

Arab Banking Corporation (B.S.C.)

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2022

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)

Impairment provision for loans and advances

Description of key audit matter	How the key audit matter was addressed in the audit
<p>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.</p>	<p>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:</p> <ul style="list-style-type: none"> ● We assessed: <ul style="list-style-type: none"> - 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
<p>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.</p>	<ul style="list-style-type: none"> ● 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)

Impairment provision for loans and advances (continued)

Description of key audit matter	How the key audit matter was addressed in the audit
<p>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.</p> <p>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.</p>	<ul style="list-style-type: none"> ● For a sample of exposures, we performed procedures to evaluate: <ul style="list-style-type: none"> - 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. <p>We also involved our specialists in performing the above procedures.</p>

**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

Description of key audit matter	How the key audit matter was addressed in the audit
<p>a) Finalisation of purchase price allocation exercise</p> <p>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.</p> <p>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.</p>	<p>Significant procedures performed by us included the following:</p> <ul style="list-style-type: none"> • 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. <p>We also involved our specialists in performing the above procedures.</p>

**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
<p>b) Goodwill impairment assessment</p> <p>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.</p> <p>Refer notes 4 and 35 for details on finalisation of PPA and the significant judgements and estimates involved in impairment assessment of goodwill.</p>	<p>With respect to goodwill impairment assessment, significant procedures performed by us included the following:</p> <ul style="list-style-type: none"> • 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. <p>We also involved our specialists in performing the above procedures.</p>

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.

A handwritten signature in black ink that reads 'Ernst & Young' in a cursive, script font.

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

Arab Banking Corporation (B.S.C.)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

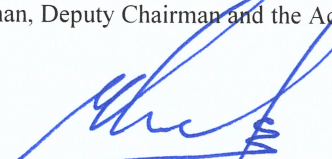
31 December 2022

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			
Share capital	15	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.)

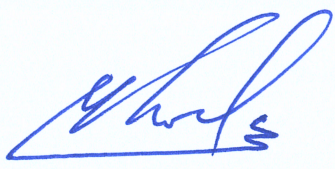
CONSOLIDATED STATEMENT OF PROFIT OR LOSS

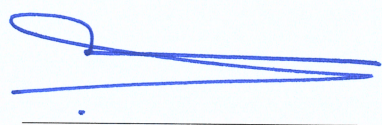
Year ended 31 December 2022

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.

Arab Banking Corporation (B.S.C.)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2022

All figures in US\$ Million

	<i>Note</i>	2022	2021
PROFIT FOR THE YEAR		209	128
Other comprehensive income (loss):			
<i>Other comprehensive income (loss) that will be reclassified (or recycled) to profit or loss in subsequent periods:</i>			
<u>Foreign currency translation:</u>			
Unrealised loss on exchange translation in foreign subsidiaries		(139)	(69)
<u>Debt instruments at FVOCI:</u>			
Net change in fair value during the year	15 (e)	(85)	43
		(224)	(26)
<i>Other comprehensive income (loss) that will not be reclassified (or recycled) to profit or loss in subsequent periods:</i>			
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.

Arab Banking Corporation (B.S.C.)

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		<u>935</u>	<u>3,143</u>
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		<u>(423)</u>	<u>(1,955)</u>
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		<u>(169)</u>	<u>(361)</u>
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		<u>2,586</u>	<u>1,752</u>
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	6	<u><u>2,848</u></u>	<u><u>2,586</u></u>

*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 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).

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 forbore 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 forbore; 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 forbore 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 forbore 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 ARR. 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 and 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 recognised 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.

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5 CLASSIFICATION OF FINANCIAL INSTRUMENTS

As at 31 December, financial instruments have been classified as follows:

At 31 December 2022	<i>FVTPL</i>	<i>FVOCI</i>	<i>Amortised cost</i>	<i>Total</i>
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
	<u>1,653</u>	<u>7,314</u>	<u>27,271</u>	<u>36,238</u>
	<i>FVTPL</i>	<i>FVOCI</i>	<i>Amortised cost</i>	<i>Total</i>
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
	<u>809</u>	<u>-</u>	<u>31,126</u>	<u>31,935</u>
	<i>FVTPL</i>	<i>FVOCI</i>	<i>Amortised cost</i>	<i>Total</i>
At 31 December 2021 (Restated)				
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
	<u>1,720</u>	<u>7,173</u>	<u>25,509</u>	<u>34,402</u>
	<i>FVTPL</i>	<i>FVOCI</i>	<i>Amortised cost</i>	<i>Total</i>
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
	<u>693</u>	<u>-</u>	<u>29,835</u>	<u>30,528</u>

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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

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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).

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

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:

	<i>2022</i>				
	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>POCI</i>	<i>Total</i>
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
	<i>2021 (Restated)</i>				
	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>POCI</i>	<i>Total</i>
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).

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10 CREDIT LOSS EXPENSE

	<i>2022</i>			<i>Total</i>
	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	
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
	<i>2021</i>			
	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
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

	<i>(Restated)</i>	
	<i>2022</i>	<i>2021</i>
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:

	<i>Right-of-use assets</i>	
	<i>2022</i>	<i>2021</i>
As at 1 January	48	57
Add: New/terminated leases - net	16	2
Less: Amortisation	(10)	(10)
Add: Acquired through business combination	-	1
Others (including foreign exchange movements)	(2)	(2)
As at 31 December	52	48

12 TAXATION ON FOREIGN OPERATIONS

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

	<i>(Restated)</i>	
	2022	2021
Consolidated statement of financial position		
Current tax liability	20	22
Deferred tax liability	64	61
	<u>84</u>	<u>83</u>
Consolidated statement of profit or loss		
Current tax on foreign operations	70	52
Deferred tax on foreign operations	13	(1)
	<u>83</u>	<u>51</u>
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	<u>83</u>	<u>51</u>

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
	<u>2,264</u>	<u>1,514</u>

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.

13 OTHER LIABILITIES (continued)

Below are the carrying amounts of the Group's lease liabilities and movements :

	<i>Lease liabilities</i>	
	<i>2022</i>	<i>2021</i>
As at 1 January	50	60
Add: New/terminated leases - net	16	2
Add: Acquired through business combination	-	1
Add: Interest expense	2	2
Less: Repayments	(11)	(13)
Others (including foreign exchange movements)	(2)	(2)
As at 31 December	55	50

14 BORROWINGS

In the ordinary course of business, the Bank and certain subsidiaries raise term financing through various capital markets at commercial rates.

Total obligations outstanding at 31 December 2022

	Currency	Rate of interest	Parent bank	Subsidiaries	Total
Aggregate maturities		%			
2023	US\$	<i>SOFR +1.35%</i>	-	175	175
2024	EUR	<i>EURIBOR +1.15%</i>	-	53	53
2027	US\$	<i>SOFR +2%</i>	470	-	470
2028	US\$	<i>SOFR +2%</i>	470	-	470
2029	US\$	<i>2.67%</i>	-	30	30
2023-2027	TND	<i>8.2-11.50%</i>	-	7	7
Perpetual**	BRL	<i>Selic *1.2</i>	-	92	92
			940	357	1,297

Total obligations outstanding at 31 December 2021

	Currency	Rate of interest	Parent bank	Subsidiaries	Total
Aggregate maturities		%			
2023	US\$	<i>LIBOR + 1.20%</i>	-	175	175
2027*	US\$	<i>LIBOR +2%</i>	470	-	470
2028*	US\$	<i>LIBOR +2%</i>	470	-	470
2022-2027	TND	<i>10.00-11.50%</i>	-	11	11
Perpetual**	BRL	<i>Selic *1.47</i>	-	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).

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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

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
	<u>1,253</u>	<u>664</u>

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
	<u>314</u>	<u>277</u>
Gain (loss) on hedging foreign currency movements**	1	(15)
	<u>315</u>	<u>262</u>

*Included in the fee and commission income is US\$ 12 million (2021: US\$ 14 million) of fee income relating to funds under management.

**Gain (loss) on hedging foreign currency movements relate to a transaction which has an offsetting impact on the tax expense for the year.

20 GROUP INFORMATION

20.1 Information about subsidiaries

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

	Principal activities	Country of incorporation	Interest of Arab Banking Corporation (B.S.C.)	
			2022	2021
			%	%
ABC International Bank Plc	Banking	United Kingdom	100.0	100.0
ABC SA	Banking	France	100.0	100.0
ABC Islamic Bank (E.C.)	Banking	Bahrain	100.0	100.0
Arab Banking Corporation (ABC) - Jordan	Banking	Jordan	87.0	87.0
Banco ABC Brasil S.A.	Banking	Brazil	63.7	61.8
ABC Algeria	Banking	Algeria	88.9	88.9
Arab Banking Corporation - Egypt [S.A.E.]	Banking	Egypt	99.8	99.8
ABC Tunisie	Banking	Tunisia	100.0	100.0
Arab Financial Services Company B.S.C. (c)	Credit card and Fintech services	Bahrain	90.4	60.3
Blom Bank - Egypt [S.A.E.] (note 35)	Banking	Egypt	99.5	99.5

20.2 Significant restrictions

The Group does not have significant restrictions on its ability to access or use its assets and settle its liabilities other than those resulting from supervisory frameworks within which banking subsidiaries operate. The supervisory frameworks require banking subsidiaries to keep certain levels of regulatory capital and liquid assets, limit their exposure to other parts of the Group and comply with other ratios. In certain jurisdictions, distribution of reserves is subject to prior supervisory approval.

20 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

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		
	<i>Positive fair value</i>	<i>Negative fair value</i>	<i>Notional amount</i>	<i>Positive fair value</i>	<i>Negative fair value</i>	<i>Notional amount</i>
<i>Derivatives held for trading</i>						
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
<i>Derivatives held as hedges</i>						
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.

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.

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:

	<i>Within 1 month</i>	<i>1 - 3 months</i>	<i>3 - 6 months</i>	<i>6 - 12 months</i>	<i>1 - 5 years</i>	<i>5-10 years</i>	<i>Over 10 years</i>	<i>Total</i>
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

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

22 CREDIT COMMITMENTS AND CONTINGENT ITEMS (continued)

	2021				Total
	Stage 1	Stage 2	Stage 3	POCI	
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	
	Currency	US\$ equivalent	Currency	US\$ equivalent
Long (short)				
Brazilian Real	3,366	637	2,920	524
Pound Sterling	(5)	(6)	21	29
Egyptian Pound	8,886	359	8,458	538
Jordanian Dinar	87	123	104	147
Algerian Dinar	22,828	166	22,340	161
Tunisian Dinar	83	27	124	43
Euro	83	89	37	42
Bahraini Dinar	14	37	(17)	(44)
Omani Riyal	2	5	21	55

24 FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table provides the fair value measurement hierarchy of the Group's financial assets and financial liabilities.

24.1 31 December 2022

Quantitative disclosure of fair value measurement hierarchy for assets as at 31 December 2022:

Financial assets measured at fair value (net of ECL) :

	<i>Level 1</i>	<i>Level 2</i>	<i>Total</i>
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:

	<i>Level 1</i>	<i>Level 2</i>	<i>Total</i>
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.

	<i>Carrying value</i>	<i>Fair value</i>
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):

	<i>Level 1</i>	<i>Level 2</i>	<i>Total</i>
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

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:

	<i>Level 1</i>	<i>Level 2</i>	<i>Total</i>
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.

	<i>(Restated)</i>	
	<i>Carrying</i>	<i>Fair value</i>
	<i>value</i>	<i>Fair value</i>
Financial assets		
Non-trading investments at amortised cost - gross (level 1 and level 2)	1,723	1,704
Financial liabilities		
Borrowings - perpetual (level 1)	85	87

Financial instruments in level 1

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

Financial instruments in level 2

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

Transfers between level 1 and level 2

There were no transfers between level 1 and level 2 during the year ended 31 December 2022 (31 December 2021: none).

25 RISK MANAGEMENT

25.1 Introduction

Risk is inherent in the Group's activities and is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. The Group is exposed to credit risk, liquidity risk, operational risk, market risk, legal risk and strategic risk as well as other forms of risk inherent in its financial operations.

The Group continues to invest to strengthen its comprehensive and robust risk management infrastructure. This includes risk identification processes under credit, market and operational risk spectrums, risk measurement models and rating systems as well as a strong business process to monitor and control these risks.

25.2 Risk management structure

Executive Management is responsible for implementing the Group's Risk Appetite and Policy Guidelines set by the Board Risk Committee (BRC), including the identification and evaluation on a continuous basis of all material risks to the business and the design and implementation of appropriate internal controls to mitigate them. This is done through the Board Committees, Senior Management Committees, the Credit & Risk Group, Compliance and Balance Sheet Management Group functions at Head Office.

Within the broader governance framework, the Board Committees carry out the main responsibility for best practice of risk management and oversight. The BRC oversees the establishment of the risk appetite framework, risk capacity and risk appetite statement. BRC is supported by two management level committees – Group Risk Committee (GRC) and Group Asset Liability Committee (GALCO). The Board Compliance Committee ("BCC") assists the Board in discharging its governance and oversight responsibilities for the compliance risk management framework of the Bank and of the Bank's compliance with applicable laws and regulations on a group wide basis. The Board Compliance Committee is supported by Group Compliance Oversight Committee (GCOC).

The Board Audit Committee is responsible to the Board for ensuring that the Group maintains an effective system of financial, accounting and risk management controls and for monitoring compliance with the requirements of the regulatory authorities in various countries in which the Group operates.

The GRC defines, develops and monitors the Group's overarching risk management framework considering the Group's strategy and business plans. The GRC is responsible for initiating, discussions and monitoring of key regulations, both local and international, as applicable to the businesses and geographies in which the Group operates. The GRC is assisted by specialised sub-committees to manage Credit Risk (Group Credit Committee), Operational Risk (Group Operational Risk Committee), Model Risk (Group Risk Governance and Analytics Committee) and Operational Resilience (Group Operational Resilience Committee) etc.

The GALCO is responsible for defining Asset and Liability management policy, which includes capital, liquidity & funding and market risk in line with the risk appetite framework. GALCO monitors the Group's capital, liquidity, funding and market 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.

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 unlikelihood 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 unlikelihood 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.

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.

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.

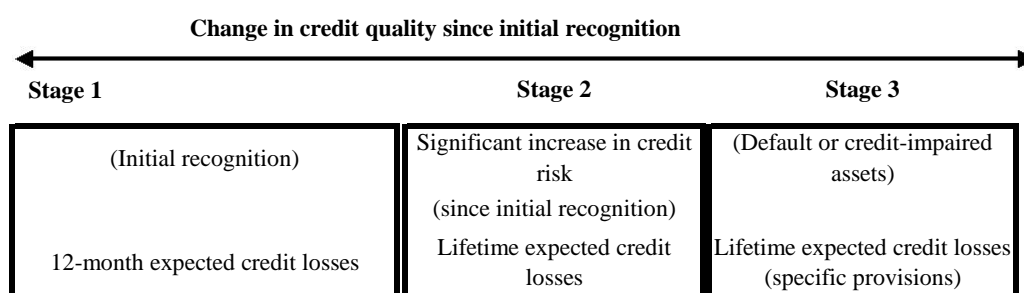
A backstop is applied, and the financial instrument is considered to have experienced SICR if the borrower is more than 30 days past due on its contractual payments.

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):



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.

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. .

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.

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.

	<i>Gross maximum exposure</i>	
	<i>(Restated)</i>	
	<i>2022</i>	<i>2021</i>
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:

	<i>Assets</i>				
	<i>2022</i>				
	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>POCI</i>	<i>Total</i>
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

25 RISK MANAGEMENT (continued)

25.4 Credit risk (continued)

25.4.3 Risk concentration of the maximum exposure to credit risk (continued)

	<i>Assets</i>				
	<i>2021 (Restated)</i>				
	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>POCI</i>	<i>Total</i>
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:

	<i>Liabilities and equity</i>	
	<i>2022</i>	<i>2021</i>
	Western Europe	3,019
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:

	<i>Credit commitments and contingent items</i>				
	<i>2022</i>				
	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>POCI</i>	<i>Total</i>
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

	<i>Credit commitments and contingent items</i>				
	<i>2021</i>				
	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>POCI</i>	<i>Total</i>
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

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:

	<i>Gross maximum exposure</i>				
	<i>2022</i>				
	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>POCI</i>	<i>Total</i>
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
	<i>Gross maximum exposure</i>				
	<i>2021 (Restated)</i>				
	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>POCI</i>	<i>Total</i>
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

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:

	<i>Net maximum exposure</i>	
	<i>2022</i>	<i>(Restated) 2021</i>
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:

	<i>Gross maximum exposure</i>				
	<i>2022</i>				
	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>POCI</i>	<i>Total</i>
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

25 RISK MANAGEMENT (continued)

25.4 Credit risk (continued)

25.4.3 Risk concentration of the maximum exposure to credit risk (continued)

	<i>Gross maximum exposure</i>				
	<i>2021</i>				
	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>POCI</i>	<i>Total</i>
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:

	<i>Net maximum exposure</i>	
	<i>2022</i>	<i>2021</i>
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

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

	<i>Neither past due nor impaired</i>		<i>Past due but not impaired</i>	<i>Past due and individually impaired</i>	<i>Total</i>
	<i>High grade</i>	<i>Standard grade</i>			
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)

	<i>Neither past due nor impaired</i>		<i>Past due but not impaired</i>	<i>Past due and individually impaired</i>	<i>Total</i>
	<i>High grade</i>	<i>Standard grade</i>			
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

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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

	<i>Liquid funds</i>	<i>Trading debt securities</i>	<i>Placements with banks and other financial institutions</i>	<i>Securities bought under repurchase agreements</i>	<i>Non-trading debt investments</i>	<i>Loans and advances</i>
<i>Stage 1 (12-month ECL)</i>						
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
<i>Stage 2 (Lifetime ECL but not credit-impaired)</i>						
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
<i>Stage 3 (Lifetime ECL and credit-impaired)</i>						
Rating grades 9 to 11	-	-	-	-	-	192
Carrying amount (net)	-	-	-	-	-	192
<i>POCI</i>	-	-	-	-	-	-
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.

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25 RISK MANAGEMENT (continued)

25.4 Credit risk (continued)

25.4.4 Credit quality per class of financial assets (continued)

31 December 2021 (Restated)

	<i>Liquid funds</i>	<i>Trading debt securities</i>	<i>Placements with banks and other financial institutions</i>	<i>Securities bought under repurchase agreements</i>	<i>Non-trading debt investments</i>	<i>Loans and advances</i>
<i>Stage 1 (12-month ECL)</i>						
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
<i>Stage 2 (Lifetime ECL but not credit-impaired)</i>						
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
<i>Stage 3 (Lifetime ECL and credit-impaired)</i>						
Rating grades 9 to 11	-	-	-	-	3	105
Carrying amount (net)	-	-	-	-	3	105
<i>POCI</i>	-	-	-	-	-	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.

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*	<u>351</u>	<u>527</u>

* 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 forbore loans

From a risk management point of view, once an asset is forbore 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%).

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):

	<i>Maximum exposure to credit risk</i>	
	<i>2022</i>	<i>2021</i>
Trading securities		
- Debt Securities	576	884
Trading derivatives	865	655
Hedging derivatives	103	11
Financial assets designated at FVTPL		
- Loans and advances to customers	95	152

25.5 Settlement risk

Settlement risk is the risk of loss due to the failure of a counterparty to honour its obligations to deliver cash, securities or other assets as contractually agreed. For certain types of transactions, the Group mitigates this risk through a settlement agent to ensure that a trade is settled only when both parties fulfil their settlement obligations. Settlement approvals form a part of credit approval and limit monitoring procedure.

25.6 Market risk

Market risk is the risk that the Group's earnings or capital, or its ability to support business strategy, will be impacted by the change in market rates or prices related to interest rates, equity prices, credit spreads, foreign exchange rates, and commodity prices.

The Group has established risk management policies and limits within which exposure to market risk is monitored and measured by the Risk Management Department (RMD) with strategic oversight exercised by GALCO. The RMD's Market Risk (MR) unit is responsible for developing and implementing market risk policy, risk measuring/monitoring methodology and product limits prior to GALCO approval. The unit also has the responsibility to measure and report market risk against limits throughout the Group.

The Group manages market risk by classifying into two types: a) trading market risk; and b) investment market risk. Trading market risk arises primarily from positions held in the trading books from market-making to support client activities. This involves the management of client originated exposures in interest rates, equities, corporate and sovereign debt, foreign exchange rates, commodities and derivatives of these asset classes, such as forwards, futures, options and swaps. Trading market risk may also arise from positions originated by the Bank subject to the market risk appetite and limits defined by the GALCO and BRC.

Investment market risk arises from market factors affecting securities held in high quality liquid assets (HQLA) portfolio and liquid marketable securities which are held under its FVOCI portfolio and where the impact of the changes in fair value due to market factors is through FVOCI.

The trading and investment market risks are managed by MR using a full suite of market risk limits including Value at Risk, sensitivity limits on key market parameters, notional limits on the size of investment portfolios, stop-loss limits and also stress testing to monitor the impact of significant market moves. These limits are monitored by MR and reported daily to business lines and management.

25 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			
	<i>Increase in basis points</i>	<i>Sensitivity consolidated statement of profit or loss</i>	<i>Decrease in basis points</i>	<i>Sensitivity consolidated statement of profit or loss</i>
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			
	<i>Increase in basis points</i>	<i>Sensitivity consolidated statement of profit or loss</i>	<i>Decrease in basis points</i>	<i>Sensitivity consolidated statement of profit or loss</i>
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 ARR's 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 ARR's such as SONIA and SOFR.

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.

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	
	Effect on		Effect on	
	consolidated		consolidated	
	statement		statement	
	% Change in	of profit or loss/	% Change in	of profit or loss/
	equity price	equity	equity price	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

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 Cumulative Gross and Net Operational Risk Losses and Single Operational Loss Events. In addition a set of Early Warning Indicators are used to monitor different sub risk categories related to operational risk.

In line with the Board-led Group Risk Appetite Statement, Operational Risk metrics are set and monitored by the Board Risk Committee.

25.10.1 Operational resilience

Operational resilience is the ability of the Bank to prevent disruption occurring, to the extent practicable; adapt systems and processes to continue to provide services and functions in the event of an incident; return to normal running promptly when a disruption is over; and learn and evolve from both incidents.

The Bank adheres to the three lines of defense model for the management of operational resilience risk. The business (first line of defence) is supported by an independent Cyber and IT Risk Management Departments (second line of defence). The management of operational resilience risk is subject to independent review by Internal Audit (third line of defence).

The Group Operational Resilience Committee (“GORC”) assists GRC with the oversight of the Bank’s Operational resilience framework, by such it oversees:

- Information security, including Cyber security
- Information Technology
- Business Continuity, Disaster Recovery and Crisis Management
- Bank’s compliance with Privacy laws (Personal Data Protection)
- Outsourcing and Vendor Management (External dependencies)

The GORC meets 4 times a year and reviews and recommends to GRC, the Bank’s business resilience for each area it oversees.

25 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.

	<i>31 December 2022</i>					<i>31 December 2021</i>				
	<i>Unweighted Values (i.e. before applying relevant factors)</i>					<i>Unweighted Values (i.e. before applying relevant factors)</i>				
	<i>No specified maturity</i>	<i>Less than 6 months</i>	<i>Over 6 months and less than one year</i>	<i>Over one year</i>	<i>Total weighted value</i>	<i>No specified maturity</i>	<i>Less than 6 months</i>	<i>Over 6 months and less than one year</i>	<i>Over one year</i>	<i>Total weighted value</i>
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

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%

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

	<i>Within 1 month</i>	<i>1 - 3 months</i>	<i>3 - 6 months</i>	<i>6 - 12 months</i>	<i>1 - 5 years</i>	<i>5-10 years</i>	<i>Over 10 years and undated</i>	<i>Total</i>
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

	<i>Within 1 month</i>	<i>1 - 3 months</i>	<i>3 - 6 months</i>	<i>6 - 12 months</i>	<i>1 - 5 years</i>	<i>5-10 years</i>	<i>Over 10 years and undated</i>	<i>Total</i>
Financial liabilities								
Deposits from customers	6,974	4,383	1,783	3,402	4,582	140	73	21,337
Deposits from banks	2,589	793	416	456	400	2	-	4,656
Certificates of deposits	260	49	56	84	378	1	-	828
Securities sold under repurchase agreements	607	352	140	226	703	-	-	2,028
Interest payable and other liabilities	270	-	-	-	-	-	1,182	1,452
Borrowings	-	-	38	75	296	941	93	1,443
Total non-derivative undiscounted financial liabilities on statement of financial position	10,700	5,577	2,433	4,243	6,359	1,084	1,348	31,744

ITEMS OFF STATEMENT OF FINANCIAL POSITION

Gross settled foreign currency derivatives	3,216	1,489	1,293	3,757	4,398	329	52	14,533
Guarantees	2,546	-	-	-	-	-	-	2,546

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25 RISK MANAGEMENT (continued)

25.11 Liquidity risk (continued)

The maturity analysis of assets and liabilities analysed according to when they are expected to be recovered or settled or when they could be realised.

At 31 December 2022	Within 1 month	1 - 3 months	3 - 6 months	6 - 12 months	Total within 12 months	1 - 5 years	5-10 years	10 - 20 years	Over 20 years	Undated	Total over 12 months	Total
ASSETS												
Liquid funds	2,848	38	-	-	2,886	-	-	-	-	-	-	2,886
Trading securities	33	279	5	3	320	107	79	70	-	14	270	590
Placements with banks and other financial institutions	1,556	319	20	331	2,226	-	-	-	-	-	-	2,226
Securities bought under repurchase agreements	969	383	34	-	1,386	-	-	-	-	-	-	1,386
Non-trading investments	3,239	486	616	562	4,903	1,880	1,136	127	19	15	3,177	8,080
Loans and advances	3,096	3,433	2,579	2,773	11,881	5,145	1,012	152	-	-	6,309	18,190
Others	-	-	-	-	-	-	-	-	-	3,281	3,281	3,281
Total assets	11,741	4,938	3,254	3,669	23,602	7,132	2,227	349	19	3,310	13,037	36,639
LIABILITIES, SHAREHOLDERS' EQUITY AND NON-CONTROLLING INTERESTS												
Deposits from customers	6,785	3,121	1,327	5,286	16,519	4,647	141	24	65	-	4,877	21,396
Deposits from banks	1,538	808	500	352	3,198	564	2	-	-	-	566	3,764
Certificates of deposit	91	102	16	53	262	173	-	-	-	-	173	435
Securities sold under repurchase agreements	301	178	111	-	590	2,288	-	-	-	-	2,288	2,878
Borrowings	-	-	2	1	3	725	478	-	-	91	1,294	1,297
Others	-	-	-	-	-	-	-	-	-	2,348	2,348	2,348
Shareholders' equity and non-controlling interests	-	-	-	-	-	-	-	-	-	4,521	4,521	4,521
Total liabilities, shareholders' equity and non-controlling interests	8,715	4,209	1,956	5,692	20,572	8,397	621	24	65	6,960	16,067	36,639
Net liquidity gap	3,026	729	1,298	(2,023)	3,030	(1,265)	1,606	325	(46)	(3,650)	(3,030)	-
Cumulative net liquidity gap	3,026	3,755	5,053	3,030		1,765	3,371	3,696	3,650	-		

Within 1 month are primarily liquid securities that can be sold under repurchase agreements. Deposits are continuously replaced with other new deposits or rollover from the same or different counterparties, based on available lines of credit.

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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	-		

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					Total
	<i>MENA subsidiaries</i>	<i>International wholesale banking</i>	<i>Group treasury</i>	<i>ABC Brasil</i>	<i>Other</i>	
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

26 OPERATING SEGMENTS (continued)

	2021					Total
	<i>MENA subsidiaries</i>	<i>International wholesale banking</i>	<i>Group treasury</i>	<i>ABC Brasil</i>	<i>Other</i>	
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	<i>Bahrain</i>	<i>Europe</i>	<i>Brasil</i>	<i>Other</i>	<i>Total</i>
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).

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:

	<i>Ultimate parent</i>	<i>Major shareholder</i>	<i>Directors</i>	2022	2021
Deposits from customers	3,173	-	6	3,179	4,269
Borrowings	1,115	-	-	1,115	1,115
Additional / perpetual tier-1 capital*	390	-	-	390	-
Short-term self-liquidating trade and transaction-related contingent items	387	-	-	387	347

* During the year, the Group has paid interest on additional / perpetual tier-1 capital amounting to US\$ 9 million which has been charged to the consolidated statement of changes in equity.

The income and expenses in respect of related parties included in the consolidated financial statements are as follows:

	2022	2021
Commission income	8	12
Interest expense	119	72

Compensation of the key management personnel is as follows:

	2022	2021
Short term employee benefits	20	17
Post employment benefits	8	4
	28	21

29 FIDUCIARY ASSETS

Funds under management at the year-end amounted to US\$ 17,018 million (2021: US\$ 18,240 million). These assets are held in a fiduciary capacity and are not included in the consolidated statement of financial position.

30 ISLAMIC DEPOSITS AND ASSETS

Deposits from customers, banks and borrowings include Islamic deposits of US\$ 2,618 million (2021: US\$ 2,395 million). Loans and advances, non-trading investments and placements include Islamic assets of US\$ 984 million (2021: US\$ 887 million), US\$ 882 million (2021: US\$ 864 million) and US\$ 8 million (2021: US\$ 19 million).

31 ASSETS PLEDGED AS SECURITY

At the reporting date, in addition to the items mentioned in note 27, assets amounting to US\$ 265 million (2021: US\$ 302 million) have been pledged as security for borrowings and other banking operations.

32 BASIC AND DILUTED EARNINGS PER SHARE AND PROPOSED DIVIDENDS AND TRANSFERS

32.1 Basic and diluted earnings per share

Basic earnings per share is calculated by dividing the profit attributable to shareholders of the parent for the year by the weighted average number of shares during the year. Diluted EPS is calculated by dividing the profit attributable to shareholders of the parent by the weighted average number of shares outstanding during the year plus the weighted average number of shares that would be issued on conversion of all the dilutive potential shares into shares.

The Group's earnings for the year (before proposed dividends) are as follows:

	2022	2021
Profit attributable to the shareholders of the parent	154	100
Net profit attributable to the shareholders of the parent after adjusting for interest paid on additional / perpetual tier-1 capital (for basic and diluted earnings per share)	145	100
Weighted average number of shares outstanding during the year (millions) for basic and diluted earnings per share	3,094	3,086
Basic and diluted earnings per share (US\$)	0.05	0.03

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

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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

	<i>1</i> <i>January</i> <i>2022</i>	<i>Cash flow,</i> <i>net</i>	<i>Foreign</i> <i>exchange</i> <i>movement</i>	<i>31</i> <i>December</i> <i>2022</i>
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
	<i>1</i> <i>January</i> <i>2021</i>	<i>Cash flow,</i> <i>net</i>	<i>Foreign</i> <i>exchange</i> <i>movement</i>	<i>31</i> <i>December</i> <i>2021</i>
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

35 BUSINESS COMBINATION ON ACQUISITION

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

	<i>Cash flow on acquisition</i>
Net cash acquired with the subsidiary	141
Cash paid	(426)
	<u>(285)</u>

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:

	<i>Fair value recognised on acquisition (Restated)</i>
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	<u><u>3,045</u></u>

35 BUSINESS COMBINATION ON ACQUISITION (continued)

35.4 Identifiable assets acquired and liabilities assumed (continued)

	<i>Fair value recognised on acquisition (Restated)</i>
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:

<i>(Restated)</i>	<i>Fair value of the acquired receivables</i>	<i>Gross contractual amount receivable</i>	<i>Contractual cash flows not expected to be collected</i>
Liquid funds	141	141	-
Trading securities	2	2	-
Placements with banks and other financial institutions	897	897	-
Securities bought under repurchase agreements	46	46	-
Non-trading investments	1,084	1,081	(1)
Loans and advances	717	839	(95)
Other financial assets	49	49	-
Total	2,936	3,055	(96)

35 BUSINESS COMBINATION ON ACQUISITION (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 occurred 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

<i>Description</i>	<i>Previously reported as at 31 December 2021</i>	<i>Effect of restatement</i>	<i>Restated - 31 December 2021</i>
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

35 BUSINESS COMBINATION ON ACQUISITION (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.

35 BUSINESS COMBINATION ON ACQUISITION (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.