراء نائب القائد الاعلى على دعمهم الدائم للمؤسسة،...كما خص بشكره أيضا **سعادة الشيخ سلمان بن خليفة آل خليفة** وزير المالية و**سعادة السيد زايد بن راشد الزياني** وزير الصناعة والتجارة والسياحة في مملكة البحرين و**سعادة السيد رشيد المعراج** محافظ مصرف البحرين المركزي على دعمه الدائم للمؤسسة **وسعادة الشيخ خليفة بن ابراهيم آل خليفة الرئيس التنفيذي** لبورصة البحرين وذلك على دعمهم أيضا الدائم للمؤسسة.

وبانتهاء النظر في بنود جدول الأعمال، **رفعت** الجلسة والساعة تشير إلى **الثانية وخمس وثلاثون دقيقة ظهرا.**

عبد الخالق شايب	**الصديق عمر الكبير**
أمين سر الجمعية العامة	رئيس الجمعية العامة

Directors' Report

Directors' Report

ACCELERATING PERFORMANCE WHILE BUILDING THE BANK OF THE FUTURE.

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

Before returning to our results and achievements, 2022 also marked the retirement of Group CEO, Dr. Khaled Kawan, bringing to end a remarkable career with the Bank. Dr. Kawan joined Bank ABC in 1991 and served in a variety of local and global roles until 2013, when he was appointed as Group CEO. His years of service made a strong contribution to the growth of Bank ABC and he will remain associated with the Group as a member of the Board of several ABC subsidiaries.

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.

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 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 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 achieved an excellent expansion of its customer base across the Bank's network of presence and non-presence coverage markets during the year. Capitalizing 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.

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.

Industry-wide awards

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 named us for 'Best Digital Banking Initiative' and named us '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 the Bank ABC's Kuveyt Türk transaction the 'Islamic Capital Markets Deal of the Year.'

ila Bank, took home '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 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 recognise my colleagues on the Board for their astute direction during 2022, and to 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.

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:

Name	Fixed remunerations					Variable remunerations					End-of-service award	Aggregate amount (Does not include expense allowance)	Expenses Allowance
	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			
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 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

Auditors' Report

Building a better
working world

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF ARAB BANKING CORPORATION (B.S.C.)

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.) (continued)

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

Key audit matters (continued)

<u>*Impairment provision for loans and advances*</u>

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.	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.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF ARAB BANKING CORPORATION (B.S.C.) (continued)

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*
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.	• 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.) (continued)

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

Key audit matters (continued)

<u>*Impairment provision for loans and advances (continued)*</u>

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.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF ARAB BANKING CORPORATION (B.S.C.) (continued)

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

Key audit matters (continued)

<u>*Finalisation of purchase price allocation (PPA) and impairment assessment of goodwill*</u>

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 specialized 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 finalization of PPA. We also involved our specialists in performing the above procedures.

Building a better working world

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF ARAB BANKING CORPORATION (B.S.C.) (continued)

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 (continued)

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.) (continued)

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

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.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF ARAB BANKING CORPORATION (B.S.C.) (continued)

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

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

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF ARAB BANKING CORPORATION (B.S.C.) (continued)

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

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

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF ARAB BANKING CORPORATION (B.S.C.) (continued)

Report on other legal and regulatory requirements (continued)

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 Financial Statement

31 December 2022

Arab Banking Corporation (B.S.C.)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2022

All figures in US$ Million

	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

The attached notes 1 to 36 form part of these consolidated financial statements.

Arab Banking Corporation (B.S.C.)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2022

All figures in US$ Million

	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

The attached notes 1 to 36 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2022

All figures in US$ Million

	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

The attached notes 1 to 36 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2022

All figures in US$ Million

	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.

The attached notes 1 to 36 form part of these consolidated financial statements.

Arab Banking Corporation (B.S.C.)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2022

All figures in US$ Million

	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).

The attached notes 1 to 36 form part of these consolidated financial statements.

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.

2 BASIS OF PREPARATION (continued)

2.3 Basis of consolidation (continued)

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.

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.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.8 Leases - Group as a lessee (continued)

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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.12 Recognition of income and expenses (continued)

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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.14 Financial instruments (continued)

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:

(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.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.15 Financial assets (continued)

4.15.1 Debt type instruments - classification and subsequent measurement (continued)

- 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 realizing 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:

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.15 Financial assets (continued)

4.15.3 SPPI test (continued)

- 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 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.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.15 Financial assets (continued)

4.15.6 Modified or forbearance of loans (continued)

- 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

- 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.15 Financial assets (continued)

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).

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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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;

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.18 Impairment of financial assets (continued)

Measurement of ECL (continued)

- 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.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.18 Impairment of financial assets (continued)

Stage 1 (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 reorganization; 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.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.18 Impairment of financial assets (continued)

Stage 3 (continued)

- 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.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.19 Impairment of non-financial assets (continued)

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 the carrying amount that would have been determined, net of depreciation or amortization, 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.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.22 Derivatives and hedging activities (continued)

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.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.22 Derivatives and hedging activities (continued)

(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:

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.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.23 Fair value measurement (continued)
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.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.24 Taxation on foreign operations (continued)

Deferred tax (continued)
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 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).

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.25 Foreign currencies (continued)

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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 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.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.33 Significant accounting judgements, estimates and assumptions (continued)

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.

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**

	FVTPL	***FVOCI***	***Amortised cost***	***Total***
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

	FVTPL	*FVOCI*	*Amortised cost*	*Total*
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

All figures in US$ Million

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	*(Restated) 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 (Restated)*
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

All figures in US$ Million

8 NON-TRADING INVESTMENTS (continued)

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).

All figures in US$ Million

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 (Restated)				
	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 (Restated)*	***2022***	*2021 (Restated)*	***2022***	*2021 (Restated)*
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

All figures in US$ Million

9 LOANS AND ADVANCES (continued)

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).

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

		(Restated)
	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

All figures in US$ Million

12 TAXATION ON FOREIGN OPERATIONS

Determining the Group's taxation charge for the year involves a degree of estimation and judgement.

	2022	(Restated) 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.

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

Aggregate maturities	**Currency**	**Rate of interest %**	***Parent bank***	***Subsidiaries***	***Total***
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

Aggregate maturities	Currency	Rate of interest %	*Parent bank*	*Subsidiaries*	*Total*
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).

All figures in US$ 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 INCOME

	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

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.

All figures in US$ Million

20 GROUP INFORMATION (continued)

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.

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

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.

All figures in US$ Million

21 DERIVATIVES AND HEDGING (continued)

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.

All figures in US$ Million

21 DERIVATIVES AND HEDGING (continued)

Net investment in foreign operation (net investment hedge)

The Group has an investment in a foreign operation which is consolidated in its financial statements. 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

All figures in US$ Million

22 CREDIT COMMITMENTS AND CONTINGENT ITEMS (continued)

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

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 2	**(3)**	**3**	**-**	**-**	**-**
Transfers to stage 3	**-**	**(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**

All figures in US$ Million

22 CREDIT COMMITMENTS AND CONTINGENT ITEMS (continued)

	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

All figures in US$ Million

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**

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

All figures in US$ Million

24 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

24.2 31 December 2021 (continued)

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).

All figures in US$ Million

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 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 RISK MANAGEMENT (continued)

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.

All figures in US$ Million

25 RISK MANAGEMENT (continued)

25.4 Credit risk (continued)

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.

25 RISK MANAGEMENT (continued)

25.4 Credit risk (continued)

25.4.1 Credit risk assessment and mitigation (continued)

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.

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.

All figures in US$ Million

25 RISK MANAGEMENT (continued)

25.4 Credit risk (continued)

25.4.1 Credit risk assessment and mitigation (continued)

Credit risk grading and PD estimation process (continued)

Wholesale portfolio (continued)
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.

All figures in US$ Million

25 RISK MANAGEMENT (continued)

25.4 Credit risk (continued)

25.4.1 Credit risk assessment and mitigation (continued)

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.

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)

25 RISK MANAGEMENT (continued)

25.4 Credit risk (continued)

25.4.1 Credit risk assessment and mitigation (continued)

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.

All figures in US$ Million

25 RISK MANAGEMENT (continued)

25.4 Credit risk (continued)

25.4.1 Credit risk assessment and mitigation (continued)

Measuring ECL – Explanation of inputs, assumptions and estimation techniques (continued)

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. .

All figures in US$ Million

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%]

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.

All figures in US$ Million

25 RISK MANAGEMENT (continued)

25.4 Credit risk (continued)

25.4.1 Credit risk assessment and mitigation (continued)

Economic variable assumptions (continued)

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%.)
Equity index

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	
		(Restated)
	2022	*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**

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)

	Assets				
	2021 (Restated)				
	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

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

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 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 (Restated)				
	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

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	
		(Restated)
	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**

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)

	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

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***				
	High grade	***Standard grade***	***Past due but not impaired***	***Past due and individually impaired***	***Total***
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*				
	High grade	*Standard grade*	*Past due but not impaired*	*Past due and individually impaired*	*Total*
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

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)

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.

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.

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)

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.

25.4.5 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%).

All figures in US$ Million

25 RISK MANAGEMENT (continued)

25.4 Credit risk (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.

All figures in US$ Million

25 RISK MANAGEMENT (continued)

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 minimized 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)

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 prioritizing 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.

All figures in US$ Million

25 RISK MANAGEMENT (continued)

25.7 Interest rate risk in the banking book (continued)

Managing interest rate benchmark reform and associated risks (continued)

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 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.

	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%	-	-

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.

All figures in US$ Million

25 RISK MANAGEMENT (continued)

25.9 Equity price risk (continued)

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		*2021*	
	Change in		*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

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;
- Standardized Operational Risk Taxonomy
- Incident management;
- Risk & Control Self-Assessments;
- Issue and Action management; and
- Key Risk Indicators.
- Risk Register

All figures in US$ Million

25 RISK MANAGEMENT (continued)

25.10 Operational risk (continued)

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.

All figures in US$ million

25 RISK MANAGEMENT (continued)

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 monetized 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.

	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

All figures in US$ million

25 RISK MANAGEMENT (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
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 1 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%

All figures in US$ Million

25 RISK MANAGEMENT (continued)

25.11 Liquidity risk (continued)

In addition, the internal liquidity/maturity profile is generated to summarize 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

All figures in US$ Million

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.

All figures in US$ Million

25 RISK MANAGEMENT (continued)

25.11 Liquidity risk (continued)

At 31 December 2021 (Restated)	*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	-		

All figures in US$ Million

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*	*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**

All figures in US$ Million

26 OPERATING SEGMENTS (continued)

	2021					
	MENA subsidiaries	*International wholesale banking*	*Group treasury*	*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:

2022	***Bahrain***	***Europe***	***Brasil***	***Other***	***Total***
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).

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).

All figures in US$ 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

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.

CAPITAL BASE		***2022***	*2021*
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

All figures in US$ Million

33 CAPITAL ADEQUACY (continued)

RISK WEIGHTED EXPOSURES

		2022	*2021*
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

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**

All figures in US$ Million

35 BUSINESS COMBINATION ON ACQUISTION (continued)

35.4 Identifiable assets acquired and liabilities assumed (continued)

	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**

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:

(Restated)	***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)**

All figures in US$ Million

35 BUSINESS COMBINATION ON ACQUISTION (continued)

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**

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:

Consolidated statement of financial position

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

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.

All figures in US$ Million

35 BUSINESS COMBINATION ON ACQUISTION (continued)

35.9 Impairment testing of Goodwill and CDI acquired (continued)

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.

Group Financial Review

Group Financial Review

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

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 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	**1**	1	**1**	2
North America	**15**	11	**7**	3	**9**	7
Latin America	**26**	23	**19**	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 48% (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	**12**	12
3-6 months	**9**	8	**5**	7
6-12 months	**10**	10	**15**	11
Over 1 year	**27**	36	**25**	30
Undated	**9**	7	**19**	17
	100	100	**100**	100

Distribution of credit exposure

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:

	Funded exposure		Credit commitments & contingent items		Derivatives*	
(US$ millions)	**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).

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.

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 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 program 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.

Corporate Governance

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.

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 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 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 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.

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.

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 Remuneration Committee (see the description of role of the 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 appendix 1.

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 Group 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 Group Audit Committee, the Remuneration Committee, Group 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 between the three elements as follows:

Name	Fixed remunerations					Variable remunerations					End-of-service award	**Aggregate amount** (Does not include expense allowance)	**Expenses Allowance**
	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			
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**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

Note: The aggregate remuneration paid to the members of the 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 **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 Corporate Governance Committee meets not less than once a year.
- The **Group 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 Group Audit Committee meets not less than four times a year.
- The **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 Remuneration Committee meets not less than twice per year.
- The **Group 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 Group 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 were 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 Corporate Governance Committee	Dr. Farouk El Okdah	Chairman	Independent
	Mr. Abdallah Al Humaidhi	Member	Independent
	Dr. Tarik Yousef	Member	Non-Independent
The Group Audit Committee	Mr. Khalil Nooruddin	Chairman	Independent
	Ms. Huda Al Mousa	Member	Non-Independent
	Dr. Ibrahim Eldanfour	Member	Independent
	Dr. Tarik Yousef	Member	Non-Independent
The Remuneration Committee	Dr. Farouk El Okdah	Chairman	Independent
	Mr. Abdallah Al Humaidhi	Member	Independent
	Dr. Ibrahim El Danfour	Member	Independent
The Group 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 Corporate Governance Committee	The Group Audit Committee	The Remu-neration Committee	The 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 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 Corporate Governance Committee in March 2022
[15] Appointed to The 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 Group Audit Committee in March 2022
[19] Appointed to The Remuneration Committee in March 2022
[20] Appointed to The 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 Group Audit Committee in March 2022
[25] Appointed to The 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 Group Audit Committee in March 2022
[31] Retired from The 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 Group Audit Committee in March 2022
[35] Retired from The 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 Corporate Governance Committee in March 2022
[39] Retired from The Group Audit Committee in March 2022
[40] Retired from The 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 Group Audit Committee meets no less than four times a year, the Remuneration Committee meets no less than twice a year, the Board Risk Committee meets no less than three times a year, the Corporate Governance Committee meet no less than once a year, and the Group 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 Corporate Governance Committee	10 February 2022 22 March 2022 24 July 2022 10 December 2022
The Group Audit Committee	31 January 2022 26 April 2022 16 May 2022 14 June 2022 3 August 2022 31 October 2022 4 December 2022
The Remuneration Committee	24 July 2022 5 November 2022 10 December 2022
The Group 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 Group 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 Corporate Governance Committee and the 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 Group 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 appendix 2.

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.

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 recognized 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, anti-money laundering reviews, 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.

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 Central Bank of Bahrain (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 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.

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 2019 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.

Appendices

Appendix 1:
Board of Directors Biographies

Board of Directors Biographies

Mr. Saddek Omar El Kaber
Chairman
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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 Vice Chairman in the Arab Banking Corporation. 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.

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

MBA degree 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.

Dr. Ibrahim El Danfour
Director

AC RC RemCo CC ‡ §

PhD in Accounting, Glasgow Caledonian University, Glasgow, The 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 participator in related high profile events and conferences. He has 13 years of banking experience.

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.

Ashraf Mukhtar
Director

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MSC 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.

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 authorization 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. 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.

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

Appendix 2:
Management Organisation Chart

Bank ABC Group Organisational Chart