PERFORMING WHILE **TRANSFORMING**

THE BANKER
BANK OF THE YEAR
2023
BAHRAIN

PROUD WINNER FOR THE THIRD TIME

BANK ABC GROUP
ANNUAL REPORT 2023

Bank**ABC**

A TEAM **COMMITTED TO YOUR SUCCESS.**

An established name that stands for excellence in banking, Bank ABC has innovation at its core and is guided by a mission to develop the ‘bank of the future’. We proudly introduce market-leading initiatives that disrupt traditional models to create a seamless, bespoke and agile banking experience, tailored to the evolving needs of our clients and the markets we serve.

STRATEGIC INTENT

MENA'S INTERNATIONAL BANK OF THE FUTURE

OUR VALUES

Client Centric

We are committed to knowing our customers and developing long-term relationships.

Collaborative

We work together as one team across our international network, providing a superior client experience.

Consistent

We are trusted to deliver every time in the right way, demonstrating integrity to all our stakeholders.

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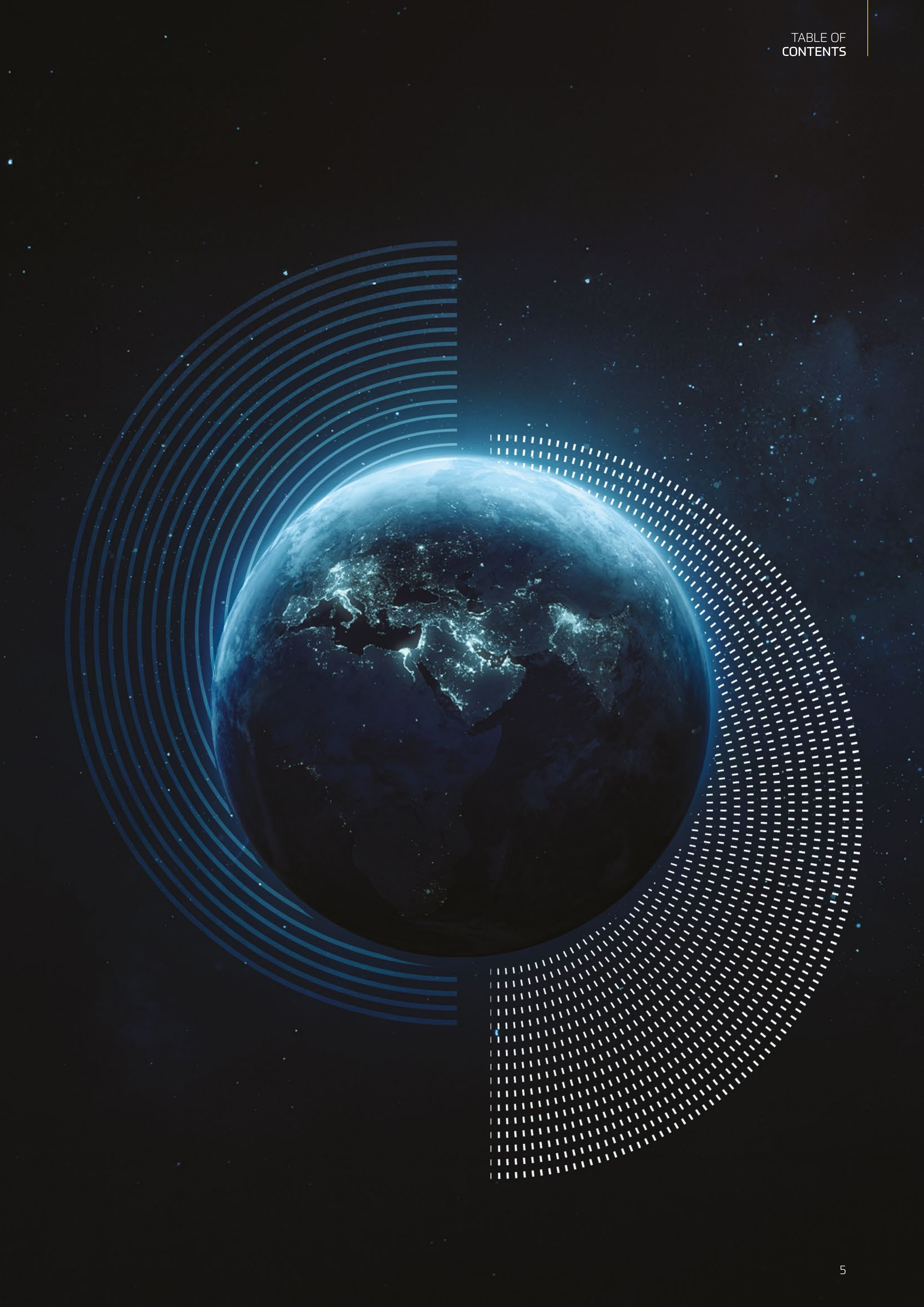


BANK ABC GROUP SNAPSHOT


BankABC
Bank of the Year
2023 - Bahrain
Best Consumer
Digital Bank
in Bahrain
ila
01

BANK ABC AT A GLANCE

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

5,000+
Diverse Workforce

A Leading Universal Banking Proposition

Wholesale Banking

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

Retail Banking

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

Payments

/ Processing
/ Merchant Acquiring
/ Fintech services

Islamic Finance

/ Full range of Shari'a-compliant wholesale banking products offered across our global network
/ Retail Islamic banking products offered in Bahrain and Algeria

Ownership Structure of Bank ABC (Controlling Shareholders)

59.37%
Central Bank of Libya

29.69%
Kuwait Investment Authority (KIA)

10.94%
Others, including Free Float

GLOBAL FOOTPRINT

Your business partner across five continents & fifteen countries

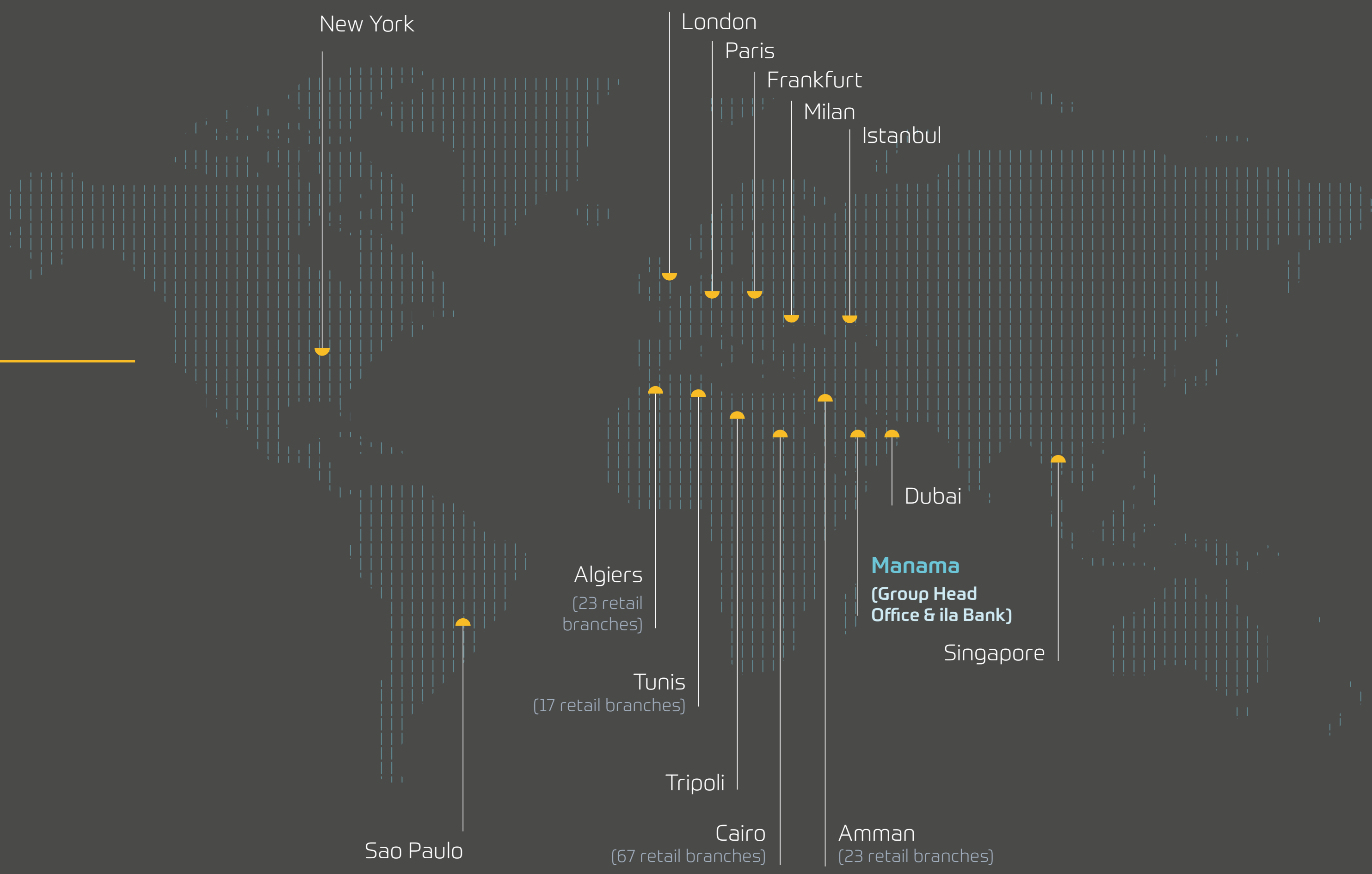
KEY MILESTONES

1980
Incorporated in Bahrain pursuant to Amiri Decree Law No. 2

1981
Bank ABC's three shareholders: KIA, ADIA and Central Bank of Libya inject US$750 million equity

1984
Banco Atlantico acquisition

1991
Establishment of ABC International Bank PLC in London



2008
Bank ABC increased its authorised and paid-up capital to US$2.5 billion & US$2.0 billion respectively

2010
Central Bank of Libya increases its investment share to 59.4% by acquiring ADIA's 17.7% share

2015
Rebranded to "Bank ABC"

2019
Launch of Bank ABC's digital mobile-only bank in Bahrain, ila Bank

2021
Acquisition of 99.5% stake in BLOM Bank Egypt

FINANCIAL HIGHLIGHTS

As at 31 December 2023

Total Assets

43,892

(US$ million)

Shareholders' Funds

3,910

(US$ million)

Risk Asset Ratio - Tier 1

16.1

(%)

FINANCIAL HIGHLIGHTS

As at 31 December 2023

	2023	2022	2021*	2020	2019
Earnings (US$ million)					
Net interest income	**935**	786	592	516	564
Other operating income	**344**	315	262	130	301
Total operating income	**1,279**	1,101	854	646	865
Profit before credit loss expense, taxation and non-controlling interests	**515**	411	285	160	341
Credit loss expense	**(145)**	(119)	(106)	(329)	(82)
Profit (Loss) before taxation and non-controlling interests	**370**	292	179	(169)	259
Net profit (loss) for the year from continuing operations	**235**	154	100	(89)	194
Financial Position (US$ million)					
Total assets	**43,892**	36,639	34,901	30,407	30,068
Loans and advances	**19,096**	18,190	16,716	15,656	16,452
Placements with banks and other financial institutions	**2,231**	2,226	3,031	1,803	2,051
Trading securities	**1,070**	590	902	171	507
Non-trading investments	**11,368**	8,080	8,390	6,696	5,836
Shareholders' funds	**3,910**	3,705	3,872	3,767	4,031
Additional / perpetual tier-1 capital	**390**	390	-	-	-
Ratios (%)					
Profitability					
Net interest margin	**2.8**	2.5	2.0	1.9	2.0
Cost: Income ratio (costs as % of gross operating income)	**60**	63	67	75	61
Net profit (loss) as % of average shareholders' funds	**5.8**	3.7	2.6	(2.4)	4.9
Net profit as % of average assets	**0.60**	0.44	0.31	(0.30)	0.65
Dividend cover (times)	**3.36**	3.30	3.22	-	-
Capital					
Risk weighted assets (US$ million)	**30,226**	27,546	25,595	24,483	25,741
Capital base (US$ million)	**4,869**	4,626	4,324	4,285	4,609
Risk asset ratio - Tier 1	**15.0**	15.7	15.9	16.6	16.9
Risk asset ratio – Total	**16.1**	16.8	16.9	17.5	17.9
Average shareholders' funds as % of average total assets	**10.5**	11.6	11.9	12.4	13.2
Loans and advances as a multiple of shareholders' funds (times)	**4.9**	4.9	4.3	4.2	4.1
Total debt (including non-controlling interests) as a multiple of shareholders' funds (times)	**10.1**	8.8	8.0	7.1	6.5
Borrowings as multiple of shareholders' funds (times)	**0.33**	0.35	0.31	0.48	0.52
Assets					
Loans and advances as % of total assets	**43.5**	49.6	47.9	51.5	54.7
Securities as % of total assets	**28.3**	23.7	26.6	22.6	21.1
Impaired loans as % of gross loans	**3.6**	3.5	3.4	5.2	3.7
Aggregate provisions as % of impaired exposures	**93.5**	101.1	112.2	101.1	101.9
Loans provisions as % of gross loans	**3.3**	3.6	4.0	5.3	3.6
Impaired securities as a % of gross non-trading debt securities	**0.6**	0.9	1.1	1.3	1.3
Securities provisions as a % of gross non-trading debt instruments	**0.77**	1.07	1.24	1.47	1.54
Liquidity					
Liquid assets ratio	**32.1**	33.3	37.8	36.1	35.4
Deposits to loans cover (times)	**1.5**	1.4	1.5	1.4	1.3
Share Information					
Basic earnings per share - profit for the year	**$0.07**	$0.05	$0.03	($0.03)	$0.06
Dividends per share - cash	**$0.0225**	$0.015	$0.010	-	-
Net asset value per share	**$1.26**	$1.20	$1.25	$1.22	$1.30
Capitalisation (US$ million)					
Authorised	**4,500**	4,500	3,500	3,500	3,500
Issued, subscribed and fully paid-up	**3,110**	3,110	3,110	3,110	3,110
Treasury shares	**(6)**	(6)	(6)	(6)	(6)

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

YEAR IN REVIEW

JANUARY

The Bank targets a new era of growth following completion of the legal merger with BLOM Bank Egypt

Recognised as the 'Best Trade Finance Provider in the Middle East' at the Global Finance - World's Best Trade Finance Providers Awards 2023

FEBRUARY

Bank ABC Group pledges a donation of US$2 million towards earthquake relief in Türkiye and Syria

MARCH

A landmark US$600 million Sukuk issuance for Air Lease Corporation (ALC)

Bank ABC partners with Temenos and NdcTech to implement a next-generation Core Banking System

MAY

Sael Al Waary appointed as Bank ABC's new Group Chief Executive Officer

ila Bank launches 'alburaq' – a new Islamic banking experience in Bahrain

JUNE

Appointment of a Group Chief Sustainability Officer and a new Group Head of Human Resources

ABC Labs named as one of the 'World's Best Financial Innovation Labs' by Global Finance

Three wins at the Bonds, Loans & Sukuk Middle East Awards

Credit ratings reaffirmed with Stable outlook by S&P at BB+ /B and Capital Intelligence at BBB+/ A-2.

JULY

Fitch Ratings affirms Bank ABC's Long-Term Issuer Default Rating (IDR) at 'BB+' with a 'Stable Outlook' in addition to its Viability Rating at 'bb+' driven by the Bank's standalone strength

Global Internship Programme launched to develop the next generation of bankers

SEPTEMBER

Bank ABC Group pledges a donation of US$2 million towards flood relief efforts in Libya

The Group launches ABC Trade, a first-of-its-kind personalised digital documentary trade platform

Instant blockchain payments for institutions goes live with J.P. Morgan's Coin Systems in partnership with the CBB

Bank ABC celebrates 40 years of presence in Milan

OCTOBER

ila Bank named 'Best Consumer Digital Bank' in Bahrain for the third consecutive year, and sweeps all six awards for Bahrain at the Global Finance World's Best Consumer Digital Bank Awards in the Middle East in 2023

DECEMBER

Bank ABC named 'Bank of the Year in Bahrain' for the third time by The Banker

GROUP PERFORMANCE

(US$ Million)

Bank ABC Group

2023 Highlights	ABC Parent (ABC B.S.C.)	ABC Group
Total assets	25,488	43,892
Total non-trading investments	8,094	11,368
Total loans and advances	5,924	19,096
Total deposits	12,929	27,982
Shareholders' funds and perpetual instrument holders	4,300	4,300

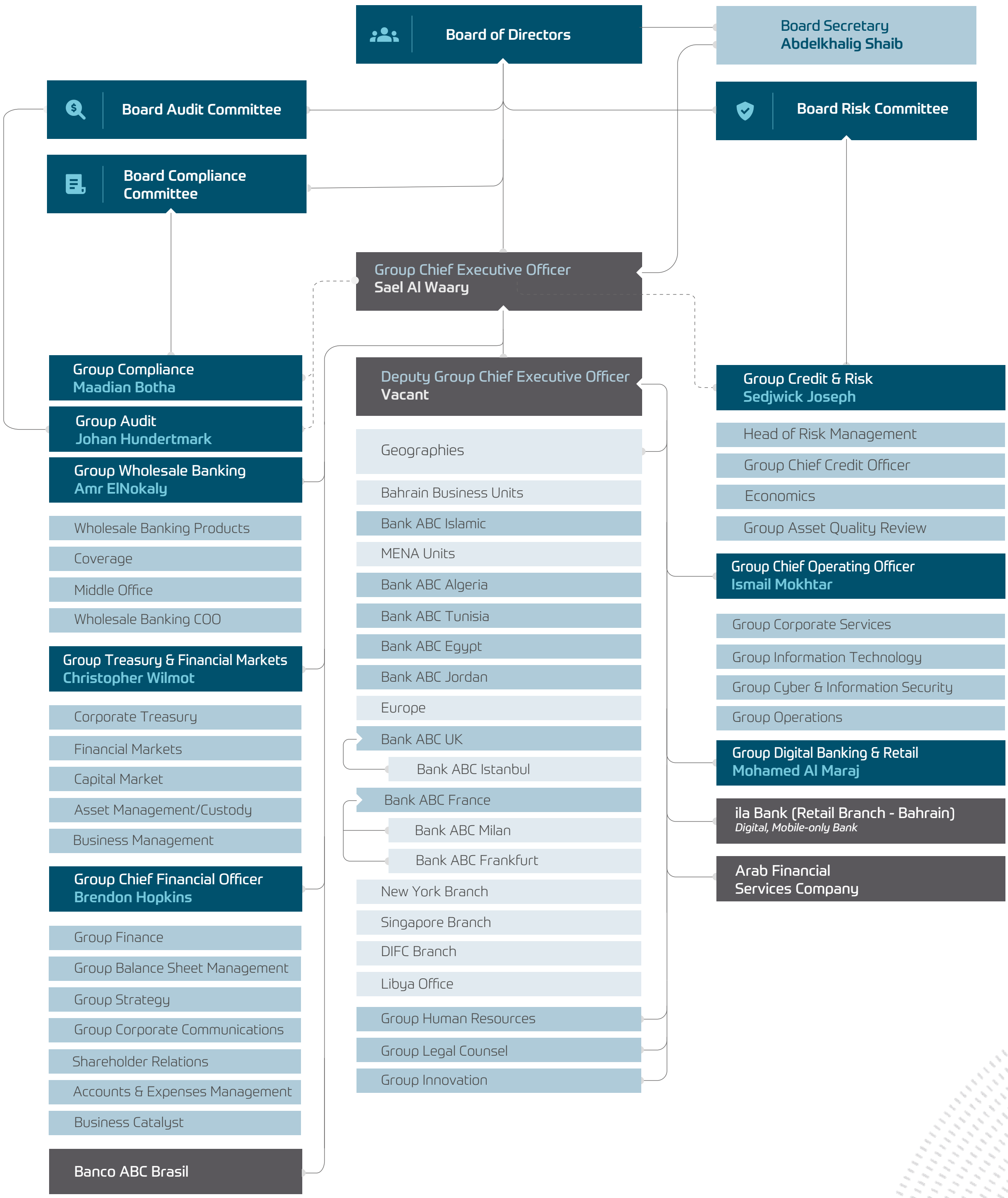
MENA Subsidiaries

2023 Highlights	ABC Algeria	ABC Jordan	ABC Egypt	ABC Tunisia
Total assets	626	1,969	2,254	454
Total non-trading investments	69	433	691	56
Total loans and advances	439	1,065	694	139
Total deposits	398	1,594	1,911	374
Shareholders' funds	203	233	260	29
Number of branches	23	23	67	17

Wholesale Banking and Other Subsidiaries

2023 Highlights	ABCIB (London)	ABC SA	Banco ABC Brasil	ABC Islamic Bank	AFS
Total assets	4,070	1,127	11,341	2,515	78
Total non-trading investments	407	-	823	809	-
Total loans and advances	2,372	773	6,748	953	-
Total deposits	2,771	887	8,147	2,148	-
Shareholders' funds	725	211	1,217	330	11
Number of branches	1	2	11	-	-

BANK ABC GROUP ORGANISATIONAL CHART



PERFORMANCE REVIEW

Bank ABC's holistic Sustainability Strategy encompasses guiding principles with an emphasis on governance, operations, risk management and sustainable finance.

02

CHAIRMAN'S STATEMENT

Saddek Omar El Kaber
Chairman

1.3 US$ Billion

Total operating income crosses 1 billion for the second year in a row.

BANK ABC IS PERFORMING WHILE TRANSFORMING

On behalf of the Directors of the Bank ABC Group, I am delighted to present to our valued shareholders the Bank ABC Group's Directors' Report for 2023. The report showcases the Bank's impressive financial results and remarkable accomplishments for the year, as well as our strategic vision and goals for the future.

Despite the unpredictable market conditions and geopolitical risks affecting the region, the relentless commitment and innovation of Bank ABC's workforce resulted in remarkable performance for the Group in 2023. Maintaining our strong growth momentum, we achieved record levels of annual revenues and assets, and an exceptional year-on-year (YoY) uplift in our net profit and ROE. We grew our core business substantively and made excellent progress on key strategic initiatives including our digital transformation programme and the integration of BLOM Bank into ABC Egypt.

All in all, 2023 witnessed record-breaking value being generated for our shareholders, as the Group progressed on its strategic journey to become MENA's international bank of the future.

2023 Economic Review

Across our core and network markets, economic activity faced a series of global shocks and significant policy tightening. According to the International Monetary Fund, global growth slowed from 3.5% in 2022 to 3.0% in 2023, below the historical average of 3.8%, weighed down by persistent inflation and higher interest rates.

Growth of the MENA region economies slowed to an estimated 2.0% this year, compared to 5.0% in 2022. This was a combined result of lower oil production in OPEC countries, tighter monetary policies and country-specific domestic issues. While inflation began to ease globally, large differences persisted among the region's varied economies, with some remaining strong and stable, while others were more challenged given the regional uncertainties.

Looking forward, the consensus view is that growth should improve to 3.4% in MENA in 2024, as oil production potentially ramps up, providing a solid foundation for continued growth. Bank ABC is of course very hopeful that a more stable situation will return during 2024, which will be beneficial for all stakeholders.

44 US$ Billion

Highest asset base in the Group's history and growing at 20% YOY.

Remarkable Financial Performance

Despite the economic and geopolitical uncertainties, our financial performance for 2023 showed another year of exceptional uplift. We recorded a 53% surge in net profit to reach US$235 million, compared to US$154 million in 2022. This was driven by volume growth in our core business across our markets, the uplift from the rising interest rate environment, as well as successful delivery of our strategic objectives.

Total operating income increased by 16% to reach a record high of US$1.3 billion, the second year for the Group's top line to exceed US$1 billion, with further significant growth projected.

Our asset base reached $44 billion, growing strongly at 20% YoY and exceeding US$40 billion for the first time in the Group's history, driven by a healthy combination of loans, securities and liquid asset growth. Supporting this, all capital and liquidity metrics were maintained at robust levels enabling us to maintain growth momentum.

Our active cost management strategy enabled us to invest in our business and achieve efficiencies, while improving our cost/income ratio. Our return on equity increased by over 2% YoY to reach 5.8%. Our earnings per share for 2023 were US$0.07, also improved by over 50% YoY.

Refreshed Strategic Focus

In July 2023, the Board approved the Group's ambitious 2023-2026 Strategy with the overarching goals to **A**ccelerate growth, **B**oost returns and **C**apitalise on our investments.

The new Group strategy is underpinned by three pillars:

/ **Accelerating our Core performance in Wholesale Banking, Treasury, Retail and Brazil,** to create near-term value.

/ **Maximising value in our Digital Units, ila and AFS,** to create long-term value.

/ **Strengthening our Operating Model,** to drive the execution of the first two pillars.

Execution is now our priority, seeking to rapidly progress on our new strategic objectives, aspects of which are expanded upon in the following sections.

Business Growth

Wholesale Banking

The Bank's Global Wholesale Banking business achieved an excellent performance in 2023, with a strong double-digit TOI growth, accelerated by leveraging the strengths of the Corporate Banking and Financial Institutions businesses to offer a strong product portfolio, global presence, and customer-focused approach. Key value drivers included record income growth from new clients, digital transformation of Global Transaction Banking and commercial banking in our core MENA markets, also boosted by a significant contribution from the Group's international banking business in the United Kingdom, United States, Europe and Brazil.

Group Treasury and Financial Markets

Group Treasury and Financial Markets achieved remarkable milestones in supporting the Bank's bottom line and its digitisation efforts while providing innovative treasury products and market access to clients. Corporate Treasury further diversified the Bank's funding mix and repositioned the Bank's securities portfolios to reinforce the Bank's strong balance sheet ratios that support our Investment Grade Credit Rating. In Debt Capital Markets, Bank ABC became the first regional bank to act as Sole Lead Arranger on a 144a/RegS Sukuk offering. The award winning US$600-million five-year Sukuk Issuance by Air Lease Corporation is the debut Sukuk for the leading aircraft leasing company, as well as the first Sukuk issuance by a North American corporation. The Syndications team achieved a record underwriting of over US$2.0 billion during the year, while FM Sales integrated its eFX pricing platform into the Wholesale and ila digital banking platforms.

Retail Banking

As part of our Bank-wide digital-first strategy, our Retail business is being transformed into a hybrid model that integrates the technology and operating platform of ila Bank with our MENA retail banking capabilities. This year, we upgraded our existing retail digital proposition with a customised version of the ila mobile-banking proposition that meets local regulatory requirements for on-shore processing. We began the implementation of this upgrade for ABC Egypt this year, with Bank ABC in Algeria and Tunisia to follow suit in 2024.

Operational Efficiency and Resilience

In 2023, the resilience and efficiency of our technology platforms and banking operations gained further strength. We embarked on a major infrastructure upgrade to consolidate our core banking platforms across 15 units, which will drive efficiency and facilitate product innovation across the Group. We have also invested heavily in strengthening and safeguarding our systems against cyber threats. Global banking operations and client servicing has also been enhanced with Robotic Process Automation (RPA) implementation and other process improvements.

> In 2023, the Bank launched **ABC Trade, a comprehensive trade finance innovation,** and extended the digital corporate onboarding service to 15 global units.

Digital Transformation

In 2023, our digital transformation journey progressed significantly across our business segments. We continued to innovate and improve our digital services and products to meet the needs and expectations of our customers.

Wholesale Banking

In Global Transaction Banking (GTB), we launched ABC Trade, a comprehensive trade finance solution, rolled out our digital corporate onboarding service across 15 global units, and, on wholesale payments, progressed our ABC Cash proposition. Another key development was the introduction of a next generation blockchain payment service in collaboration with JPM Coin System, a first in the region. Additional client service innovation in our wholesale bank has been the launch of a corporate banking portal as a single-point access to Bank ABC's products and services, starting with GTB solutions.

ila Bank

For ila Bank, our digital mobile-only bank, we saw its market share in Bahrain go from strength to strength, gaining excellent brand recognition and numerous industry awards. ila continued to prioritise customer-centric service, innovation, app enhancements and multiple product launches. Moreover, ila continued to expand its presence in Jordan and launched alburaq, a new Islamic platform based mobile banking experience, in Bahrain.

AFS

Our digital payments arm, AFS, progressed steadily on its strategy focused on expanding its geographic footprint, deepening its market shares in its market-leading merchant acquiring business in Bahrain and Oman, continuing to progress its roll-out in Egypt, and focusing on the early-stage development of acquiring in Libya and the UAE. Additionally, it rolled out its SME Partner Programme with VISA, to launch prepaid cards for businesses in Bahrain and Oman. Other key innovations included the expansion of its payments acceptance portfolio with the introduction of AFS Pay 2.0 and AFS One, as well as the initial steps to build a new open finance infrastructure for the region.

ABC Labs

At ABC Labs, we piloted a Frontline Platform at our DIFC branch, a cutting-edge digital banking platform for our relationship managers. We also enhanced AI Fatema, our corporate digital assistant, and implemented an intelligent automation programme employing robotic process automation to boost business growth, customer satisfaction, and operational efficiency.

The **BLOM Bank merger with ABC Egypt** approached the final stage of migrating customers to a single technology platform.

BLOM Bank Integration into ABC Egypt

The BLOM Bank integration within ABC Egypt reached its final stages during the year. The final step is the seamless migration of retail customers onto a single technology platform, which we anticipate we will complete in Q1 2024. Fully combining the retail banking business will complete the integration and be a historic moment, when all our customers are supported by one Bank ABC combined banking proposition across the franchise in Egypt. With integration concluded, 2024 will see the Bank further expanding its market share in this important MENA market on a turbo-charged basis.

Sustainability Strategy

In 2023, the Bank has formulated a well-defined and holistic Sustainability Strategy, led by a newly created Sustainability function with specialised expert resources, to drive this across our organisation in the markets we serve.

Our Sustainability Strategy encompasses guiding principles with an emphasis on governance, operations, risk management and sustainable finance. On governance, we have an effective framework that includes substantive Board-level oversight, while establishing clear targets for the Group to reduce environmental impact and boost our social impact. On operations and risk management, we are developing a clear picture of our Scope 1 and Scope 2 emissions, as well as building the view of the Scope 3 implications of our client business, as we aim to mitigate the environmental risks of our financing activities. Finally, we are focusing more of the Bank's front- line business to proactively target green and sustainability-linked financing opportunities.

In 2023, we signed multiple renewable energy and sustainability-linked deals to drive the transition towards an inclusive and sustainable, low-carbon economy. We also completed over 100 impactful Group-wide Corporate Social Responsibility initiatives that are aligned with United Nations Sustainable Development Goals. In addition, Bank ABC was quick to respond to the catastrophic floods that affected Libya and the devastating earthquakes in Türkiye and Syria, with support and significant donations towards the relief works.

Industry-wide Recognition

Bank ABC continued to be honoured with over 15 international and regional awards in 2023, reflecting our excellence and innovation across our business segments. We are proud to have received the prestigious 'Bank of the Year 2023' award for Bahrain from The Banker, making Bank ABC the third-time winner of the title.

Our digital-only bank, ila, swept all six awards at the Global Finance World's Best Digital Awards, including the 'Best Consumer Digital Bank' title for the third consecutive year.

Bank ABC also received the 'Best Trade Finance Provider in the Middle East' from Global Finance and 'Best Corporate Bank in Bahrain' from the Euromoney Awards for Excellence. We have also been named 'Market Leader in Corporate Banking,' 'Market Leader in Digital Solutions' and 'Highly Regarded in ESG' by the Euromoney Market Leaders Awards.

Our innovation hub, ABC Labs, was named one of the 'World's Best Financial Innovation Labs' by the Global Finance Innovators Awards, demonstrating our commitment to digital transformation. Moreover, our Islamic banking arm, Bank ABC Islamic, was recognised as the 'Best Islamic Financial Institution in Bahrain' by Global Finance's World's Best Islamic Financial Institution Awards.

Recognising our Islamic and Conventional structured finance capabilities, the Bonds, Loans & Sukuks Middle East Awards, awarded us three key accolades: the Global Corporate Sukuk Deal of the Year and Aircraft Finance Deal of the Year for its our landmark Sukuk deal with Air Lease Corporation (ALC), and the Metals & Mining Deal of the Year, for the loan facilitated for Aluminium Bahrain (Alba).

Finally, our cash management capabilities earned us recognition as the 'Best Overall Cash Management Provider in Tunisia' by Global Finance.

2024 Priorities

The year ahead will present many continuing challenges and opportunities for the industry to navigate. Heightened geopolitical tensions will likely lead to additional economic stress on the more vulnerable economies in the region. In many markets, the interest rate cycle will likely turn as inflation abates, presenting repricing challenges and refinancing opportunities. New technologies such as AI techniques will be emerging, while new banking regulations on capital and climate change are coming into effect, with all these factors affecting the competitive environment.

Despite these uncertainties, Bank ABC is confident it can capitalise on its strengths and continue to accelerate its performance. As referenced earlier, we will focus on executing our newly approved Group Strategy, which will drive both near-term and long-term value creation for our shareholders. We will remain vigilant on emerging risks, while continuing our focus on capital efficiency and balance sheet capacity, building on the momentum of the strong business pipeline achieved in 2023. We will also continue to invest in our digital capabilities and technology platforms, positioning ABC to be at the forefront of AI and other developments in data, and digital product and service propositions to unleash greater efficiency, agility, and performance throughout the Group.

> The **Bank's 2024 focus will be to increase capital efficiency** and balance sheet capacity while continuing to invest in our digital capabilities.

Acknowledgements

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

I would like to recognise and thank my colleagues on the Board for their direction during 2023, including Dr Farouk El Okdah, who stepped down from the Board after many years of excellent service. Finally, I would like to thank our dedicated employees across the Group, our driving force as Bank ABC continues to thrive, grow and become our 'international bank of the future'.

Board of Directors' Remuneration Details

The aggregate remuneration paid to Board members in 2023 amounted to US$1,897,023 (2022: US$1,760,511), which was divided between the three elements as follows:

Name	Fixed remunerations					Variable remunerations					End-of-service award	**Aggregate amount** (Does not include expense allowance)	**Expenses Allowance**
	Remunerations of the chairman and BOD	Total allowance for attending Board and committee meetings	Salaries	Others*	Total	Remunerations of the chairman and BOD	Bonus	Incentive plans	Others	Total			
First: Independent Directors:													
Dr. Khaled Kawan	50,000	4,500	-	9,407	63,907	-	-	-	-	-	-	-	-
Dr. Farouk El Okdah	75,833	3,000	-	13,191	92,024	-	-	-	-	-	-	-	-
Dr. Ibrahim El Danfour	135,000	22,500	-	95,566	253,066	-	-	-	-	-	-	-	-
Mr. Abdallah Al Humaidhi	133,750	12,000	-	46,114	191,864	-	-	-	-	-	-	-	-
Mr. Khalil Nooruddin	150,833	31,500	-	24,819	207,152	-	-	-	-	-	-	-	-
Second: Non-Executive Directors:													
Mr. Saddek Omar El Kaber	147,500	9,000	-	49,911	206,411	-	-	-	-	-	-	-	-
Mr. Mohammad Saleem	138,750	15,000	-	59,577	213,327	-	-	-	-	-	-	-	-
Mr. Ashraf Mukhtar	110,000	9,000	-	58,149	177,149	-	-	-	-	-	-	-	-
Dr. Tarik Yousef	137,917	30,000	-	112,768	280,685	-	-	-	-	-	-	-	-
Ms. Huda Al Mousa	127,083	28,500	-	55,854	211,437	-	-	-	-	-	-	-	-
Third: Executive Directors:													
-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	**1,206,667**	**165,000**	**-**	**525,356**	**1,897,023**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

*Travel and accommodation costs.

Note: The aggregate remuneration paid to the members of the Remuneration Committee with respect to their membership of such committee for the year 2023 was US$20,000, which sum is included in the Retainer fee (2022: US$20,000).

No Director owned or traded Bank ABC shares in 2023.

Executive Management Remuneration Details:

Executive management	Total paid salaries and allowances	Total paid remuneration (Bonus)	Any other cash/ in kind remuneration for 2023	Aggregate Amount
Remunerations of top 6 executives, including CEO and Head of Finance & Administration	5,525,520	3,709,095	-	9,234,615

Note: All amounts stated are in US Dollars.

Saddek Omar El Kaber
Chairman
11 February 2024

Mohammad Abdulredha Saleem
Deputy Chairman

GROUP CEO'S STATEMENT

Sael Al Waary
Group CEO

The Group's **net profit for 2023 was US$235 million,** a remarkable performance showing a 53% year-on-year increase.

Bank ABC achieved a remarkable performance in 2023, with an excellent 53% year-on-year increase in net profit at US$235 million, and growth, recording a record level of US$1.3 billion of revenues and US$44 billion in assets. This has been driven by the collective efforts of our dedicated employees across our international network, spanning five continents and 15 countries, continuing our business expansion, with disciplined cost management and ongoing investments into our market-leading digital transformation journey. Despite economic pressures and heightened geo-political tensions in the MENA region, we grew our lending volumes across our international franchise, executed multiple landmark transactions and demonstrated operational resilience in the face of an uncertain and challenging external environment.

Our Board and shareholders remain fully committed to the Group' strategy and growth plans, which have been underpinned by the recommendation and subsequent approval for a prospective Additional Tier 1 issuance of up to US$400 million. This will further support the Group's aspirations for accelerated earnings growth and improving levels of return on equity, while maintaining the emphasis on balance sheet strength with robust capital ratios.

Bank ABC remains confident and is moving ahead with purpose, turning challenges into opportunities and tackling them with innovation. While there have been many highlights of the year, my statement will further expand on four key aspects, which are particularly important to Bank's ABC's performance and delivery in 2024 and beyond.

Refreshed Group Strategy

The Group's newly refreshed and ambitious strategy for the 2023 to 2026 cycle focuses on becoming **"MENA's international bank of the future".** This is underpinned by three core elements: Pillar 1 - Accelerating our core performance to create near-term value;
Pillar 2 - Maximising the value of our digital units; our mobile-only retail bank ila and digital payments company AFS, to create long-term value; and Pillar 3 - Strengthening our operating model, to enable and drive the execution of the first two pillars.

We are moving ahead in the execution of our strategy with several initiatives that have been set in motion across all business lines, geographic units and support functions. This is supported by oversight of a newly strengthened Group Strategy and Transformation Office, to encourage and track achievement of our goals. We envisage this will lead to continuing enhancement of our international Wholesale Banking franchise, leveraging investments into our product areas such as Global Transaction Banking and Treasury. It will also seek to achieve a wider and deeper penetration of Retail business in our MENA markets, accelerated by leveraging our exceptional mobile digital ila Bank capabilities and payments strengths of AFS, while rationalising and upgrading our remaining branch infrastructure. Moreover, our MENA geographic positioning has been enhanced by the completion of the full integration of BLOM and Bank ABC in Egypt. This has created a stronger combined bank with a much larger footprint and tripled market share in this fundamentally important market in the region. Finally, our focus on strengthening our operating model, is driving advances in infrastructure, such as the complete replacement of our core banking platforms and a refresh of our IT and data operating models. It will also enhance key aspects of our performance and portfolio management disciplines, increasing alignment and emphasising efficient balance sheet management to maintain strong capital and liquidity ratios as we grow.

MENA's international bank of the future

- Pillar 1 - Accelerating our core performance to create near-term value.
- Pillar 2 - Maximising the value of our digital units, to create long-term value.
- Pillar 3 - Strengthening our operating model, to enable and drive the execution of the first two pillars.

Sustainability Journey

Another key area of focus for the Bank is Sustainability, an integral part of the Group Strategy, which will be increasingly front-and-centre in all of our business and operational endeavours.

In 2023, we formulated and adopted a well-defined and holistic Sustainability Strategy that comprises five guiding principles - governance, operations, risk management, sustainable finance and people/communities. It is fully aligned with the refreshed Group strategy, and is being led by a newly created Group Sustainability function with specialised resources, which has developed a three-year programme of actions to embed sustainability across the Group.

Notable progress has been made since its launch to focus on measuring the Bank's environmental and social footprint, as well as embedding the necessary frameworks and processes to reduce our carbon impact. We have made significant strides, which include launching recycling and waste reduction initiatives, and reaching 100% renewable energy use in our London and Jordan offices.

We also developed a Sustainable Finance Framework (SFF)* to robustly classify and build transparency and credibility around sustainable finance activities, and to diversify our fund sources. In 2023, Bank ABC mobilised US$2.3 billion of sustainable finance as we supported our customers in their environmental and social impact initiatives.. Developing countries, which are significantly underserved in the world of sustainable finance, accounted for 88% of this funding. Our deal book included a sustainability-linked Sukuk for solar photovoltaic assets, a US$500-million loan for social expenditures under Egypt's Sustainable Finance Framework, and a US$500-million debenture to expand water and sanitation services in Brazil.

On governance, we have an effective framework that includes substantive Board-level oversight, while establishing clear targets for the Group to reduce environmental impact and boost social impact. On operations and risk management, we are developing a clear picture of Scope 1 and Scope 2 emissions on the Bank's operations, and advancing significantly on Scope 3 emissions, compiling a view on third-party suppliers, while creating a detailed perspective of our financed emissions for clients.

In relation to the communities in which we operate, we are proud to share that over 50 Group-wide Corporate Social Responsibility initiatives have been completed that align with the United Nations Sustainable Development Goals. Bank ABC was quick to respond to the catastrophic floods that affected Libya and the earthquakes in Türkiye, with support and significant donations towards the relief works.

Finally on people, we continue to strengthen our human capital following the principles of Diversity, Equity and Inclusion. We are striving for gender parity, with more of our units exceeding 50% of female employee representation. Additionally, we remain committed to career development and training, as well as promoting a safe and healthy workplace that fosters employee loyalty and wellbeing.

* Full details on SFF and accompanying report related to our sustainability agenda will be published in due course and will be available on the Bank's website.

Over 50 Group-wide Corporate Social Responsibility initiatives have been completed that align with the United Nations Sustainable Development Goals.

Bank ABC's Brand and International Awards

Our performance and industry-leading strategic efforts have certainly not gone unnoticed and have further bolstered the Bank ABC brand. In 2023, the Bank was honoured with over 15 international and regional awards, reflecting our pathbreaking innovation and excellence across all business segments. Highlighted among these was the prestigious 'Bank of the Year 2023' award for Bahrain from the FT's "The Banker" magazine, making Bank ABC the third-time winner of the title.

Other notable awards included the 'Best Trade Finance Provider in the Middle East' and 'Best Islamic Financial Institution in Bahrain' from Global Finance, along with the 'Best Corporate Bank in Bahrain' title by the Euromoney Awards for Excellence.

ila Bank, our flagship mobile-only digital retail bank, continued its outstanding success by sweeping all six awards for Bahrain at the Global Finance World's Best Digital Awards, including the 'Best Consumer Digital Bank' title for the third consecutive year. Moreover, ABC Labs was also featured among the 'World's Best Financial Innovation Labs' by the Global Finance Innovators Awards.

Further underscoring the Group's exemplary credentials; our strengthened profitability, geographical asset diversification, and strong capital levels led to reaffirmation of all Bank ABC's credit ratings, retaining investment grade and stable outlook with S&P at BBB- and Capital Intelligence at BBB+, as well as BB+ stable outlook with Fitch Ratings.

Innovation and Digital Transformation

Bank ABC has a long-established reputation as a leader in digital innovation. In 2023, we launched ABC Trade, a comprehensive trade finance solution, and rolled out a corporate onboarding platform across all 15 global units, while progressing our wholesale payments capabilities with our ABC Cash proposition. As noted above, our mobile-only digital bank, ila, continues to go from strength-to-strength, building market share in Bahrain and Jordan. We also advanced our plans to leverage ila's capabilities to deliver a more intuitive app, which is significantly enhancing our customers' banking experience across the Group's retail businesses in the rest of MENA.

Our broader strategy to become "MENA's International Bank of the Future" is also positioned to capture the new wave of data science and use of Artificial Intelligence (AI) in banking. The Group's award-winning innovation and digitisation center, ABC Labs, has kicked off the ABC AI Programme, to leverage this powerful technology. In 2024, we will focus on implementing concrete use cases such as advanced behavioural analytics and Robotic Process Automation (RPA), while we evaluate the incorporation of a generative AI model into our business activities. Our ongoing investments in our core banking platforms and IT and data operating models will create the enabling infrastructure and foundations to ensure Bank ABC remains a regional leader in this space.

Looking Ahead

In the years ahead, Bank ABC will drive execution of our refreshed strategy, increasing profitability and return on equity, while becoming a resilient, innovative and sustainable Bank of the Future, that unlocks greater value for our shareholders, customers and communities. We will continue to set increasing benchmarks for growth and productivity, while promoting the development, empowerment and accountability of our employees, with a firm focus on delivering on our strategic goals.

I take this opportunity to thank our Board and shareholders for their unwavering trust and support throughout 2023. I also extend thanks to our home regulator, the Central Bank of Bahrain, and the regulatory authorities in our operating regions for their guidance and collaborative approach. Finally, I must recognise every member of the Bank ABC team across our network for their exemplary efforts throughout the year, as we progressed on our journey to become MENA's international bank of the future.

Going forward, the Group is working to become MENA's international Bank of the Future **through further integration of data science and AI into core-banking systems.**

Sael Al Waary
Group CEO

BANK ABC - THE INVESTMENT CASE

An attractive investment proposition supported by record results, a clear strategic focus to accelerate performance momentum, a robust balance sheet and a brand that is strengthening throughout the region.

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

Accelerating profitability while maintaining a strong balance sheet	Innovative banking that is delivering results despite market headwinds - the Bank reached historic revenue levels, with TOI at US$1.3 billion in 2023. Growth of 53% in net profits to reach US$235 million, driven by volume growth in our core business across our markets and successful delivery of our strategic objectives. Dividend pay-out increased approximately by 50% year-on-year, in line with net profit growth. A strong balance sheet with capital and liquidity ratios well above the regulatory requirements: Tier 1 Capital ratio at 15.0%, of which CET1 at 13.5%. LCR and NSFR at 278% and 128% respectively.
Comprehensive 3-year growth strategy refreshed to drive accelerated growth with higher returns to shareholders	Significant growth in a diversified core business across a broad international network spanning 5 continents and 15 countries. Bank-of-choice for a fast-growing client base, offering unique customer service value proposition and state-of-the-art digital capabilities. Successful integration of Bank ABC Egypt with BLOM Bank Egypt, creating a new platform to turbocharge growth in this core MENA market and nearly tripling Bank ABC's market share in Egypt. Three-time winner of 'Bank of the year in Bahrain' award by The Banker - FT, including for 2023, 'Best Trade Finance Provider in the Middle East' from Global Finance and 'Best Corporate Bank in Bahrain' from the Euromoney Awards for Excellence. A holistic, collaborative, and evolutionary approach to sustainability, covering governance, operations, human capital management, risk management and community development.
Exemplary leader investing in the bank of the future	Continuing fast-paced growth and gains in market share for the award-winning digital mobile-only ila Bank in Bahrain and MENA- recognised as the Best Consumer Digital Bank in Bahrain for three consecutive years. Wholesale Banking digital transformation programme is delivering considerable results with increased business volumes across Cash Management, Documentary Trade, and Supply Chain Finance and new customers onboarded. Majority shareholder in leading Fintech payments provide AFS, with fast growing business lines of bank processing and merchant acquiring. The Group's innovation & digitisation centre, ABC Labs, named one of the 'World's Best Financial Innovation Labs' by the Global Finance Innovators Awards.
Effective and experienced management, committed to robust governance and risk management	Highly experienced C-suite with multiple years of experience in Bank ABC and other major regional and international banks. Diverse and highly experienced representation in Group and subsidiary Boards to ensure balanced and effective governance. Continued focus on proactive management of risk together with ongoing improvements in risk culture, credit, operational and market risk.

BOARD OF DIRECTORS

Mr. Saddek Omar El Kaber
Chairman

SC ‡ >|<

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

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

Mr. Mohammad Abdulredha Saleem
Deputy Chairman

RC SC ‡ >|<

Bachelor of Business Administration in Finance from Kuwait University.

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

Ms. Huda Al Mousa
Director

AC CC ‡ >|<

MBA degree in Business Management, Georgetown University.

Huda Almousa serves as a Director at the General Reserve Asset Department of the Kuwait Investment Authority (KIA) since 2018. Her journey in the finance sector, spanning more than 15 years, includes diverse experiences in banking, asset management, and public finance. Before joining KIA, Huda was involved in various banking roles across key global financial centers, including New York, Dubai, Hong Kong, and Kuwait.

Alongside her responsibilities at KIA, Ms. Almousa lends her expertise to several key financial institutions and committees. She is a board member at Kuwait Credit Bank and Bank ABC, and she participates in the State of Kuwait Debt Management Committee, among other committees, contributing to financial oversight and policy development at the state level.

Mr. Abdallah Al Humaidhi
Director

RC RemCo GC SC ‡ §

MS, American University of Beirut.

Vice Chairman and Chief Executive Officer, Commercial Facilities Company, Kuwait; a Director of the Board of First National Bank S.A.L., Lebanon. Mr. Al Humaidhi is also a Member of the Board and honourary Treasurer of the Kuwait Chamber of Commerce & Industry and a Director of the Board of ABC International Bank plc, UK and a Member of the Board of Directors of Investcorp and chairman of the Audit and Risk Committee. Member of the Board of Directors of the Kuwait Red Crescent and Honorary Treasurer. Previously he served as Member of the Board and the Executive Committee of Kuwait Investment Authority. He has been a Director of Arab Banking Corporation B.S.C. since 2001 and has more than 40 years of experience in the banking and investment sectors.

Dr. Ibrahim El Danfour
Director

AC RC RemCo CC ‡ §

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

Chief Executive Officer of the Libyan African Investment Company (LAICO), Chairman of BSIC Gambian Bank, Gambia, Member of European Accounting Association (No. 95844), founding member of the Libyan Accountants Association, collaborator at Academic of Postgraduate Studies, Misurata, Libya. Previously Dr. Eldanfour was the Chairman of Ensemble Hotel Holdings, South Africa, Director of Libya for Investment Company, Egypt, Chairman of LAICO Hotels & Resorts Management Company, Liechtenstein, Director of Waha Bank, Libya. Dr. Eldanfour held various key positions in academia as well as the public and private sectors, mainly in accounting, financial management, corporate transformation and ERP systems, giving him more than 22 years of hands on experience in these domains, for which he has a number of publications and is an active participator in related high profile events and conferences.

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

Dr. Tarik Yousef
Director

AC GC CC SC ‡ >|<

PhD in Economics, Harvard University, USA.

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

Mr. Ashraf Mukhtar
Director

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MSC Master of International Accounting from Malaysia.

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

Mr. Khalil Ibrahim Nooruddin
Director

AC RC CC SC ‡ §

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

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

Dr. Khaled Kawan*
Director

GC RemCo RC ‡ §

PhD (Doctorat D'Etat) in Banking Laws, University of Paris (Sorbonne), France.

Dr. Kawan has held various executive level positions at Bank ABC from 1991 until his retirement in 2022. He served as the Group Legal Counsel until December 2009, when he was appointed Deputy Group Chief Executive Officer. Subsequently, Dr. Kawan was elevated to Group Chief Executive Officer of Bank ABC in October 2013. He currently holds a number of Board offices within the Bank ABC Group, including Chairman of the Boards of ABC International Bank plc, Arab Banking Corporation SA and Banco ABC Brasil. He has more than 30 years of banking experience.

* Appointed to the Board in July 2023

Dr. Farouk El Okdah*
Director

GC RemCo ‡ §

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

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

* Resigned from the Board in July 2023

EXECUTIVE MANAGEMENT

Mr. Sael Al Waary
Group Chief Executive Officer

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

Mr. Al Waary is the Group Chief Executive Officer of Bank ABC Group, with over 35 years of banking, leadership and management experience garnered from the many senior positions he has held in both London and Bahrain. He served as Bank ABC's Deputy Group CEO from 2017 to 2022. Mr. Al Waary represents the Bank as Chairman of Bank ABC Jordan, Chairman of the Arab Financial Services Company, and Deputy Chairman of Bank ABC in Egypt. He is also the Chairman of ila Bank Advisory Board.

Mr. Brendon Hopkins
Group Chief Financial Officer

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

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

Mr. Christopher Wilmot
Group Head of Treasury and Financial Markets

MBA, University of Strathclyde Business School.

Mr. Wilmot joined Bank ABC in June 2016 with global responsibility for the Bank's Corporate Treasury, Financial Markets, Capital Markets and Asset Management businesses. He is a senior banker with over 35 years of treasury, investment and financial markets experience, covering both conventional and Islamic banking disciplines, of which the last 28 years have been within the MENA region. He is also a Board member of ABC Islamic and a member of the Audit, Risk and Corporate Governance Committees. He joined the Bank ABC Group from First Gulf Bank, Abu Dhabi. Prior to joining FGB, Mr. Wilmot held Group Treasurer positions with Ahli United Bank, Bahrain, and Saudi Hollandi Bank, Riyadh (ABN Amro Group).

Mr. Amr ElNokaly
Group Head of Wholesale Banking

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

Mr. ElNokaly joined Bank ABC in 2018 as the Global Head of Corporates and is currently serving as the Group Head of Wholesale Banking. He leads the delivery of Bank ABC's wholesale banking capabilities through a single platform to clients across the Bank's global network, formulating and executing business strategies, driving performance, developing customer relationships, and building franchise values for the Group. He is also serving as the Chairman of the Board of Bank ABC Islamic and Director in Bank ABC Egypt. Prior to joining Bank ABC, he served as the Division Head of Corporate Banking at Mashreq Bank, U.A.E and the Chairman of the Wholesale Banking Committee at Union of Banks Federation of the U.A.E. Previously, he was with Citigroup Egypt as Resident Vice President between 1994 to 2003.

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

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

Mr. Almaraj is the Group Head of Retail Banking and the Chief Executive Officer of the digital mobile-only 'ila Bank' in Bahrain, having joined Bank ABC in 2015. He also serves as a director on the Board of Bank ABC Jordan. Prior to his current roles, he served as the COO of ila Bank and previously, played a key role in several Group level initiatives including the establishment of Bank ABC's DIFC office, launch of the Debt Capital Markets practice, and the overall fintech strategy for Bank ABC. Prior to joining Bank ABC, Mr. Almaraj was a Senior Associate with the investment bank, Perella Weinberg Partners, in New York with a focus on mergers & acquisitions transactions and corporate restructurings in the technology, media, telecom and financial services sectors. He has 15 years' experience in corporate finance, investments, restructurings, and digital transformations across the GCC and the US.

Mr. Sedjwick Joseph
Group Chief Credit & Risk Officer

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

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

Mr. Ismail Mokhtar
Group Chief Operating Officer

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

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

Mr. Johan Hundertmark
Group Chief Auditor

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

Mr. Hundertmark is a Chartered Accountant and member of the Royal Netherlands Institute of Chartered Accountants, a Chartered member of the Dutch Institute of Financial Controllers. He was trained at Ernst & Young and KPMG in the Netherlands before joining ABN Amro Bank N.V. where he was appointed Senior Vice President for the bank before accepting the Chief Audit Executive role at its subsidiary, Saudi Hollandi Bank in Riyadh, Saudi Arabia. He joined Deutsche Bank AG in Sydney, Australia, in 2008 as the Head of Audit for Australia and New Zealand and transferred to Singapore as the Head of Audit for Singapore and ASEAN in August 2012. Mr. Hundertmark joined the Bank ABC Group in July 2016 as Group Chief Auditor. He has almost 30 years experience in the finance field.

Mr. Maadian Botha
Group Chief Compliance Officer

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

Mr. Botha is a Compliance Professional and member of the Compliance Institute of Southern Africa. He holds Master's degrees in Law and Business Administration from the University of Pretoria. He has more than 28 years' previous experience in the financial services sector. His previous senior roles include the Group Chief Compliance Officer at Barclays (Absa) and leading the Compliance Practice at PWC for Southern Africa, and member of the Compliance Executive team at Nedbank. He previously held the position as Chairman of the Compliance Institute of Southern Africa. Mr. Botha joined the Bank ABC Group in April 2020 as Group Head of Compliance, and he oversees the functional and country Compliance Officers and MLRO's across the Group.

Mr. Nicholas Church
Group Head of Legal

B.Ec (Soc.Sc), Sydney University, Juris Doctor, Bond University, Solicitor (England and Australia).

Mr. Church joined Bank ABC in February 2021 as the Group Head of Legal, with responsibility for the Group's legal affairs. He holds a Bachelor of Economics (Social Sciences) from Sydney University and a Juris Doctor from Bond University. He is admitted as a solicitor in, respectively, England and Australia (New South Wales and Queensland). Mr. Church has worked at leading international law firms in Europe, the Middle East and Asia Pacific, where he advised banks and companies on various high-profile financing transactions. Immediately prior to joining Bank ABC, Mr. Church was a partner in Baker McKenzie's Bahrain office. He currently serves as a director on the Board of Banco ABC Brasil.

GROUP FINANCIAL REVIEW

Bank ABC reported a surge in 2023 annual Net Profit attributable to its shareholders of 53% YOY reaching US$235 million.

This success was due to strong core business growth, cost discipline, and a stable funding base, along with interest rate tailwinds and steady cost of credit.

After surpassing the US$1 billion mark in revenue in 2022, the Group improved its Total Operating Income by 16% in 2023 to reach US$1,279 million. This growth was well diversified across our markets and business lines. Net interest income improved by 19% year-on-year supported by strong loan volumes, improving margins and interest rate tailwinds. Other operating income grew by 9% due to increased volumes, client cross-selling and ancillary fee income.

Achieving Excellent Earnings Growth

In 2023, the Group built on the momentum from the previous year to earn a Net Profit of US$235 million. This is a significant 53% growth compared to 2022, when the Group earned US$154 million in net profit. This growth in profit in 2023 resulted in earnings per share for the year of US$0.07, compared to US$0.05 for 2022.

The Group's revenues reached a record level of US$1,279 million for the full year, a rise of 16% from US$1,101 million in 2022, demonstrating our established strength in core MENA markets and ambitious growth of our footprint globally. We continued our investments into strategic digital initiatives and enhanced our digital proposition through a range of key partnerships and initiatives to become our 'Bank of the Future.' Our digital mobile-only bank, ila, and our fintech payments provider Arab Financial Services also achieved excellent revenue growth. Global growth was bolstered by advancing of the integration between Bank ABC Egypt and erstwhile BLOM Bank Egypt (BBE) acquired in 2021.

Net interest income for the year was US$935 million, an increase of 19% compared to US$786 million in 2022. Non-interest income jumped by 9% to US$344 million from US$315 million the previous year.

Alongside / With strong revenue growth, the Group continued to enforce appropriate cost discipline without compromising on investments in digital transformation and other strategic initiatives. Operating expenses totalled US$764 million for 2023, rising by 11% from US$690 million. Given revenue growth at 16%, this resulted in "positive jaws" of 5%, and the cost to income ratio improved by 3% to 59.7% from 62.7% in the previous year.

Credit loss expenses for the year stood at US$145 million, compared with the previous year's US$119 million. Taxation on operations was a charge of US$74 million (2022: US$83 million), resulting in the full year net profit attributable to the shareholders of the parent of US$235 million (2022: US$154 million).

Sources and Uses of Funds

Notwithstanding the challenging conditions of the year, the Group's overall asset portfolio quality remains solid, and our underwriting standards are sound. Equity attributable to the shareholders of the parent and perpetual instrument holders at the end of the period was US$4,300 million, an increase of 5.0% from the US$4,095 million reported at the end of 2022, primarily resulting from the 2023 net profit and changes in comprehensive income offset by 2022 dividend payment.

235 US$ Million

Net Profit for 2023 showed 53% growth compared to 2022.

The Group's asset profile is predominantly made up of loans, securities, and placements. The loans and advances portfolio stood at US$19,096 million, 5.0% higher than the US$18,190 million posted at year-end 2022. Non-trading investments increased by US$3,288 million to US$11,368 million, money market placements by US$5 million to US$2,231 million, while liquid funds and securities bought under repurchase agreements increased by US$2,385 million to US$6,657 million.

Deposits from customers increased by US$2,309 million to US$23,705 million. Deposits from banks, certificates of deposit and repos totalled US$11,210 million (2022: US$7,077 million), while borrowings totalled US$1,303 million (2022: US$1,297 million).

Total assets of the Group at the end of the year stood at US$43,892 million, 20% higher than US$36,639 million as at year-end 2022. Average assets for the year were US$39,480 million (2022: US$35,081 million) and average liabilities, including non-controlling interests, were US$35,320 million (2022: US$31,003 million).

Credit Commitments, Contingent Items and Derivatives

The notional value of the Group's consolidated off-balance sheet items stood at US$50,929 million (2022: US$42,461 million), comprising credit commitments and contingencies of US$10,376 million (2022: US$7,981 million) and derivatives of US$40,553 million (2022: US$34,480 million). The credit risk-weighted asset equivalent of these off-balance sheet items was US$4,225 million (2022: US$3,062 million).

The Group uses a range of derivative products for the purposes of hedging and servicing customer-related requirements, as well as for short-term trading purposes. The total market risk-weighted equivalent of the exposures under these categories at the end of 2023 was US$799 million (2022: US$827 million). No significant credit derivative trading activities were undertaken during the year.

Geographical and Maturity Distribution of the Balance Sheet

Bank ABC Group has well diversified assets, primarily across the Arab world, the Americas and Western Europe. The Group's liabilities and equity are predominantly in the Arab world (56%; vs. 63% in 2022), followed by Latin America (19% vs. 18% in 2022), chiefly in our Brazilian subsidiary, Banco ABC Brasil.

(%)	Financial assets 2023	Financial assets 2022	Liabilities & equity 2023	Liabilities & equity 2022	Loans & advances 2023	Loans & advances 2022
Arab world	**31**	41	**56**	63	**34**	41
Western Europe	**11**	11	**13**	8	**13**	11
Asia	**2**	2	**2**	2	**1**	1
North America	**25**	15	**9**	7	**9**	9
Latin America	**25**	26	**19**	18	**35**	31
Others	**6**	5	**1**	2	**8**	7
	100	100	**100**	100	**100**	100

An analysis of the maturity profile of financial assets according to when they are expected to be recovered or settled, or when they could be realised, shows that at the end of 2023, 64% (2022: 64%) had a maturity of one year or less. Loans and advances maturing within one year amounted to 63% (2022: 65%). The proportion of liabilities maturing within one year was 65% (2022: 56%).

(%)	Financial assets 2023	Financial assets 2022	Liabilities & equity 2023	Liabilities & equity 2022
Within 1 month	**32**	32	**20**	24
months 1-3	**18**	13	**12**	11
months 3-6	**9**	9	**7**	5
months 6-12	**10**	10	**12**	16
Over 1 year	**23**	27	**31**	25
Undated	**8**	9	**18**	19
	100	100	**100**	100

Distribution of Credit Exposure

ABC Group's credit exposure (defined as the gross credit risk to which the Group is potentially exposed) as at 31 December 2023 is given below:

(US$ million)	Funded exposure		Credit commitments & contingent items		Derivatives*	
	2023	2022	**2023**	2022	**2023**	2022
Customer type						
Banks	**6,094**	6,503	**2,183**	2,058	**313**	341
Non-banks	**19,131**	16,640	**7,211**	5,305	**305**	296
Sovereign	**15,409**	10,426	**982**	618	**5**	9
	40,634	33,569	**10,376**	7,981	**623**	646
Risk rating						
1 = Exceptional	**895**	2,162	**964**	908	**-**	-
2 = Excellent	**10,738**	3,607	**157**	291	**48**	61
3 = Superior	**3,382**	3,512	**923**	434	**203**	249
4 = Good	**2,792**	2,562	**1,248**	1,033	**22**	14
5 = Satisfactory	**10,128**	10,241	**5,003**	3,323	**293**	257
6 = Adequate	**11,161**	9,936	**1,729**	1,620	**51**	61
7 = Marginal	**1,162**	1,017	**181**	150	**6**	3
8 = Special Mention	**137**	340	**109**	134	**-**	1
9 = Substandard	**186**	166	**49**	54	**-**	-
10 = Doubtful	**46**	22	**6**	27	**-**	-
11 = Loss	**7**	4	**7**	7	**-**	-
	40,634	33,569	**10,376**	7,981	**623**	646

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

Classified Exposures and Impairment Provisions

The total of all impaired loans as at the end of 2023 was US$710 million (2022: US$655 million). ECL allowances including stage 3 provisions at the end of 2023 stood at US$648 million (2022: US$673 million).

The total of all impaired securities as at the end of 2023 was US$74 million (2022: US$74 million). ECL allowances, including stage 3 provisions, at the end of 2023 stood at US$88 million (2022: US$87 million).

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

Impaired loans

(US$ million)	Principal	Provisions	Net book value
Less than 3 months	133	57	76
3 months to 1 year	132	65	67
1 to 3 years	292	182	110
Over 3 years	153	131	22
Total	**710**	**435**	**275**

Impaired securities

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

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

Group Capital Structure and Capital Adequacy Ratios

Bank ABC's balance sheet remains strong with capital and liquidity ratios well above the regulatory requirements. LCR and NSFR stood at 278% and 128% respectively as at year-end 2023, while liquid assets to deposits ratio maintained a healthy level at 50.3%.

The Group's capital base of US$4,869 million comprises Tier 1 capital of US$4,544 million (2022: US$4,336 million) and Tier 2 capital of US$325 million (2022: US$290 million).

The consolidated capital adequacy ratio (CAR) at 31 December 2023, calculated in accordance with the prevailing Basel III rules, was 16.1% (2022: 16.8%), well above the 12.5% minimum set by the Central Bank of Bahrain. The CAR comprised predominantly Tier 1 ratio of 15.0% (2022: 15.7%), well above the 10.5% minimum set by the Central Bank of Bahrain.

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

A Resilient Operating Environment Despite Headwinds

Our core and network markets remained resilient in 2023 despite market volatility and rising geopolitical risks. Against the background of the Russia-Ukrainian conflict, the eruption of the Gaza conflict and disruption of maritime trade through the Suez Canal, as well as real estate sector-related challenges in a number of economies including the US and China, global growth is estimated to have slowed to 3.1% in 2023, down from 3.5% in 2022.

Growth in MENA economies is estimated to have slowed to 1.8%, down from 5.6% in 2022, mainly due to OPEC+ related oil production curbs for oil exporters and headwinds from tighter monetary policy. Meanwhile, non-hydrocarbon activity has remained brisk and sovereign credit ratings among oil exporters generally continued to improve.

With inflation easing closer to targets, Central Banks are aiming for a soft landing

Following the decline in global price pressures, major central banks paused monetary tightening in the second half of 2023 and have since indicated that monetary easing could be appropriate in 2024. The United States Federal Reserve raised the upper limit of its funds rate to 5.5% in mid-2023 from 4.5% at the start of the year, and has since kept it unchanged at this level. MENA central banks with dollar pegs have generally matched the changes by the Federal Reserve.

In Europe, the European Central Bank (ECB) raised its main refinancing operations rate to 4.5% in September, up from 2.5% at the start of the year. ECB has also kept its key policy rates unchanged since then. Meanwhile in the United Kingdom, the Bank of England last raised its bank rate to 5.25% in August, from 3.5% at the start of 2023 in response to high inflation. With the decline in inflation closer to their 2% target, major central banks have indicated that monetary easing could be appropriate in the quarters ahead. In Brazil, Banco Central do Brasil has already cut its key SELIC rate from a high of 13.75% in July to 11.25% at the start of 2024 and indicated further monetary easing would be appropriate in light of declining price pressures and moderating activity.

The Impact of Increased Geopolitical Tensions

While economies near the conflict zone have been most affected by the eruption of the Gaza conflict, the disruption of maritime traffic through the Suez Canal threatens to create supply chain bottlenecks and price pressures elsewhere, including in Europe. Among our core markets, Egypt is most exposed due to a near halving of Suez Canal revenues and impact on tourism and investment. Jordan has also been impacted particularly due to a decline in tourism. By contrast, a geopolitical risk premium on hydrocarbon prices may support external and fiscal balances in oil exporters such as Libya and the GCC.

Looking Ahead to 2024

In the year ahead, global growth is projected at 2.8% against the background of elevated geopolitical risks and interest rates weighing on consumption and investment expenditures, and trade. We expect MENA economies to buck the trend, with headline growth rising to 2.5% in 2024, with less drag from OPEC+ related oil production curbs.

Barring further supply shocks, receding inflationary pressures are expected to provide scope for major central banks to begin monetary easing later in the year. MENA central banks with dollar pegs are expected to also match potential monetary easing by the Federal Reserve, supporting activity in their economies. We expect external assistance to remain steadfast for more vulnerable economies such as Egypt, which is undertaking reforms including an expected move towards a market-based exchange rate regime.

Bank ABC is setting bold aspirations for 2024, cautious of the economic headwinds such as the impact of tight financial conditions on credit quality and spillovers from ongoing conflicts in Ukraine and Gaza. With our strong track record of resilience and overcoming market volatility, we are confident of capitalising our strengths and leveraging our investments to continue to accelerate profitable growth during 2024.

BUSINESS & OPERATIONS REVIEW

Bank ABC's business units and operational areas achieved record financial results and outstanding value for the Group's shareholders by collectively delivering on the Bank's refreshed strategy vision to be MENA's international Bank of the Future.

Despite the economic and geopolitical uncertainties in the region, the Group's core businesses continued to grow volumes and revenues and achieve market share gains across the its international network. Underpinning this, impressive strides were made to develop new to bank (NTB) client relationships, to strengthen the operating model and to achieve key milestones, such as completion of the ABC-BLOM Bank integration in Egypt.

Moreover, Bank ABC remained at the forefront of digital transformation, spearheaded by enhancements and expansion of digital mobile banking in ila, fintech payments in AFS, , innovation in Wholesale Bank digital transaction banking capabilities of Cash Management, Trade Finance and Supply Chain Finance, and enabling investment in the Group's core IT infrastructure. From launching new products to participating in landmark deals, it was a year of excellent strategic progress for the entire Group, further explained in the sections below.

Financial Performance

Bank ABC achieved historical performance to earn Net Profit of US$235 million in 2023, a remarkable 53% growth compared to US$154 million in 2022. This was driven by robust core business expansion, cost efficiency, stable funding, favourable interest rates and low underlying credit costs.

The Group's Total Operating Income rose by 16% in 2023 to a record high of US$1,279 million, after crossing US$1 billion in revenue for the first time in 2022. This growth was diversified across various markets and business segments. Net interest income grew by 19% year-on-year due to strong loan demand, better margins and the Bank's balance sheet benefiting from the higher interest rate environment. Other operating income increased by 9% based on higher volumes, client loyalty and extra fee income.

The Group's operating expenses increased by 11% to US$764 million, while its income grew faster than its expenses, giving positive 'jaws' of 5%, and led to the cost to income ratio improving by 3% to 59.7%. Credit loss expenses and taxation on operations were US$145 million and US$74 million respectively, resulting in the net profit of US$235 million.

The Group's total assets increased by 20% from US$36,639 million in 2022 to US$43,892 million at the end of 2023, with a healthy combined growth in loans, securities and high-quality liquid assets. The Group had average assets of US$39,480 million and average liabilities, along with non-controlling interests, of US$35,320 million for the year 2023, compared to US$35,081 million and US$31,003 million respectively in 2022.

In 2023, though **the Group's operating expenses grew 11%, income grew faster than expenses,** resulting in a remarkable cost to income ratio of nearly 60%.

Global Business Lines

Global Wholesale Banking

In 2023, Global Wholesale Banking achieved remarkable success, with a double digit rise in total operating income across the Group's network, which significantly exceeded annual budgets and key performance indicators (KPIs). These achievements were fuelled by a robust global strategy, complemented by strong performances in its Corporate Banking and Financial Institution businesses and supported by Bank ABC's comprehensive product portfolio and customer-centric front-line teams.

This was driven by a record growth in income from new to bank (NTB) clients, effective leveraging of the digital transformation in Global Transaction Banking (GTB), and bespoke financing within the core Middle East and North Africa (MENA) markets, further bolstered by the recent BLOM Bank acquisition in Egypt. Additionally, the Bank saw significant growth in its international banking business in the United Kingdom, Europe, and the United States.

This momentum is continuing into 2024, empowered by ongoing investment into both our front office resources and our state-of-the art digital offering that will further strengthen our customer value proposition across geographies. The Wholesale Bank is set to generate even greater value, with an enhanced operating model that has substantially reduced turn-around-time to customers, and a new customer coverage model focusing on sector specialisation that will accelerate customer acquisition and augment industry expertise, with a focus to enhance business origination, underwriting capability and credit resilience.

Global Corporate Banking (GCB)

In relation to corporate client coverage, Global Corporate Banking (GCB) had a strong year and earned double-digit growth in revenues in 2023. This was driven mainly due to an increased focus on the "International Mid Cap" segment of corporate clients (with revenues US$200 mn to US$1 bn) and by leveraging Bank ABC's product suite and global presence. This strategy supported the Bank's goal of expanding its corporate customer base, especially NTB clients, while overcoming market challenges, such as high borrowing costs and subdued credit demand.

GCB also increased its focus on infrastructure project finance across MENA in 2023, as a number of existing and new clients won large projects and the Bank supported them with bespoke financial packages. Bank ABC strengthened its coverage teams in key markets such as UAE, KSA, Singapore, and USA, while digital platforms saw healthy adoption, particularly in supply chain finance and documentary trade, with features that are also highly attractive to bring in NTB clients.

Global Financial Institutions & Sovereigns

The Global Financial Institutions and Sovereigns business also achieved excellent revenue growth surpassing its budget expectations by double-digit margins. This outstanding achievement was driven by strategic transactions with MENA sovereigns and an expanded product portfolio that now includes structured and fund financing solutions.

In 2023, the Bank extended its client base to financial sponsors and non-bank financial institutions (NBFIs), primarily in the United States and Europe. Another significant milestone was the closure of Bank ABC's first fund financing transaction in Europe. Going forward the FI Group will continue to consolidate its Banks' business franchise in our core Markets (GCC, Turkey and MENA) while building on the success with NBFIs to include clients in the GCC and Asia.

Global Transaction Banking (GTB)

The GTB business delivered outstanding headline performance throughout 2023, also surpassing its financial targets by double digits. This was driven by a healthy mix of increased origination of documentary trade flows (including bonding facilities) related to infrastructure projects in core markets, higher utilisation of Supply Chain Finance (Receivables Finance) facilities from core clients, liabilities growth under Cash Management, supported by a favourable interest rate environment.

Digital penetration continued to improve as increasing numbers of clients were successfully onboarded on the new GTB platforms. Investment in technology and digital initiatives continued with the development of its Corporate Banking portal leading to enabling significant progress in enhanced customer experience, heightened operational efficiency and additional product solutions. The Digital Transformation Programme recorded 13 new launches, almost double from the previous year.

Moreover, in the GTB Cash Management platform, Account Services and Payments modules have been successfully deployed, adding key functionality to attract customer accounts and deposits, increasing balances and providing a low-cost funding base.

Another notable achievement is the successful completion of the end-to-end Documentary Trade solution in Bahrain, UAE, Singapore and New York, which accelerates the Bank's strategy to facilitate high value intercontinental trade corridors. In parallel, Supply Chain Finance capabilities were further enhanced with the roll out in Bahrain of the Receivables Finance solution that had been initially piloted in the United Kingdom. With these accomplishments Bank ABC is well poised on its objectives to deploy the entire GTB digital suite in all markets by the end of 2024.

GTB's record performance and initiatives have also garnered industry-wide recognition. As part of EMEA Finance's Treasury Services Awards 2023, Bank ABC received the Best Cash Management Services in the Middle East, and Best Receivables Finance Services in Middle East titles. Despite the uncertain outlook for 2024, the GTB business is optimistic about maximising on emerging opportunities with resolute focus and discipline.

Specialised Finance (SF)

The operating environment for Group Specialised Finance (SF) consisted of challenges of high oil prices, inflation and shrinking loan margins. Despite that, the team closed new deals worth over US$1 billion: a highlight being the Bank's first photovoltaic solar financing in the GCC to install and operate 42MW of rooftop solar generating capacity on 25 commercial properties in the UAE, Oman and Bahrain. As Governments in the region bring increased focus on the energy transition, this is expected to bring new opportunities to grow Bank ABC's sustainable financing business.

The fund finance business also expanded, especially in subscription line financing, allowing Bank ABC to secure high-quality, low-risk assets with competitive pricing. The Bank continues to further explore opportunities in this space, offering our unique expertise to fund managers in our core markets. Overall, SF maintained a balanced portfolio resilient to potential volatility, focusing on leading and originating mandates in metals, oil and gas, transport and logistics, telecommunications and technology, and fund finance.

Real Estate Finance

Real Estate Finance witnessed year-on-year growth in line with its budget despite challenges of the "work-from-home" culture and rising interest rates. In the United Kingdom, Bank ABC's residential real estate finance business demonstrated resilience to continue originating business. In the US, a selective stance is being taken on new asset classes of high quality with highly secured commercial real estate in the US.

In 2023, Bank ABC Islamic saw **an annual net profit of US$46.3 million,** aided by improved market profit rates and the performance of its core business.

Islamic Finance

Against the backdrop of unpredictable market conditions, and geopolitics affecting the world, especially the Middle East, Bank ABC Islamic achieved double-digit growth in 2023, benefitting from improved market profit rates and impressive performance of its core business. The Bank ABC Islamic subsidiary closed the year with net profit of US$46.3 million, an increase of 19% compared to US$38.8 million in 2022. Total operating income of US$59.4 million was 29% higher year-on-year compared to US$46.1 million in 2022.

Growth stemmed from NTB clients and enhanced returns from existing customers, successfully navigating pricing pressures in the market. ABC Islamic also leveraged its expertise and reputation in the Sukuk market, leading several high-profile transactions for clients, actively tapping into Islamic liquidity in the Gulf region. In total, it led nine Sukuk mandates, raising approximately US$6 billion for clients.

Most notably, Bank ABC Islamic worked alongside the Group as Sole Arranger & Joint Lead Manager for the first ever Sukuk issuance from a US corporation. The landmark issuance won the 'Best Corporate Sukuk Deal of the Year 2023' award at the Bonds, Loans and Sukuk Middle East Awards.

In 2023, Bank ABC Islamic also launched a refreshed three-year growth strategy for the Islamic financing business, aligning to the overall Group's refreshed strategy. This is targeting accelerated performance in core GCC markets, with a focus on the onboarding of new-to-bank corporate and Islamic financial institution clients, raising Islamic liabilities, scaling up capital-light business, and cross-selling products. With an ongoing emphasis on digitisation, the strategy also focuses on penetration of the 'alburaq' Islamic offering, launched in Bahrain in 2023 through ila Bank, across the Middle East, North Africa, and Turkey (MENAT), which will further strength the Islamic franchise across ABC Group.

Group Treasury and Financial Markets (GTFM)

The Bank's GTFM business outperformed budget, exceeding many KPIs. A strategic focus for the division was to provide Global Wholesale Banking clients with Financial and Capital Market products for managing market, liquidity, and credit risks, including certain tailored solutions for more sophisticated requirements, in both conventional and Shari'a-compliant formats. A number of landmark transactions were delivered throughout the year demonstrating sustained leadership and innovation in capital markets. There was increased sale of OTC products, growth in commodity hedging and SAR Structuring (supported by FM Trading) underpinned by an increase in New-To-Product (NTP) client base across KSA FI's, Sovereigns / MDB's and Corporates. The Asset Management team continued to expand liability focused client onboarding and enhancing custodial services to existing clients.

Syndications

The Syndications team achieved a record underwriting of over US$2 billion with their focus on enhancing an originate-to-distribute model in a highly competitive environment where spreads have compressed considerably. Additionally, the team maximised fee income through underwriting and distributing assets at market levels, while also efficiently utilising the balance sheet to provide a healthy return on average risk weighted assets. Some of the key deals executed included co-financing a US$500-million insurance-wrapped, sustainability-linked term loan facility for the Arab Republic of Egypt.

Debt Capital Markets (DCM)

2023 was also a breakthrough year for our DCM team who, in collaboration with Bank ABC New York, and ABC Islamic were able to bring a unique DCM mandate to the region, which differentiated Bank ABC in the regional DCM space. Bank ABC acted as Sole Lead Arranger for the award-winning US$600 million Sukuk for a leading US leasing corporation, which raised awareness of a new liquidity pool for international issuers and opened new relationships for the Bank in different regions.

In 2023, the DCM team established a unique DCM mandate, **spearheading an award-winning Sukuk for Air Lease Corporation valued at US$600 million.**

The Bank acted as JLM/Bookrunner on a major Sukuk (DCM) issuance in Oman. Moreover, with the increasing focus on ESG issuances, Bank ABC participated in three ESG-related DCM issuances in 2023 totalling $1.8bn.

Financial Markets Sales

Under its digital work stream, GTFM has fully integrated its eFX pricing platform for both retail and wholesale clients in Bahrain, streaming live pricing on internal platforms including ABC Cash (Bank ABC's digital cash management platform), ila Bank (both in Bahrain and Jordan) and multiple external platforms. In addition, 2023 also saw the launch of Equity-backed Financing product for WB clients and new customised Shari'a-compliant documentation for Islamic FI clients working in collaboration with ABC Islamic and Group Legal.

Corporate Treasury

The Corporate Treasury team played an instrumental role in maintaining the Bank's strong balance sheet ratios and investment grade rating, by rebalancing exposures through growth in the high-quality liquid assets portfolio and expertly navigating market volatility, such as that experienced with the stress on US banks, earlier in 2023.

Group Retail and Digital Banking

Group Retail recorded a double-digit growth in profitability in 2023 with a significant increase in total customer deposits across the franchise. A new ambitious retail strategy was launched in Q3 of 2023 which focuses on scaling the customer deposit and asset base of our Group Retail footprint across MENA using a digital first customer experience. The strategy has four main pillars underlying it are:

1. Boosting the Sales Engine
2. Digitising the end-to-end customer experience with a focus on exceptional and easy to use customer journeys
3. Revamping the Branch Model footprint and experience
4. Releasing products personalised to customers' needs

Notably, Bank ABC is upgrading its existing retail digital proposition, ABC Digital, creating a customised banking app that will offer a higher level of customer service and product offerings. Additionally, the Islamic window offering was enhanced with Shari'a-compliant consumer lending products in Algeria under the 'alburaq' Islamic brand.

Network subsidiaries

Geographic Units and Subsidiaries

Bank ABC Europe (ABCIB)

This was a record year for Bank ABC Europe (ABCIB), with significant revenue and profit growth vs both targets set for 2023 and prior year. The Growth was driven by a greater acceleration of the Bank's strategy execution initiatives, further aided by the favourable pricing conditions, particularly in Türkiye, and the impact of rising interest rates. Wholesale Banking businesses, namely Global Transaction Banking (GTB), Real Estate (RE) and Treasury and Financial Markets (TFM) did well across the board, and this was also evident in each of the Bank's locations, namely, London, Istanbul, Paris, Milan and Frankfurt.

The strong performance in GTB was not only boosted by a solid performance in each of the traditional Trade Finance products but also from diversification of the revenue base. This was underpinned by increased origination, linked to deeper penetration of the corporate marketplace and further roll-out of the digital strategy.

Real Estate also had a good year with new business origination of greater than US$500 million. Although the strategy continued to focus on UK commercial and particularly residential real estate, there was a greater push towards diversification in terms of the sub sectoral mix and geographic location. The Bank financed a number of significant real estate projects across the United Kingdom, such as participating in financing Europe's largest, and tallest, 48 storey purpose-built student accommodation scheme; financing high profile built to rent schemes in Croydon and Edinburgh; and financing a major new multinational PLC headquarters in Surrey.

TFM exceeded expectations whilst balancing its Corporate Treasury remit vis a vis its income generating role through the sale of financial market products to its corporate client base.

In summary, ABCIB's business grew significantly during 2023 and is basically building momentum in 2024, with excellent origination across all business lines.

Banco ABC Brasil (BAB)

In 2023, BAB continued to seize the benefits of its diversification strategy, which includes expanding its total addressable market, further reducing its credit concentration, increasing the contribution from revenues with minimal capital use, and allocating capital more efficiently. Despite difficult market conditions in 2023, characterised by low asset growth and a general increase in corporate delinquencies closer to the historical average, BAB´s business model proved resilient, continuing to expand its structural profitability. The number of Wholesale clients increased by more than 10% led by the middle market segment. Meanwhile, BAB's net interest margin improved steadily, with 40% of revenues comprised of products with no or low capital use, and its reported return on average equity closed at 15.5%.

In 2023 BAB also conducted an organisational structure review, rationalising the leadership and management levels, to create a more flexible, agile, diverse and multidisciplinary approach.

The Bank emerged as the leading Brazilian bank in the 2023 Latin America Executive Team ranking by Institutional Investor in all categories of the 'Financials Banks – Small Cap' segment. Additionally, it was recognised for its internship programme, achieving first place in the "Financial and Insurance Services category at the CIEE Best Internship Programs Award.

Bank ABC Algeria

Bank ABC Algeria contributed positively to Bank ABC Group's bottom line in 2023, with a total operating income of US$35 million and net profit of US$13.2 million. Despite economic stagnation in the local market and the changes in local regulations, that reduce the size of banks asset portfolios, Bank ABC Algeria remained resilient. The Unit demonstrated excellent collaboration between departments as it developed a workflow system for booking retail assets. The new user-friendly system resulted in doubling of retail asset volumes. In 2023 the Bank continue the growth of the Islamic window 'alburaq', opening four new outlets, a total of six windows in the country, which contribute to achieve an excellent out performance to it's targets.

Bank ABC Algeria will build on this performance momentum in 2024 and continue to focus on managing its credit risk and liquidity to maintain its high-quality portfolio.

Bank ABC Jordan

Bank ABC Jordan continued to maintain its market share, enhancing its services and offerings. It introduced new solutions such as the "Blue" credit card and time deposit products through ila and promoting Green Financing through Auto loans products. Retail Banking successfully focused on the private sector with an emphasis on well-known private entities, while Wholesale Banking focused on onboarding clients in promising and resilient economic sectors as well as driving growth in operating accounts.

Bank ABC Jordan achieved a net profit of US$7.1 million in 2023 supported by the growth in main banking activities with total assets growing by 3%. which contributed to the increase in operating income by 7%. Customer deposits also grew by 4% providing main funding for business growth, while the bank also continued to implement its prudent credit policies and hedging against any expected credit losses holding satisfactory levels of provisions. Capital adequacy ratio continues to be strong at 17.6%, above the regulatory and group requirements of 12% and 14%, respectively.

Post completion of the legal merger between Bank ABC Egypt and BLOM Bank Egypt, **the combined entity generated a net profit of US$36.7 million.**

Legal liquidity ratio also was maintained at 126%, well above the Central Bank of Jordan limit of 100% and Group limit of 107%.

ABC Jordan's brokerage subsidiary, ABC Investments, recorded substantial growth in 2023, driven by it's digital transformation, developing an online platform that serves as a one-stop solution to facilitate trading, investing and ease of access to clients.

Bank ABC Egypt

The completion of the legal merger to combine Bank ABC Egypt and BLOM Bank Egypt has created a much larger banking franchise in the country, providing a solid platform for new growth and improved customer experience, leveraging the market-leading digital services of the Bank ABC Group. Despite local and global economic pressures, Bank ABC Egypt delivered – on a combined basis – an outstanding result, earning net profit of US$36.7 million, taking into account the currency depreciation. The balance sheet footing reached US$2,246 million showing good underlying local currency growth in difficult market conditions.

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

Bank ABC Tunisia

2023 was an exceptional year for ABC Tunisia with an outstanding financial performance notwithstanding the local economic and political environment. Consolidated net profit reached US$7.5 million, TOI a US$33.4 million, Opex US$14.7 million, leading to a subsidiary ROE of 8.0%

This is the result of the origination efforts of the business lines (Wholesale, Retail and Treasury) whilst remaining selective when booking assets. Risk Appetite and conditions to conducting business, onboarding significant NTB clients and working effectively on LC business across the Group's network, including a significant uplift from Libya related transactions.

In 2023 the Bank further promoted financial inclusion and financing related to climate and social development, issuing TND 18 million worth of medium-term Loans leading to 4400 microentrepreneurs financed, of whom more than 50% were women. The Bank also supported desalination projects and waste-water treatment by financing Zarat Seawater Desalination Plant.

Bank ABC Tunisia was also active player in the emerging digital-financial ecosystem in Tunisia, and implemented a dedicated, fully automated operating model that addressed the new operators' needs and created additional revenue streams, besides attracting liabilities. It also earned the title of 'Best Overall Cash Management Bank in Tunisia" by Global Finance, and is taking part in the Central Bank's discussion group on Payment regulation.

ila Bank

The Group's award-winning digital mobile-only bank, ila, had a tremendous year of growth and financial performance. It grew its customer base by 39%, deposits by 47%, and transaction volumes by 56%, and maintained outstanding app ratings of 4.8/5 in the iOS App Store and 4.5/5 in Google Play.

In 2023, it launched 'alburaq' in Bahrain, a Shari'a-compliant banking experience for individual customers. Through its state-of-the-art mobile app, customers in

Bahrain can access a host of intuitive Islamic banking products and services. ila also launched several other innovative features in 2023, such as Bahraini-denominated prepaid cards, gift cards in collaboration with 'Prizeout' that can be bought and sent digitally from over 300 brands, and 'ila Rewards', a customisable rewards programme for its credit card users.

ila's unique brand of banking continues to receive wide-spread recognition as it won for the third time in a row the Best Consumer Digital Bank in Bahrain award at the Global Finance 'World's Best Consumer Digital Bank Awards' in the Middle East in 2023, collecting six awards in total for the country, namely The Best Online Product Offerings, Best User Experience (UX) Design, Best Mobile Banking App, Best in Social Media Marketing and Services, and Best in Innovation and Transformation.

Arab Financial Services (AFS)

In 2023, Arab Financial Services (AFS) focused on partnership development, geographic expansion and product and service enhancement to achieve growth opportunities. Key projects implemented in the Processing business included migrating two clients in two different markets and supporting a client's conversion from conventional to Islamic banking. AFS also secured a new Processing client in Libya while in Bahrain it signed its first client under a new "Issuance as a Service" product targeted at FinTechs. AFS also launched Acquiring Processing services in Thailand for one of the largest payment companies in South-East Asia. Building momentum in its Acquiring business, it successfully onboarded over 1,000 merchants per month across Bahrain, Oman, and Egypt.

AFS continued to develop and launch next generation digital products. Through its collaboration with Visa it launched prepaid cards for businesses in Bahrain and Oman, further strengthening the company's position as a merchant acquirer in both markets. Its expanding product suite features the leading soft-POS solution AFS Pay and AFS One the all-in-one POS & restaurant management software. AFS also provided the front-end app for an interbank payment pilot set up by the Central Bank of Libya while the Company continued to expand its in-house digital wallet capability via its highly functional B2B app, targeted at merchants across markets. The company launched an Open Banking hub to provide new and improved open finance infrastructure and promote more inclusive financial services to its bank clients in regional markets including Bahrain, the UAE, Saudi Arabia, and Egypt.

ila Bank App Reviews

App Store

from 6k reviews

Google Play

from 6k reviews

AFS also continued to expand its presence across markets. Having successfully launched into Egypt, it is geared for rapid, scalable growth and impact. The company secured a Payment Facilitator / Payment Services Provider (PF/PSP) license from the Central Bank of Egypt, expanding its permitted scope of activity in the Egyptian acquiring market. In tandem, AFS Processing business will increasingly target African markets, with particular focus on Libya where a number of opportunities are being pursued.

AFS received a number of industry awards in 2023, including two prestigious MEA Finance Awards; it was named "Most Innovative Payment Solutions Provider 2023" while the company's cutting edge softPOS solution, AFS Pay, was recognised as "Best Innovation in Payments Technology."

SUPPORTING BUSINESS EXCELLENCE

Group Finance, Group Strategy & Transformation, Group Balance Sheet Management

Group Finance, Group Strategy & Transformation and Group Balance Sheet Management are integral to setting and managing the Group's financial performance, developing the Group's strategy and ensuring a robust balance sheet to underpin the Group's growth aspirations. Collectively, they support shareholder value creation through effective partnership with other business and support functions.

Group Finance plays a critical role in operations of the bank through financial goal setting, regular and timely measurement and reporting of financial performance to stakeholders - both within and outside the bank. A dedicated Group Tax function has been initiated as a proactive measure to manage the changing global tax landscape including global minimum tax as well as other regional corporate tax initiatives. Group Finance was also a key contributor in various IT transformation and innovation initiatives including implementation of a new core banking system at our mobile only digital bank, a new accounts payable system, piloting of RPA and AI initiatives as well as progressing on the Group's enterprise data warehouse MIS, and automation of regulatory reporting.

Group Strategy & Transformation was key to the development of the Group's refreshed strategic plan, working with businesses and functions on multiple strategic initiatives and has been engaged extensively in rolling out a Group wide KPI framework to consistently track delivery of the Group strategy.

In line with the objective of boosting returns, Group Balance Sheet Management (GBSM) has rolled out a Realised RAROC framework to track performance against RAROC targets, including at Client Relationship level to facilitate portfolio optimisation and efficient capital allocation. In addition, GBSM supported effective planning to maintain strong Balance Sheet, Capital and Funding position, and a balanced portfolio mix that supports the Group's objectives.

Group Credit and Risk

Group Credit and Risk (CRG) has implemented various initiatives and processes in its ongoing effort to enhance its 2nd line of defence responsibilities for identifying, measuring, managing and reporting of the Bank's risks. These include review and enhancement of the oversight responsibilities of the Board Risk Committee, update of the Group Risk Appetite (GRAS) to align with the Group's new strategy and implementation of a new product approval process. The CRG function has continued its strong engagement with business areas with initiatives such as the independent review of the credit process; optimisation of risk appetite for new markets and segments; implementation of new risk models and support and active engagements in Groupwide initiatives such as ESG and BLOM Integration. There has also been significant progress made on the Operational Risk Management (ORM) Transformation Plan.

Group Operations

In 2023, Group Operations exceeded its service level agreement targets, processing over 99% of client transactions accurately and on time. It migrated Tunisia Export Letter of Credit processing to the Trade Operations Hub, enhancing operational resilience. It also upgraded several systems including SWIFT, Trade Finance and Treasury Back Office systems for SWIFT ISO20022 readiness and achieved 99.86% Straight Trough Processing, earning an Elite award from JP Morgan. Further, Group Business Continuity Management passed all Business Continuity tests, further proving its operational resilience. The department also won the 2023 Business Continuity Institute (BCI) Award for the category 'Continuity & Resilience Team' for the Middle East Region. The Operations function continued its drive to digitise and simplify operational processes using Lean Six Sigma and through the Group's idea portal "Fikra" – higher quality services for a lower cost across the Group.

Additionally, it supported key strategic projects including the GTB transformation across Cash, Trade and SCF platforms, and the ABC Egypt - BLOM Bank integration.

Group Cyber and Information Security (GCIS)

GCIS delivered new security services, enhanced processes, and increased its maturity Group-wide in 2023, enhancing its strategy and operating model. It supported important strategic initiatives such as the GTB transformation programme, E-Fx implementation for Group Treasury, and the integration of BLOM Bank and Bank ABC Egypt. It also produced a strategic roadmap for data protection management, including the implementation of the supporting system OneTrust. Furthermore, it improved cyber-security related expense management, achieving significant savings through vendor negotiations while implementing pre-emptive procedures based on the principles of 'Security-by-Design' and 'Privacy-by-Design', across all projects and initiatives, reducing information security and data protection risks.

Group Compliance

Group Compliance continued to spearhead Bank ABC's compliance with laws and regulations while supporting the new Group strategy. The function co-developed two AI tools to support data entry for the Foreign Account Tax Compliance Act and transaction monitoring for ila Bank. The function also reviewed, updated, and implemented Group-wide the Group Customer Risk Assessment Methodology in line with best practices and guidance. Additionally, Group Compliance continues to enhance its Compliance Risk Management Framework to support the Bank in complying with applicable laws and regulations as it delivers its new Group strategy. This includes enhancing the Bank's Conduct Framework and maturing the Compliance risk identification, assessment, and monitoring process Group-wide.

Group Human Resources (GHR)

Group Human Resources (GHR) made significant progress in its commitment to Bank ABC's people and values in 2023. The department has facilitated the recruitment of 88 talented and diverse staff, of whom more than a third were female, and made six internal appointments in key positions by promoting internal candidates. For the first time, a Global Internship Programme was launched with interns having the opportunity to undertake placements across the Group network, enhancing their skills and cultural awareness. GHR also partnered with other functions to support training initiatives in sustainability, technology, and compliance. In addition, a Manager Skills Programme was introduced, to strengthen the leadership pipeline and increase staff engagement.

GHR enhanced candidate onboarding, streamlining work processes and improving the overall employee experience with easier access to information, resources, and the tools they need. The department also conducted an employee engagement survey that received an 87% response rate group-wide. Results show that Ethics & Integrity, Leadership & Management, Work Environment, Culture, Direction & Purpose are key anchors, whereby 'Sense of Pride' has emerged as a key strength to capitalise on with an 81% score. GHR also played a key role in supporting and managing the BLOM Bank Egypt merger, resulting in a smooth integration, whilst expanding on best practices adopted from Head Office.

Group Innovation

2023 was a remarkable year for the Group Innovation function and the Bank's Innovation and Digitisation Center (ABC Labs), with several notable milestones achieved. The function established the Innovation Charter, which outlined and updated the operating model for managing innovation, including digital innovation, within the Group. With that, the Group Innovation and Digital Business Council, chaired by the GCEO, was also formed, to serve as a key cornerstone for further integrating innovation into the Bank's DNA.

Among other highlights of the year were the soft launch of the blockchain-based instant cross-border payments, in collaboration with J.P. Morgan. The Minimum Viable Product (MVP) of a Frontline Platform for Business lines was also successfully launched in two units, unlocking impactful insights, innovative automations, and expedited client service interactions.

In 2023, the ABC AI Programme was kicked off, to leverage AI including Generative AI, to catalyse business value in new ways. Initial focus areas were identified, and several pilots are in progress. Additionally, multiple new Robotic Process Automation (RPA) bots became operational, automating several tasks and processes across different functions and units, resulting in increased employee productivity and cost reductions.

The function also enhanced Digital Onboarding Services for corporate and FI clients, enriched with new functionalities and capabilities, and collaborated in digital innovation programmes across the Bank. This included the implementation of the new Corporate Portal, in addition, supporting key partners and external stakeholders in establishing innovation functions, programmes and initiatives. ABC Labs continued to be a hub of innovation conversations and hosted several “Co-Creation Workshops” and “Talks @ ABC Labs” sessions with industry leaders to fertilise ideas, facilitate knowledge exchange, and cross-pollinate collaborative efforts.

ABC Labs was lauded as one of the World's Best Financial Innovation Labs, by Global Finance, underscoring our clear vision, approach, and commitment to embed innovation as a key success factor for Bank ABC.

Group Sustainability

In 2023, Bank ABC accelerated its sustainability agenda with exciting progress on various fronts to ensure it is part of the solution that aids the transition to a low-carbon economy. Led by a newly created function, the Bank formulated a well-defined and holistic Sustainability Strategy, to integrate sustainability across the Bank's global value chain, combined with the adoption of innovative technology, to deliver on three overriding objectives:

- Reduce our environmental impact
- Ensure the Bank is ‘fit for purpose’
- Serve as a source of value creation

In 2023, the function also launched a three-year programme of sustainability action plans to drive this strategy, integrated across five strategic pillars

- Governance
- Operations
- Risk Management
- Financing the Transition
- Our People & Communities.

During 2023, the Bank has taken major strides, having greatly expanded the measurement of its environmental footprint. The Bank now captures the greenhouse gas (GHG) emissions from the purchase of goods and services from suppliers, which accounted for 75% of its total Scope 1, 2, and 3 GHG emissions in 2023, excluding financed emissions.

Additionally, a sustainable finance framework was developed to ensure our sustainable finance is robustly measured and mitigates the risk of greenwashing. Further, we launched an ongoing sustainability training programme for our client-facing teams to deepen their capabilities and skillsets. The Group generated sustainable finance worth US$2.3 billion in 2023, equivalent to 11.9% of our loans and advances at year end. Pleasingly, 88% of financing was to developing countries.

The Bank also strengthened its approach to Diversity, Equity & Inclusion (D, E & I); in 2023 the gender ratio improved to 34% from 33% in 2022. Underscoring its commitment to this agenda, the Bank announced a 50% increase in maternity leave in Bahrain to 90 days. As part of its Corporate Social Responsibility, the Bank completed over 50 impactful initiatives Group-wide, aligned with the United Nations Sustainable Development Goals, totalling US$5.1 million, equivalent to 2.2% of the year's net profit. This included significant donations towards supporting the relief works in Türkiye and Syria, and Libya in response to the devastating natural disasters.

Group Corporate Services

Group Corporate Services (GCS) provided comprehensive facilities, procurement, insurance, and Health and safety operational services across the Group. Key strategic facilities projects during 2023 included the delivery of the Bahrain Head Office's (HO) executive floors refurbishment, and the on-going Phase-2 of the refurbishment of the HO in Jordan. In Egypt, focus was on rebranding the entire BLOM office and branch network, and the collocation of Bank ABC and Ex-BLOM staff at the ABC premises along with security systems upgrades.

GCS is reviewing branch design standard for Group Retail to address operational issues and achieve greater cost-efficiency. On the sourcing and procurement side, the function achieved Group-wide optimisation and centralisation of insurance policies and enforced the procurement best practices, resulting in savings of over US$10 million in Bahrain.

Further to GRC approvals, GCS is rolling out Outsourcing Standard throughout the Group and implementing the ESG Strategy Goals from the "Operation" side by achieving significant improvements in energy consumption, water & waste audits, waste segregation/recycling initiatives and captured data for scope 1, 2 & 3 carbon emissions for 2023.

Group Corporate Communications (GCC)

GCC continued to drive the Bank's strategic objectives in 2023. Among many notable highlights was the revamp and launch of the Group's website. The new structure and UI design allows for easy navigation and access to information on the Bank's products and services, Investor Relations, Innovation and Sustainability agendas and digital banking platforms. Additionally, the function introduced a comprehensive Group Communications procedure, detailing guidance on standard conduct and practices with regards to internal and external communications and related engagements for employees.

GCC played a pivotal role in the BLOM Bank integration in Egypt with an extensive strategic communications programme that kept stakeholders engaged and informed. It also facilitated the launch of the new Group Strategy notably by organising the Global Leadership Team Meeting in Bahrain followed by communication activities to reinforce messages. As part of the GTB Transformation programme, GCC developed and launched a campaign to introduce the Bank's Documentary Trade platform, ABC Trade, along with awareness campaigns throughout the year including International Fraud Awareness. To enable the Bank's D, E & I objectives, GCC organised several internal events within the Bank and wider community, and helped facilitate the Employee Engagement Survey to gauge staff sentiment, awareness and involvement in the Bank's strategic transformation journey. GCC's carefully strategised awards application process led to over 15 prestigious wins in 2023 and extensive PR coverage.

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

INNOVATIVE BANKING, CONSISTENTLY RECOGNISED

Bank of the Year

For the third time, Bank ABC has been awarded the 'Bank of the Year Award' for 2023 by *The Banker (Financial Times)*, a testament to Bank ABC's consistent efforts to develop a stronger, more resilient bank for its clients.

> "In an extremely competitive country category, Bank ABC has outshone its peers to win Bahrain's Bank of the Year crown in 2023. The award recognises the Bank's strong financial performance, meaningful progress in its digital transformation programme and the finalisation of its acquisition of BLOM Bank Egypt. Congratulations to Bank ABC and its staff."
>
> **Joy Macknight, Editor, The Banker**

Other Bank ABC awards in 2023

Regional Awards

- Best Trade Finance Provider in the Middle East - Global Finance
- Best Receivables Finance in the Middle East - EMEA Finance
- One of the World's Best Financial Innovation Labs - Global Finance
- Best Cash Management Services in the Middle East - EMEA Finance
- Best Overall Cash Management Provider in Tunisia – Global Finance
- Aircraft Finance Deal of the Year - BLS Middle East Awards
- Market Leader in Corporate Banking - Euromoney
- Global Corporate Sukuk Deal of the Year - BLS Middle East Awards
- Market Leader in Digital Solutions - Euromoney
- Metal and Mining Award of the Year - BLS Middle East Awards
- Highly regarded in ESG - Euromoney

Bahrain Awards

- Best Islamic Financial Institution in Bahrain by Global Finance
- Best Corporate Bank in Bahrain – Euromoney Awards for Excellence 2023

ila Bank Awards in 2023

For the third consecutive year, ila Bank is named Best Consumer Digital Bank in Bahrain

ila Bank continues its streak of excellence, winning all six titles at the 'World's Best Consumer Digital Bank Awards 2023' by Global Finance.

- Best Online Product Offerings
- Best in Social Media Marketing & Services
- Best User Experience (UX) Design
- Best Innovation and Transformation awards
- Best Mobile Banking App

RISK MANAGEMENT

This document comprises the Group's (as defined below) capital and risk management disclosures as at 31 December 2023.

The disclosures in this section are in addition to the disclosures set out in the consolidated financial statements for the period ended 31 December 2023 presented in accordance with International Financial Reporting Standards (IFRS).

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

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

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

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

The Group had a total CAR of 16.1% in 2023, significantly higher than the regulatory minimum of 12.5%.

The Group's total risk-weighted assets as at 31 December 2023 amounted to US$30,226 million (2022: US$27,546 million), comprising 91% (2022: 91%) credit risk, 3% (2022: 3%) market risk and 6% (2022: 6%) operational risk. The total capital adequacy ratio was 16.1% (2022: 16.8%), compared to the minimum regulatory requirement of 12.5%.

1. The Basel III Framework

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

The Basel Accord is built on three pillars:

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

a. Pillar I

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

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

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

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

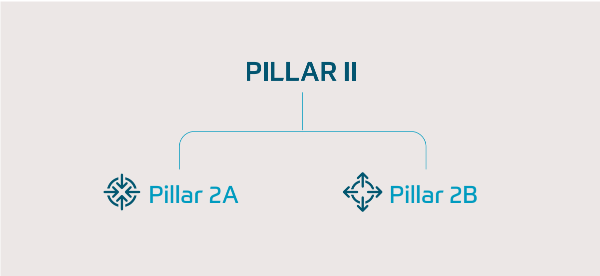
The Group applies the following approaches to calculate its RWAs:

- **Credit risk – Standardised approach:** the RWAs are determined by multiplying the credit exposure by a risk weight factor dependent on the type of counterparty and the counterparty's external rating, where available.
- **Market risk – Standardised approach.**
- **Operational risk – Standardised approach:** regulatory capital is calculated by applying a range of beta coefficients from 12%-18% on the average gross income for the preceding three years – applied on the relevant eight Basel defined business lines.

b. Pillar II

Pillar II comprises of two processes, namely:

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



The ICAAP incorporates a review and evaluation of all material risks to which the Bank is exposed and an assessment of capital required relative to those risks under business as usual and stressed conditions. The ICAAP compares this against available capital resources to assess adequacy of capital. The ICAAP and the internal processes that support it should be proportionate to the nature, scale, and complexity of the activities of a bank.

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

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

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

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

c. Pillar III

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

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

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

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

2. Group Structure and Overall Risk

a. Group structure

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

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

The principal subsidiaries as at 31 December 2023, all of which have 31 December as their year-end, are as follows:

	Country of Incorporation	Shareholding % of Arab Banking Corporation (B.S.C.)
ABC International Bank plc	United Kingdom	100.0
ABC SA	France	100.0
ABC Islamic Bank (E.C.)	Bahrain	100.0
Arab Banking Corporation (ABC) — Jordan	Jordan	87.0
Banco ABC Brasil S.A.	Brazil	63.6
ABC Algeria	Algeria	88.9
Arab Banking Corporation - Egypt [S.A.E.]*	Egypt	99.6
ABC Tunisie	Tunisia	100.0
Arab Financial Services Company B.S.C. (c)	Bahrain	90.4

* On 1 January 2023, the Bank ABC has completed the legal merger of Arab Banking Corporation - Egypt [S.A.E.] with BLOM Bank Egypt [S.A.E.] The interest disclosed for Arab Banking Corporation - Egypt [S.A.E] reflects the interests of the Group combined enitity including 99.6% holdong in BLOM Bank Egypt [S.A.E.].

b. Risk and Capital Management

Governance

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

Board Level

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

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

Management Committees

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

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

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

Three Lines Model

The Bank employs the Three Lines Model to protect the value of the Group. Some of the key responsibilities split between each line are presented below:

1st Line: (Ownership & Management)

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

2nd Line: (Oversight)

- Development and maintenance of the Risk Policy and Framework;
- Oversight of 1st Line's compliance with the Risk Policy & Framework
- Review and challenge of actions being undertaken by the 1st Line in respect of relevant risks; and
- Reporting to relevant committees on significant risks and control weaknesses and progress undertaken by the 1st Line in mitigating risks outside of the risk appetite.

3rd Line: (Assurance)

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

The Bank's Risk Management model is built on three lines of defence

First line: **(Ownership & Management)**
Second line: **(Oversight)**
Third line: **(Assurance)**

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

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

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

c. Risk in Pillar I

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

Credit Risk

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

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

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

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

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

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

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

Refer note 25.4 to the 31 December 2023 audited consolidated financial statement for definition and policies for management of credit risk.

Market Risk

Refer notes 25.6 to the 31 December 2023 audited consolidated financial statement for definition and policies for management of market risk.

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

Currency Rate Risk

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

Interest Rate Risk

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

Equity Price Risk

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

Equity positions in the banking book	
Quoted Equities	9
Unquoted Equities	12
	21
Realised gain during the year	-
Realised gain during the period Unrealised gain at 31 December 2023	8

There were no sales with respect to equity positions in the banking book for the period ended 31 December 2023.

Operational Risk

Refer note 25.10 to the 31 December 2023 audited consolidated financial statement for definition and policies for management of operational risk

d. Risks in Pillar II

The following section captures some of the risks considered for the Pillar II assessment. The Pillar 2A measurement framework for risks considered is detailed in the 'Capital Management' section.

Liquidity Risk

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

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

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

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

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

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

Interest Rate Risk In Banking Book (IRRBB)

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

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

As at 31 December 2023, the impact on earnings over 12 months and on economic value of equity for a 200 basis points (2%) parallel shift in interest rates is provided below. In summary, the negative impact on the Group's earnings is estimated at US$45.3 million (representing ~5% of Net Interest Income) and negative impact on economic value of equity is estimated at US$65.1 million (< 5% of Tier 1 capital). The impact on both metrics were well below the Group Risk Appetite Statement (GRAS) thresholds for IRRBB.

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

All amounts in US$ million

Currency	Impact on Group's Earnings		Economic Value of Equity Impact	
	Parallel Up	Parallel Down	Parallel Up	Parallel Down
United States Dollar (USD)	5.3	(5.3)	(4.4)	2.5
Pound Sterling (GBP)	7.9	(7.9)	2.6	(2.7)
Euro (EUR)	11.0	(11.0)	0.8	(1.3)
Brazilian Real (BRL)	14.4	(14.4)	(24.7)	25.5
Algerian Dinar (DZD)	(1.2)	1.2	(17.1)	19.5
Egyptian Pound (EGP)	3.5	(3.5)	(1.3)	1.4
Jordanian Dinar (JOD)	3.5	(3.5)	(7.9)	8.5
Tunisian Dinar (TND)	(0.4)	0.4	(4.7)	5.1
Other	1.3	(1.3)	(3.6)	3.8
Total	**45.3**	**(45.3)**	**(63.7)***	**(4.0)***

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

The repricing profile of the Group's assets and liabilities are set out in the table below:

US$ million	Less than 1 Month	1-3 Months	3-6 Months	6-12 Months	Over 1 Year	Non-Interest Bearing	TOTAL
ASSETS							
Liquid funds	4,466	-	-	-	-	-	4,466
Trading securities	519	-	-	109	7	435	1,070
Placements with banks and other financial institutions	2,011	162	41	6	11	-	2,231
Securities bought under repurchase agreements	1,676	286	-	229	-	-	2,191
Non-trading investments	1,598	4,606	537	584	4,022	21	11,368
Loans and advances	9,259	4,620	2,795	1,194	1,228	-	19,096
Other assets	-	-	-	-	-	3,470	3,470
TOTAL ASSETS	**19,529**	**9,674**	**3,373**	**2,122**	**5,259**	**3,935**	**43,892**
LIABILITIES & EQUITY							
Deposits from customers	11,823	7,111	2,068	1,308	951	444	23,705
Deposits from banks	2,089	712	557	750	9	18	4,135
Certificates of deposit	23	50	13	22	34	-	142
Securities sold under repurchase agreements	1,420	4,713	258	138	404	-	6,933
Taxation, other liabilities & non-controlling interest	-	-	-	-	-	3,374	3,374
Borrowings	1,115	55	4		28	98	1,303
Equity attributable to the shareholders of the parent and perpetual instrument holders	-	-	-	-	390	3,910	4,300
TOTAL LIABILITIES & EQUITY	**16,470**	**12,641**	**2,900**	**2,221**	**1,816**	**7,844**	**43,892**
OFF B/S ITEMS							
Foreign Exchange Contracts	-	-	-	-	-	-	-
Interest rate contracts	917	1,449	(81)	(52)	(2,233)	-	-
TOTAL OFF B/S ITEMS	917	1,449	(81)	(52)	(2,233)	-	-
Interest rate sensitivity gap	3,976	(1,518)	392	(151)	1,210	(3,909)	-
Cumulative interest rate sensitivity gap	3,976	2,458	2,850	2,699	3,909	-	-

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

Concentration Risk

Refer note 25.3.2 to the 31 December 2023 audited consolidated financial statements for the definition and policies for management of concentration risk.

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

As at 31 December 2023 the Group's exposures in excess of the 15% obligor limit to individual counterparties were as shown below:

US$ million	On Balance Sheet Exposure	Off Balance Sheet Exposure	Total Exposure
Counterparty A	5,480	-	5,480
Counterparty B	2,831	-	2,831
Counterparty C	1,209	-	1,209
Counterparty D	–	966	966
Counterparty E	753	-	753

Compliance Risk

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

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

Legal Risk

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

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

Reputational Risk

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

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

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

Climate Change Risk

Climate change risk is the financial risk that arises from the impact of adverse changes in climate, specifically global warming. As the world transitions to a low-carbon economy, financial institutions such as Bank ABC may face significant and rapid developments which could impact their lending activities, as well as the risks associated with its other activities. We categorise climate risk into two categories:

(i) Transition risk is the risk that arises due to the process of adjustment to a low-carbon economy. A range of factors influence this adjustment, including climate-related developments in policy and regulation, the emergence of disruptive technology or business models, shifting sentiment and societal preferences, or evolving evidence, frameworks and legal interpretations. Risks arising from the speed of the required adjustment include financial risks (credit, market, liquidity) and non-financial risks (operational, legal, reputational and compliance).

(ii) Physical risk is the impact that arises from specific weather events and longer-term shifts in the climate. The nature and timing of extreme weather events are uncertain, but they are increasing in frequency and their impact is predicted to be more acute in the future.

Bank ABC has adopted a robust approach to managing climate risk that is aligned with best practice and the Task Force on Climate Related Financial Disclosures (TCFD) established a 4-pillar framework to measure, manage and report on climate risk. These four pillars are governance, strategy, risk management, and metrics and targets.

4 Pillar Climate Risk

1. Framework Governance
2. Strategy
3. Risk Management
4. Metrics and Targets

1. Governance

The Group's Board has oversight of the Bank's climate risk management and disclosure requirements. This ensures that climate-related risks, where material, are addressed in the Bank's risk appetite.

2. Strategy

Embedding sustainability into the way Bank ABC operates, its risk appetite and culture is a key strategic objective of the Bank. Sustainability has been defined as a key initiative within the Group Strategy. The Bank has developed a Sustainability Strategy that will further strengthen its approach to embed sustainability across the Bank's value chain covering governance, operations, human capital management, risk management and business generation.

3. Risk Management

The Bank has established a Climate Change Risk Standard that defines the roles and responsibilities across the three lines of defence. This sets out its approach to manage the different types of risks, i.e. credit, market, liquidity and operational. In terms of evaluating the climate risk of the Bank's loan portfolio, Bank ABC has codified counterparties to reflect their climate change risk profile using an external methodology. In addition, the Bank has initiated idiosyncratic climate change risk assessments to overlay and arrive at the final classification for its exposures. Using these classifications, the Bank has undertaken stress testing to assess the impact of climate change scenarios on its capital, earnings and asset quality both over the 3-year ICAAP horizon and under the Network of Central Banks and Supervisors for Greening the Financial System (NGFS) 2050 scenarios.

4. Metrics and Targets

The annual report for 2023 includes ESG-related disclosures, including greenhouse gas emissions, energy and water use. In addition, an evaluation of the ESG-related regulatory and disclosure requirements is undertaken across all of Bank ABC's jurisdictions. This evaluation is reported to the GRC and BRC. The ESG-related regulatory and disclosure requirements not only vary considerably but are fast accelerating. The Group Sustainability Strategy sets out action plans to ensure that the Bank is able to meet its ESG-related regulation and disclosure requirements.

3. Regulatory Capital Requirements and the Capital Base

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

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

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

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

The Group's total capital adequacy ratio as at 31 December 2023 was 16.1% compared with the minimum regulatory requirement of 12.5%. The Tier 1 ratio was 15% for the Group. The composition of the total regulatory capital requirement was as follows:

Risk-Weighted Assets (RWA)	
Credit risk	27,632
Market risk	836
Operational risk	1,758
Total	**30,226**
CET 1 Ratio	**13.5%**
Tier 1 Ratio	**15.0%**
Capital Adequacy Ratio	**16.1%**

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

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

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

Subsidiaries (over 5% of Group's regulatory capital)	Tier 1 Ratio	CAR (Total)
ABC Islamic Bank (E.C.)	39.5 %	40.5%
ABC International Bank Plc*	16.8 %	18.4 %
Banco ABC Brasil S.A.*	12.7 %	15.0%

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

a. Capital requirement for credit risk

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

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

Credit exposure and risk-weighted assets

US$ million	Gross Credit Exposure [1+2]	Funded Exposure [1]	Unfunded Exposure [2]	Cash Collateral	Eligible Guarantees	Risk-weighted Assets	Capital Charge
Cash	13	13	-	-	-	-	-
Claims on sovereigns	14,549	14,337	212	55	-	728	91
Claims on public sector entities	1,905	1,705	155	205	249	1,298	162
Claims on multilateral development banks	293	288	5	-	-	109	14
Claims on banks	12,007	10,969	1,038	5,659	193	4,005	501
Claims on corporate portfolio	21,623	17,880	3,743	2,954	344	17,743	2,218
Regulatory retail exposures	1,652	1,405	247	6	-	1,235	154
Past due loans	275	275	-	-	-	275	34
Residential retail portfolio	23	23	-		-	12	2
Commercial mortgage	205	205	-	45	-	160	20
Equity portfolios	54	54	-	-	-	109	14
Other exposures	1,556	1,410	146	-	-	1,958	245
	54,155	**48,564**	**5,546**	**8,924**	**786**	**27,632**	**3,455**

Monthly average gross credit exposures and the risk-weighted assets for 12-month ended 31 December 2023 were US$45,724 million and US$25,969 million respectively.

b. Capital requirement for market risk

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

US$ million	RWA	Year-end Capital Charge	Capital Charge - Minimum*	Capital Charge - Maximum*
Interest rate risk	673	84	59	90
- Specific interest rate risk	18	2	1	5
- General interest rate risk	655	82	58	85
Equity position risk	20	2	2	4
Foreign exchange risk	144	18	17	26
Options risk	-	-	-	-
Total	**837**	**104**	**78**	**120**

* The information in these columns shows the minimum and maximum capital charge for each of the market risk categories for the quarter ended 31 December 2023.

c. Capital requirement for operational risk

The Group applies the "Standardised Approach" for calculating its Pillar I operational risk capital. As at 31 December 2023, the total capital charge in respect of operational risk was US$219 million. A breakdown of the operational risk capital charge is provided below:

US$ million Basel Business Line	Average 3 Years Gross Income	Beta Factors	Capital charge	RWA
Corporate finance	36	18%	10	82
Trading and sales	178	18%	50	401
Payment and settlement	40	18%	11	90
Commercial banking	563	15%	132	1,055
Agency services	-	15%	-	-
Retail banking	71	12%	13	107
Asset management	11	12%	2	17
Retail brokerage	4	12%	1	6
Total	**903**		**219**	**1,758**

d. Capital base

The Group's capital base primarily comprises of:

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

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

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

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

The issued and paid-up share capital of the Bank is US$3,110 million at 31 December 2023 (2022 US$3,110 million), comprising 3,110 million shares of US$1 each.

The Additional Tier 1 (AT1) capital includes the eligible portion of a perpetual financial instrument issued by the Bank or any subsidiary of the Bank. The outstanding of total AT1 issue amounted to US$488 million at 31 December 2023. This includes US$390 million issued by the Bank and US$98 million issued by the Bank's subsidiary in Brazil. These instruments meet all the threshold conditions for inclusion in AT1 as per the CBB requirements. The details of these issues are described in appendix Public Disclosure (PD) 3 of this document. The AT1 instrument issued by the Bank has a conversion feature into equity with the trigger being a non-viability event as determined by the CBB.

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

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

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

The details of the AT1 issuances are described in appendix PD 3.

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

Capital Base and Risk-Weighted Assets (RWA)	US$ million
Capital base	
CET 1	4,080
AT 1	464
Total Tier 1 capital	**4,544**
Tier 2	325
Total capital base	**4,869**
Risk-weighted assets	
Credit risk	27,632
Market risk	836
Operational risk	1,758
Total Risk-weighted assets	**30,226**
CET 1 ratio	13.5 %
Tier 1 ratio	15.0 %
Capital adequacy ratio	**16.1 %**

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

4. Credit risk - Pillar III disclosures

a. Definition of exposure classes

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

b. External credit rating agencies

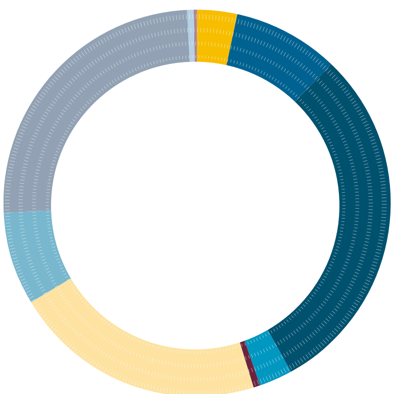
The Group uses external credit ratings from Standard & Poor's, Moody's, Fitch Ratings and Capital Intelligence (accredited external credit assessment institutions). The breakdown of the Group's exposure into rated and unrated categories is as follows:

US$ million	Net Credit Exposure (after credit risk mitigation)	Rated Exposure	Unrated Exposure
Cash	13	-	13
Claims on sovereigns	14,494	14,232	262
Claims on public sector entities	1,700	663	1,037
Claims on multilateral development banks	293	293	-
Claims on banks	6,348	5,227	1,121
Claims on corporate portfolio	18,669	2,123	16,546
Regulatory retail exposure	1,646	-	1,646
Past due loans	275	-	275
Residential retail portfolio	23	-	23
Commercial mortgage	160	-	160
Equity portfolios	54	-	54
Other exposures	1,556	276	1,280
	45,231	**22,814**	**22,417**

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

The Group's credit risk distribution (based on internal risk ratings) at 31 December 2023 is shown below:

The Group's credit risk distribution (based on internal risk ratings) at 31 December 2023 is shown below:



Exceptional	**3.6%**	Excellent	**21.2%**
Superior	**8.7%**	Good	**7.9%**
Satisfactory	**29.9%**	Adequate	**25.0%**
Marginal	**2.6%**	Special Mention	**0.5%**
Substandard	**0.5%**	Doubtful	**0.1%**

Other grades are insignificant.

c. Credit risk presentation under Basel III

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

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

d. Credit exposure

Geographical distribution of exposures

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

US$ million	Gross Credit Exposure	Cash Collateral	Impaired Loans	Specific/ Stage 3 ECL Impaired Loans	Impaired Debt Securities	Specific/ Stage 3 ECL Impaired Debt Securities
North America	13,032	4,702	-	-	63	63
Western Europe	10,818	818	44	20	-	-
Other Europe	2,321	610	-	-	-	-
Arab World	15,174	1,602	407	267	11	11
Other Africa	62	17	3	-	-	-
Asia	1,157	282	-	-	-	-
Australia/New Zealand	188	23	-	-	-	-
Latin America	11,403	870	256	148	-	-
	54,155	**8,924**	**710**	**435**	**74**	**74**

In addition to the above specific provisions the Group has ECL under Stage 1 and 2 aggregating to US$250 million.

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

US$ million	North America	Western Europe	Other Europe	Arab World	Other Africa	Asia	Australia/ New Zealand	Latin America	Total
Cash	-	-	-	13	-	-	-	-	**13**
Claims on sovereigns	8,531	974	-	4,101	-	99	3	841	**14,549**
Claims on public sector entities	39	11	-	1,439	-	117	2	297	**1,905**
Claims on multilateral development banks	30	5	33	155	50	20	-	-	**293**
Claims on banks	1,993	4,855	2,043	2,394	1	130	48	543	**12,007**
Claims on corporate portfolio	2,369	4,657	144	5,171	8	787	135	8,352	**21,623**
Regulatory retail exposures	-	-	-	808	-	-	-	844	**1,652**
Past due loans	-	24	-	140	3	-		108	**275**
Residential retail portfolio	-		-	23	-	-	-	-	**23**
Commercial mortgage	-	160	-	45	-	-	-	-	**205**
Equity portfolios	1	1	-	52	-	-	-	-	**54**
Other exposures	69	131	101	833	-	4	-	418	**1,556**
Gross credit exposure	**13,032**	**10,818**	**2,321**	**15,174**	**62**	**1,157**	**188**	**11,403**	**54,155**

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

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

US$ million	Less than 3 Months	3 Months to 1 Year	1 to 3 Years	Over 3 Years	Total
North America	-	-	-	-	-
Western Europe	-	14	10	-	24
Arab World	65	4	53	18	140
Other Africa	-		-	3	3
Latin America	12	49	47	-	108
	77	**67**	**110**	**21**	**275**

Industrial sector analysis of exposures

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

US$ million	Gross Exposure [1+2]	Funded Exposure [1]	Unfunded Exposure [2]	Cash Collateral	Impaired Loans	Specific/ Stage 3 ECL Impaired Loans	Impaired Debt Securities	Specific/ Stage 3 ECL Impaired Debt Securities
Manufacturing	3,499	2,849	650	84	139	103	-	-
Mining and quarrying	168	127	41	13	17	12	-	-
Agriculture, fishing, and forestry	1,866	1,706	160	10	25	13	-	-
Construction	2,836	2,071	765	104	63	50	-	-
Financial services	23,668	21,472	2,196	8,460	1	1	74	74
Trade	404	344	60	19	73	18	-	-
Personal / Consumer finance	1,865	1,581	284	12	55	44	-	-
Commercial real estate financing	487	471	16	-	44	20	-	-
Government	10,138	10,099	39		2	2	-	-
Technology, media, and telecommunications	586	538	48	1	3	1	-	-
Transport	807	576	231	29	34	18	-	-
Energy	1,155	991	164	12	-	-	-	-
Utilities	1,475	1,037	438	3	-	-	-	-
Distribution	1,196	1,094	102	16	-	-	-	-
Retailers	368	330	38	-	-	-	-	-
Other services	3,637	3,323	314	161	254	153	-	-
	54,155	**48,609**	**5,546**	**8,924**	**710**	**435**	**74**	**74**

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

US$ million	Manufacturing	Mining and Quarrying	Agriculture, Fishing and Forestry	Construction	Financial Services	Trade	Personal / Consumer Finance	Commercial Real Estate Financing	Government	Technology, Media and Telecommunications	Transport	Energy	Utilities	Distribution	Retailers	Other Services	Total
Cash	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	13	**13**
Claims on sovereigns	15	-	-	-	4,873	-	-	-	9,661	-	-	-	-	-	-	-	**14,549**
Claims on public sector entities	189	27	-	13	823	-	-	-	349	60	89	299	47	-	-	9	**1,905**
Claims on multilateral development banks	-	-	-	-	293	-	-	-	-	-	-	-	-	-	-	-	**293**
Claims on banks	-	-	-	-	11,932	-	-	-	75	-	-	-	-	-	-	-	**12,007**
Claims on corporate portfolio	3,248	134	1,847	2,764	5,489	345	62	325	49	524	700	854	1,422	1,195	368	2,297	**21,623**
Regulatory retail exposures	1	-	-	-	-	-	1,651	-	-	-	-	-	-	-	-	-	**1,652**
Past due loans	36	5	12	13	-	55	11	24	-	2	16	-	-	-	-	101	**275**
Residential retail portfolio	-	-	-	23	-	-	-	-	-	-	-	-	-	-	-	-	**23**
Commercial mortgage	-	-	-	22	45	-	-	138	-	-	-	-	-	-	-	-	**205**
Equity portfolios	-	-	-	-	7	4	34	-	-	-	-	-	-	-	-	9	**54**
Other exposures	10	2	7	1	206	-	107	-	4	-	2	2	6	1	-	1,208	**1,556**
	3,499	**168**	**1,866**	**2,836**	**23,668**	**404**	**1,865**	**487**	**10,138**	**586**	**807**	**1,155**	**1,475**	**1,196**	**368**	**3,637**	**54,155**

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

US$ million	Less Than 3 Months	3 months to 1 Year	1 to 3 Years	Over 3 Years	Total
Manufacturing	9	14	13	-	36
Mining and quarrying	-	-	5	-	**5**
Agriculture, fishing and forestry	-	12	-	-	**12**
Construction	9	1	-	3	**13**
Financial services	-	-	-	-	**-**
Trade	2	1	50	2	**55**
Personal / Consumer finance	8	1	1	1	**11**
Commercial Real Estate Financing	-	14	10	-	**24**
Technology, media & telecommunications	1	-	1	-	**2**
Transport	-	15	1	-	**16**
Other sectors	48	9	29	15	**101**
	77	**67**	**110**	**21**	**275**

Maturity analysis of funded exposures

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

US$ million	Within 1 Month	1 - 3 Months	3 - 6 Months	6 - 12 Months	Total within 12 Months	1 - 5 Years	5 - 10 Years	10 - 20 Years	Over 20 Years	Undated	Total over 12 Months	Total
Cash	13	-	-	-	**13**	-	-	-	-	-	**-**	**13**
Claims on sovereigns	5,306	4,728	374	698	**11,106**	1,748	1,368	95	-	20	**3,231**	**14,337**
Claims on public sector entities	287	437	65	42	**831**	344	507	66	-	2	**919**	**1,750**
Claims on multilateral development banks	-	-	48	48	**96**	179	13	-	-	-	**192**	**288**
Claims on banks	3,121	4,245	991	986	**9,343**	1,489	135	-	-	2	**1,626**	**10,969**
Claims on corporate portfolio	2,876	4,161	2,182	2,683	**11,902**	4,823	465	16	-	674	**5,978**	**17,880**
Regulatory retail exposures	14	63	168	143	**388**	360	441	195	18	3	**1,017**	**1,405**
Past due loans	59	18	26	41	**144**	110	21	-	-	-	**131**	**275**
Residential retail portfolio	-	-	-	-	**-**	2	2	19	-	-	**23**	**23**
Commercial mortgage	36	85	58		**179**	26	-	-	-	-	**26**	**205**
Equity portfolios	-	-	-	-	**-**	-	-	-	-	54	**54**	**54**
Other exposures	-	4	16	11	**31**	16	-	-	-	1,363	**1,379**	**1,410**
	11,712	**13,741**	**3,928**	**4,652**	**34,033**	**9,097**	**2,952**	**391**	**18**	**2,118**	**14,576**	**48,609**

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

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

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

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

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

US$ million	Within 1 Month	1 - 3 Months	3 - 6 Months	6 - 12 Months	Total within 12 Months	1 - 5 Years	5 - 10 Years	10 - 20 Years	Over 20 Years	Undated	Total over 12 Months	Total
Claims on sovereigns	13	6	35	142	**196**	16	-	-	-	-	**16**	**212**
Claims on public sector entities	24	23	32	31	**110**	21	-	-	24	-	**45**	**155**
Claims on multilateral development banks	-	-	-	3	**3**	2	-	-	-	-	**2**	**5**
Claims on banks	324	390	129	45	**888**	109	23	3	15	-	**150**	**1,038**
Claims on corporate portfolio	359	452	492	823	**2,126**	1,439	104	4	70	-	**1,617**	**3,743**
Regulatory retail exposures	4	45	23	32	**104**	142	1	-	-	-	**143**	**247**
Other exposures	2	1	-	1	**4**	-	-	-	-	142	**142**	**146**
	726	**917**	**711**	**1,077**	**3,431**	**1,729**	**128**	**7**	**109**	**142**	**2,115**	**5,546**

e. Impaired assets and provisions for impairment

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

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

US$ million	Provision (Write-back/recovery)	Write-offs
Financial services	2	1
Energy	(3)	-
Utilities	-	28
Distribution	1	-
Retailers	(1)	-
Manufacturing	34	17
Construction	18	44
Mining and quarrying	2	2
Personal / consumer finance	7	4
Commercial real estate financing	13	-
Transport	(11)	8
Trade	(5)	25
Agriculture, fishing & forestry	7	1
Technology, media and telecommunications	-	28
Other Services	75	47
ECL	6	-
	145	205

Restructured facilities

The carrying amount of restructured facilities amounted to US$406 million as at 31 December 2023. Out of the total restructured facilities 63% relate to performing customers on which an ECL of US$43 million is being held. The restructuring did not have any impact on carrying values, thereby no modification loss was recorded on these. The Group continues to record interest on performing customers as normal and interest on non-performing customers is recorded on receipt basis.

Ageing analysis of impaired loans and securities

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

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

US$ million *As at 31 December 2023*	Principal	Provisions	Net Book Value
Loans			
Less than 3 months	134	57	77
3 months to 1 year	132	65	67
1 to 3 years	292	182	110
Over 3 years	152	131	21
	710	**435**	**275**

US$ million *As at 31 December 2023*	Principal	Provisions	Net Book Value
Securities			
Less than 3 months	-	-	-
3 months to 1 year	-	-	-
1 to 3 years	-	-	-
Over 3 years	74	74	-
	74	**74**	**-**

Movement in expected credit losses

	Expected Credit Losses		
US$ million	Stage 1	Stage 2	Stage 3
Loans			
At beginning of the year	139	71	463
Changes due to financial assets recognised in opening balance that have:			
Transfer to stage 1	3	(3)	-
Transfer to stage 2	(2)	2	-
Transfer to stage 3	(1)	(15)	16
Net remeasurement of loss allowance	(14)	15	193
Write-backs / recoveries	-	-	(54)
Amounts written-off	-	-	(205)
Exchange adjustments and other movements	14	4	22
Balance at reporting date	**139**	**74**	**435**

US$ million	Expected Credit Losses Stage 1	Stage 2	Stage 3
Investments			
At beginning of the year	13	-	74
Changes due to financial assets recognised in opening balance that have:			
Transfer to stage 1	-	-	-
Transfer to stage 2	-	-	-
Transfer to stage 3	-	-	-
Net remeasurement of loss allowance	4	-	-
Write-backs / recoveries	-	-	-
Amounts written-off	-	-	-
Exchange adjustments and other movements	(3)	-	-
Balance at reporting date	**14**	**-**	**74**

US$ million	Expected Credit Losses Stage 1	Stage 2	Stage 3
Other financial assets and off-balance sheet items			
At beginning of the year	10	9	34
Changes due to financial assets recognised in opening balance that have:			
Transfer to stage 1	-	-	-
Transfer to stage 2	-	2	(2)
Transfer to stage 3	-	-	-
Net remeasurement of loss allowance	3	(2)	2
Write-backs / recoveries	-	-	(3)
Amounts written-off	-	-	(2)
Exchange adjustments and other movements	(1)	3	(10)
Balance at reporting date	**10**	**12**	**19**

5. Off balance sheet exposure and securitisations

a. Credit related contingent items

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

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

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

US$ million	Notional Principal	Credit Exposure*
Short-term self-liquidating trade and transaction-related contingent items	4,536	1,295
Direct credit substitutes, guarantees and acceptances	3,102	1,862
Undrawn loans and other commitments	2,738	1,175
	10,376	**4,332**
RWA		**3,696**

** Credit exposure is after applying CCF.*

At 31 December 2023, the Group held eligible guarantees as collateral in relation to credit-related contingent items amounting to US$313 million.

b. Derivatives

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

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

Credit risk in respect of derivative financial instruments arises from the potential for a counterparty to default on its contractual obligations and is limited to the positive fair value of instruments that are favourable to the Group. The majority of the Group's derivative contracts are entered into with other financial institutions, and there was no significant concentration of credit risk in respect of contracts with positive fair value with any individual counterparty as at 31 December 2023.

The aggregate notional amounts for interest rate and foreign exchange contracts as at 31 December 2023 were as follows:

US$ million	Derivatives		
	Interest Rate Contracts	Foreign Exchange Contracts	Total
Notional – Trading book	15,369	22,574	37,943
Notional – Banking book	2,308	302	2,610
	17,677	**22,876**	**40,553**
Credit RWA (replacement cost plus potential future exposure)	196	333	529
Market RWA	655	144	799

c. Counterparty Credit Risk

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

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

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

In addition to the default risk capital charge for CCR, the Group also holds capital to cover the risk of mark-to-market losses on the expected counterparty risk arising out of over-the-counter derivative transactions, namely a Credit Valuation Adjustment (CVA). The Standardised CVA Risk Capital Charge, as prescribed under CBB's Basel III guidelines, is employed for the purpose. As at 31 December 2023, the CVA Portfolio Risk weighted assets was US$275 million.

6. Capital Management

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

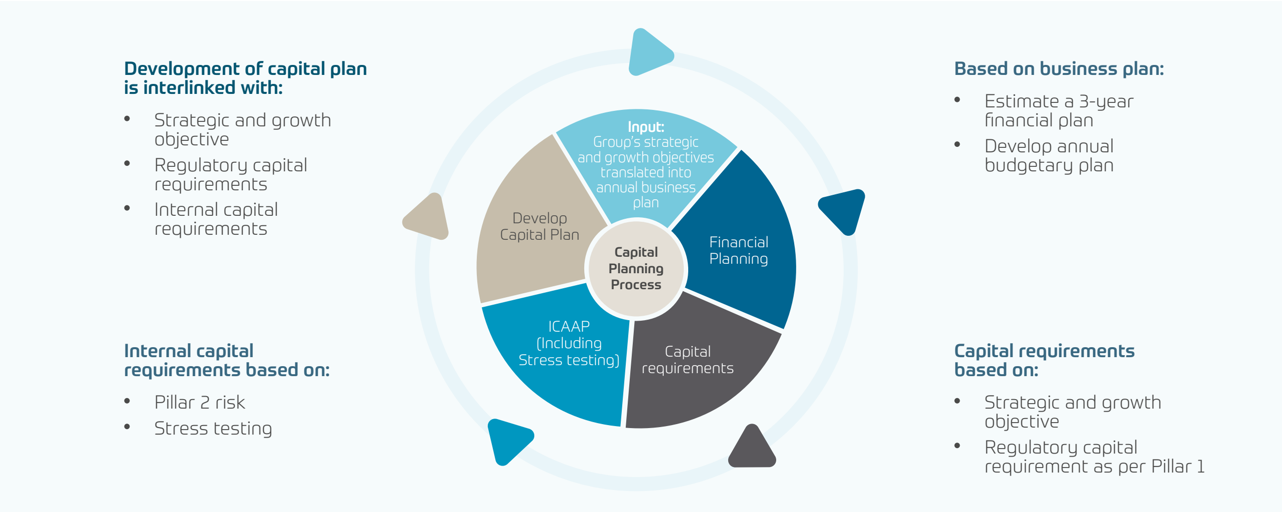
Our approach to capital management is driven by our strategic objectives, considering the regulatory, economic and business environment in our major markets. It is our objective to maintain a strong capital base to support the risks inherent in our businesses and markets, meeting both local and consolidated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

The Group's capital management approach is supported by a **Capital Management Framework that includes an ICAAP framework.**

Internal Capital Adequacy Assessment Process (ICAAP)

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

- Inform the Board of the ongoing assessment of the Bank's risks, and how the Bank intends to mitigate those risks. It also evaluates the current and future capital requirement that is necessary, having considered other mitigating factors;
- Ensure that the Bank's capital position remains adequate in the event of extreme but plausible global and regional economic stress conditions;
- Demonstrate that the Bank establishes and applies a strong and encompassing governance framework in addition to a robust risk and capital management, planning and forecasting process; and
- Provide a forward-looking view, in relation to solvency on the Bank's risk profile to ensure that it is in line with the Board's Risk Appetite limits.



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

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

Pillar 2A Risks

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

Material Sources of Risk (Pillar 2A)	Methodology
Credit Risk	Additional capital required for credit risk under ICAAP based on the Foundation Internal Ratings based approach.
Concentration Risk • *Name Concentration* • *Sector Concentration* • *Geographic Concentration*	Capital requirements assessed for Name, Sector and Geographic concentration risks using the Herfindahl- Hirschman Index (HHI) approach.
Counterparty Credit Risk	No capital add-on under ICAAP as Pillar 1 is assessed to be sufficient.
Market Risk	Bank ABC Group uses SMM for market risk capital charge computation as prescribed by the local regulator the CBB. Bank ABC Group's own assessment has identified that additional capital charge maybe required for the marginal illiquidity of its market portfolio and movements in market prices. The capital charge for market risk assessed under Pillar 1 is, however, sufficient to cover these risks.

	The Bank uses SMM for market risk capital charge computation as prescribed by the local regulator, the CBB The Bank's own assessment has identified that additional capital charge may be required for the marginal illiquidity of its market portfolio and movements in market prices. The capital charge for market risk assessed under Pillar 1 is, however, sufficient to cover these risks.
Operational Risk • *Conduct Risk* • *Non-Conduct Risk*	Under ICAAP the Bank re-assesses operational risk within two categories of realised risk factors and compares this to Pillar 1 risk • Conduct risk • Non-conduct risk Conduct risk losses are defined as losses described in the Basel loss event type of 'Client, Products and Business Practices (CPBP)' and legal losses. The CPBP loss events includes Regulatory fines, Sanctions (covering AML/KYC), Mis-selling and product risk (defects), Client confidentiality breaches, Non-compliance with disclosures Non-Conduct risk losses are the Basel loss event types other than CPBP and legal losses. This category of loss events includes Internal fraud losses, External fraud losses, System break-down losses, Cyber security breach losses, Business disruption losses (BCP), Execution and transaction delivery loss, Documentation risk related losses.
Liquidity and Funding Risk	Liquidity and funding risk is covered under ILAAP and sufficient High Quality Liquid Asset Buffers (LAB) are held to address this risk.
Interest Rate Risk in the Banking Book (IRRBB)	Capital requirements assessed based on six stress scenarios in alignment with Basel IRRBB 2016 guidelines (BCBS 368). Capital requirements are assessed against internal threshold for EAR and EVE
Pension Obligation Risk	Capital requirements assessed based on an actuarial assessment of pension fund obligations by computing the gap between the present value of all defined pension obligations and the value of the pension fund scheme assets which is complemented with a stress assessment using a set of stress scenarios.
Strategic Risk	Regular review of strategy in view of the changing technology, regulatory and business landscape.
Reputational Risk	Robust governance and management framework with significant involvement of senior management to proactively address any risk(s) to the Group's reputation.
Climate Change Risk	Impact on capital reviewed and assessed based on stress scenario.

Pillar 2B - Stress Testing

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

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

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

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

The ICAAP considers mild, moderate and severe stress scenarios and assesses their impact on its earnings, asset quality, capital and liquidity adequacy. The macroeconomic stress scenarios are sourced from Moody's scenario generator platform.

Impact of the above on capital has been assessed and suitable management actions were identified to mitigate the impact of stress while making the overall capital adequacy assessments.

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

Annual Planning Cycle

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

Capital Allocation

The responsibility for the Group's capital allocation principles rests with the Group's Asset & Liability Management Committee. The capital allocation disciplines are enforced through the Group Balance Sheet Management function that operates under the oversight of the Group Chief Financial Officer. Through our internal governance processes, we seek to maintain discipline over our investment and capital allocation decisions and seek to ensure that returns on capital meet the Group's management objectives. Our strategy is to allocate capital to businesses and entities to support growth objectives where above hurdle returns have been identified based on their regulatory and economic capital needs.

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

7. Related Party Transactions

Related parties represent associated companies, major shareholders, directors and key management personnel of the Group and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Group's senior management and are based on arm's length rationale. Details of the transactions and balances with related parties have been disclosed in Note 28 of the consolidated financial statements for the year ended 31 December 2023.

Exposures to related parties as at 31 December 2023 are as follows:

US$ million	
Claims on shareholders*	**203**
Claims on directors & senior management	**5**
Claims on staff	**39**

**Unfunded exposures after applying CCF.*

Liabilities to related parties

Connected deposits	**4,104**

The interest expense in respect of connected deposits for the period ended 31 December 2023 is US$257 million.

8. Repurchase and Resale Agreements

Proceeds from assets sold under repurchase agreements as at 31 December 2023 amounted to US$6,933 million. The carrying value of securities sold under repurchase agreements at the period end amounted to US$7,246 million.

Amounts paid for assets purchased under resale agreements at the period end amounted to US$2,191 million and relate to customer product and treasury activities. The market value of the securities purchased under resale agreements at the period end amounted to US$2,577 million.

9. Material Transactions

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

APPENDIX I – REGULATORY CAPITAL DISCLOSURES

PD 1: Post 1 January 2019 disclosure template

	Basel III Common Disclosure Template	PIR as at 31 December 2023	Reference
Common Equity Tier 1 capital: instruments and reserves			
1	Directly issued qualifying common share capital plus related stock surplus	3,104	A
2	Retained earnings	1,118	B
3	Accumulated other comprehensive income (and other reserves)	(232)	c1+c2+c3+c4+c5
4	*Not applicable*	-	
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	292	D
6	**Common Equity Tier 1 capital before regulatory adjustments**	**4,282**	
Common Equity Tier 1 capital: regulatory adjustments			
7	Prudential valuation adjustments	-	
8	Goodwill (net of related tax liability)	41	
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	116	E
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	13	F
11	Cash-flow hedge reserve	-	
12	Shortfall of provisions to expected losses	-	
13	Securitisation gain on sale (as set out in paragraph 562 of Basel II framework)	-	
14	Not applicable	-	
15	Defined-benefit pension fund net assets	33	c6
16	Investments in own shares	-	
17	Reciprocal crossholdings in common equity	-	
18	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	
19	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	-	
20	Mortgage servicing rights (amount above 10% threshold)	-	
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-	
22	Amount exceeding the 15% threshold	-	
23	*of which: significant investments in the common stock of financials*	-	

APPENDIX I – REGULATORY CAPITAL DISCLOSURES (continued)

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

	Basel III Common Disclosure Template	PIR as at 31 December 2023	Reference
	Common Equity Tier 1 capital: regulatory adjustments (continued)		
24	*of which: mortgage servicing rights*	-	
25	*of which: deferred tax assets arising from temporary differences*	-	
26	CBB specific regulatory adjustments	-	
27	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	-	
28	**Total regulatory adjustments to Common equity Tier 1**	**203**	
29	**Common Equity Tier 1 capital (CET1)**	**4,079**	
	Additional Tier 1 capital: instruments		
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	358	
31	*of which: classified as equity under applicable accounting standards*	358	
32	*of which: classified as liabilities under applicable accounting standards*	-	
33	*Directly issued capital instruments subject to phase out from Additional Tier 1*	-	
34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in Group AT1)	106	g
35	*of which: instruments issued by subsidiaries subject to phase out*	-	
36	**Additional Tier 1 capital before regulatory adjustments**	**464**	
	Additional Tier 1 capital: regulatory adjustments		
37	Investments in own Additional Tier 1 instruments	-	
38	Reciprocal crossholdings in Additional Tier 1 instruments	-	
39	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	-	
40	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	
41	CBB specific regulatory adjustments	-	
42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-	
43	**Total regulatory adjustments to Additional Tier 1 capital**	-	
44	**Additional Tier 1 capital (AT1)**	**464**	
45	**Tier 1 capital (T1 = CET1 + AT1)**	**4,543**	

	Basel III Common Disclosure Template	PIR as at 31 December 2023	Reference
Tier 2 capital: instruments and provisions			
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	-	
47	*Directly issued capital instruments subject to phase out from Tier 2*	-	
48	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in Group Tier 2)	89	i
49	*of which: instruments issued by subsidiaries subject to phase out*	-	
50	Provisions	236	h*
51	**Tier 2 capital before regulatory adjustments**	**325**	
Tier 2 capital: regulatory adjustments			
52	Investments in own Tier 2 instruments	-	
53	Reciprocal crossholdings in Tier 2 instruments	-	
54	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold)	-	
55	Significant investments in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	
56	National specific regulatory adjustments	-	
57	**Total regulatory adjustments to Tier 2 capital**	**-**	
58	**Tier 2 capital (T2)**	**325**	
59	**Total capital (TC = T1 + T2)**	**4,868**	
60	**Total risk weighted assets**	**30,226**	
Capital ratios and buffers			
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	13.5%	
62	Tier 1 (as a percentage of risk weighted assets)	15.0%	
63	Total capital (as a percentage of risk weighted assets)	**16.1%**	
64	Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus G-SIB buffer requirement, expressed as a percentage of risk weighted assets)	2.5%	
65	*of which: capital conservation buffer requirement*	2.5%	
66	*of which: bank specific countercyclical buffer requirement*	N/A	
67	*of which: G-SIB buffer requirement*	N/A	
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	4.5%	

APPENDIX I – REGULATORY CAPITAL DISCLOSURES (continued)

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

	Basel III Common Disclosure Template	PIR as at 31 December 2023	Reference
	National minima including CBB (where different from Basel III)		
69	CBB Common Equity Tier 1 minimum ratio	9%	
70	CBB Tier 1 minimum ratio	10.5%	
71	CBB total capital minimum ratio	12.5%	
	Amounts below the thresholds for deduction (before risk weighting)		
72	Non-significant investments in the capital of other financials	8	
73	Significant investments in the common stock of financials	33	
74	Mortgage servicing rights (net of related tax liability)	-	
75	Deferred tax assets arising from temporary differences (net of related tax liability)	268	
	Applicable caps on the inclusion of provisions in Tier 2		
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	250	h*
77	Cap on inclusion of provisions in Tier 2 under standardised approach	345	
78	N/A		
79	N/A		
	Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2019 and 1 Jan 2023)		
80	*Current cap on CET1 instruments subject to phase out arrangements*	*N/A*	
81	*Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)*	*N/A*	
82	*Current cap on AT1 instruments subject to phase out arrangements*	*N/A*	
83	*Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)*	*N/A*	
84	*Current cap on T2 instruments subject to phase out arrangements*	*N/A*	
85	*Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)*	*N/A*	

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

PD 2: Reconciliation of Regulatory Capital

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

US$ million	Balance Sheet as in Published Financial Statements	Consolidated PIR Data
Liquid funds	4,466	-
Cash and balances at central banks	-	4,280
Placements with banks and similar financial institutions	2,231	4,609
Reverse repurchase agreements and other similar secured lending	2,191	-
Financial assets at fair value through P&L	1,070	1,070
Non-trading investments	11,368	-
Investment at Amortised Cost	-	5,978
Investments at FVOCI	-	5,405
Loans and advances	19,096	19,309
Investment properties	-	-
Interest receivable	-	581
Other assets	3,210	2,439
Investments in associates and joint ventures	-	33
Goodwill and intangible assets	-	157
Property, plant and equipment	260	260
TOTAL ASSETS	**43,892**	**44,121**
Deposits from banks	4,135	7,681
Deposits from customers	23,705	20,159
Certificate of deposits issued	142	142
Repurchase agreements and other similar secured borrowing	6,933	6,933
Interest payable	-	1,074
Taxation	146	-
Other liabilities	2,724	1.775
Borrowings	1,303	1,205
Subordinated liabilities	-	-
Additional Tier 1 Instrument	390	488
TOTAL LIABILITIES	**39,748**	**39,457**
Paid-in share capital	3,110	3,110
Treasury shares	(6)	(6)
Reserves	806	806
Non - controlling interest	504	504
Expected credit losses	-	250
TOTAL SHAREHOLDERS' EQUITY	**4,414**	**4,664**

APPENDIX I – REGULATORY CAPITAL DISCLOSURES (continued)

PD 2: Reconciliation of Regulatory Capital (continued)

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

US$ million	Balance Sheet as in Published Financial Statements	Consolidated PIR Data	Reference
ASSETS			
Liquid funds	4,466	-	
Cash and balances at central banks	-	4,280	
Placements with banks and similar financial institutions	2,231	4,609	
Reverse repurchase agreements and other similar secured lending	2,191	-	
Financial assets at fair value through P&L	1,070	1,070	
Loans and advances	19,096	19,309	
Non-trading investments	11,368	11,383	
Of which investment NOT exceeding regulatory threshold	-	*11383*	
Interest receivable	-	581	
Other assets	3,210	2,439	
Of which deferred tax assets arising from carryforwards of unused tax losses, unused tax credits and all other	-	*13*	*F*
Of which deferred tax assets arising from temporary differences	-	*268*	
Investments in associates and joint ventures	-	33	
Of which Significant investment exceeding regulatory threshold	-	-	
Of which Significant investment NOT exceeding regulatory threshold	-	*33*	
Goodwill and intangible assets	-	157	
Of which goodwill	-	*41*	
Of which other intangibles (excluding MSRs) phased in at 100%	-	*116*	*E*
Of which MSRs	-	-	
Property, plant and equipment	260	260	
TOTAL ASSETS	**43,892**	**44,121**	

US$ million	Balance Sheet as in Published Financial Statements	Consolidated PIR Data	Reference
LIABILITIES & SHAREHOLDERS' EQUITY			
Deposits from banks	4,135	7,681	
Deposits from customers	23,705	20,159	
Certificate of deposits issued	142	142	
Repurchase agreements and other similar secured borrowing	6,933	6,933	
Interest payable	-	1,074	
Taxation	146	-	
Other liabilities	2,724	1,775	
Borrowings	1,303	1,205	
Subordinated liabilities	-	-	
Of which amount eligible for TII	-	-	
Of which amount Ineligible	-	-	
Additional Tier 1 Instrument	390	488	
Of which amount eligible for AT1	-	*45*	G
Of which amount eligible for TII	-	*11*	I
Of which amount Ineligible	-	*432*	
TOTAL LIABILITIES	**39,478**	**39,457**	
Paid-in share capital	3,110	3,110	
Treasury shares	(6)	(6)	
Of which form part of CET1			
Ordinary Share Capital	3,110	3,110	a
Treasury shares	(6)	(6)	A
Reserves	806	806	
Of which form part of CET1			
Retained earnings/(losses) brought forward	*1,048*	*1,072*	*b*
Net profit for the current year	*235*	*235*	*c1*
Legal reserve	*569*	*545*	*c2*
General (disclosed) reserves	*100*	*100*	*c3*
Fx translation adjustment	*(1,126)*	*(1,126)*	*c4*
Cumulative changes in fair value	*13*	*13*	*c5*
Pension fund reserve	*(33)*	*(33)*	*c6*
Non - controlling interest	504	504	
Of which amount eligible for CETI	-	*292*	*d*
Of which amount eligible for ATI	-	*61*	*g*
Of which amount eligible for TII	-	*79*	*I*
Of which amount ineligible	-	*72*	
Expected credit losses	-	250	
Of which amount eligible for TII (Maximum 1.25% of RWA)	-	*250*	*h*
Of which amount Ineligible	-	-	
TOTAL SHAREHOLDERS' EQUITY	**4,414**	**4,664**	

APPENDIX I – REGULATORY CAPITAL DISCLOSURES (continued)

PD 3: Main features of regulatory capital instruments

	Disclosure template for main features of regulatory capital instruments			
1	Issuer	Arab Banking Corporation	Arab Banking Corporation	Banco ABC Brasil
2	Unique identifier	ABC	XS2426192261	LFSC19000 (series with various suffixes)
3	Governing law(s) of the instrument	Laws of Bahrain	English and Bahrain Law	Laws of the Federative Republic of Brazil
	Regulatory treatment			
4	Transitional CBB rules	Common Equity Tier 1	N/A	N/A
5	Post-transitional CBB rules	Common Equity Tier 1	Additional Tier 1	Additional Tier 1
6	Eligible at solo/group/group & solo	Group & Solo	Group & Solo	Group
7	Instrument type (types to be specified by each jurisdiction)	Common equity shares	Perpetual NC 6 Additional Tier 1 Capital Securities	Perpetual NC 5, Sub-ordinated to all except Shareholders' Equity
8	Amount recognised in regulatory capital (Currency in mil, as at most recent reporting date)	US$3,110	US$390	BRL502 (of which US$45 equivalent eligible for AT1)
9	Par value of instrument	1	1	300,000
10	Accounting classification	Shareholders' equity	Shareholders' equity	Liability- Amortised cost
11	Original date of issuance	Various	28th March 2022	Various
12	Perpetual or dated	Perpetual	Perpetual	Perpetual
13	Original maturity date	No maturity	No maturity	No maturity
14	Issuer call subject to prior supervisory approval	Yes	Yes	Yes
15	Optional call date, contingent call dates and redemption amount	N/A	28th March 2028 and every interest payment date thereafter	Yes
16	Subsequent call dates, if applicable	N/A	Every interest payment date after the first call date	N/A
	Coupons / dividends			
17	Fixed or floating dividend/coupon	Floating (Dividend as decided by the shareholders)	Fixed	Floating
18	Coupon rate and any related index	N/A	N/A	Average market yield of 13.124%, equivalent to 1.13 times the current Selic Rate of 11.65% p.a.
19	Existence of a dividend stopper	N/A	Yes	No

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

STRATEGY IN MOTION

MENA's International Bank of the Future

During 2023, Bank ABC refreshed its three-year Group Strategy, which is driving Bank ABC's growth and transformation agenda. A comprehensive roadmap and set of priorities and initiatives has been developed that has translated the strategy into actionable steps. Central to success is the Group's track record of leading on innovation and leveraging emerging digital and AI technologies, to position Bank ABC as MENA's International Bank of the Future.

MENA's international bank of the future

1 Accelerate our Core Businesses

- Accelerate Wholesale & Treasury
- Boost Retail
- Capitalise on Brazil's Success

Creating near-term value for the Bank

2 Maximise Value of our Digital Units

- ila
- afs

Creating longer term value for the Bank

3 Strengthen our Operating Model to Drive Execution and Build our Bank of the Future

- Improve Organisational Effectiveness
- Enhance Steering Ability
- Strengthen Process Efficiency
- Develop Agile Infrastructure

Driving Execution and future-proofing the Bank

Progress made on the three strategic pillars

At the heart of the new strategic plan is a framework that will accelerate the Group's earnings growth, through the following three key pillars that will create near and long-term value for our shareholders.

Below are some key strategic achievements of 2023.

Pillar 1: Accelerating our core business
creating near -term value

- With greater focus to deepen corporate client penetration, the Bank achieved record growth in income from new-to-bank clients.
- The product portfolio was expanded to include fund financing solutions, targeting FIs and sovereigns.
- The rollout of Global Transaction Banking (GTB) digital platforms for Documentary Trade, Cash Management and Supply Chain Finance continued to attract new clients and increase business volumes.
- Several landmark transactions were delivered throughout the year demonstrating sustained leadership and innovation in financial and capital markets, for example the first ever Sukuk issuance from a US corporation.
- Significant increase in retail deposits across MENA with a strategy focused on boosting sales engines and digitizing the customer journey end-to-end, leveraging the success and digital capabilities of ila Bank.
- A new WB Frontline Platform for Business lines piloted – which will unlock innovative automation and client service interactions.
- Successful soft launch of the blockchain-based instant cross-border payments in conjunction with the Central Bank of Bahrain and JP Morgan.

Pillar 2: Maximising value of our digital units (ila and AFS)
creating long -term value

ila Bank

- Digital mobile-only bank ila strengthened its business and market share in Bahrain and Jordan, significantly expanding its customer base, transaction volumes and deposits.
- ila's offering was enhanced with the launch of 'alburaq', a Shari'a-compliant digital mobile-only banking experience for individual customers.
- Moreover, ila continues to receive wide-spread recognition- winner of the Best Consumer Digital Bank in Bahrain for the third consecutive year at the Global Finance 'World's Best Consumer Digital Bank Awards', with six awards in total.

AFS

- The Group's digital payments company AFS, continues to grow in scale with a specialized focus on Merchant Acquiring business and Bank card and payment processing services, entering key scale markets such as Egypt and accelerating revenue growth.
- Building momentum in its Acquiring business, AFS successfully onboarded over 1,000 merchants per month across Bahrain, Oman, and Egypt.
- Recognised as the "Most Innovative Payment Solutions Provider 2023" and for "Best Innovation in Payments Technology" by MEA Finance Awards.

Pillar 3: Strengthening our operating model
driving execution of Pillar 1 & 2 and future-proofing the Bank

- Launched the upgrade the Bank's core banking systems using the Temenos platform, which will strengthen the banks operating model and infrastructure to support future digital and data developments.
- Adoption of a holistic Sustainability Strategy to reduce our environmental impact, ensure the Bank is 'fit for purpose' and serve as a source of value creation.
- Kicked off the ABC AI Programme, to leverage AI including Generative AI, to catalyse business value in new ways.
- Multiple new Robotic Process Automation (RPA) bots have been implemented, automating several tasks and processes across different function and units, resulting in increased employee productivity and cost reductions.
- Enhanced performance focus with refreshed KPIs and capital planning processes to target delivery of the Group's accelerated growth and return objectives.
- Continuing focus on robust governance and operational resilience, with numerous improvements to policies and processes for Compliance and conduct, Operational Risk, Business Continuity and Cyber Security.

CORPORATE GOVERNANCE REPORT

Leveraging an extensive, global professional network and forensic sectoral insights, Bank ABC's Specialised Finance team delivers financing products and advisory services across a range of sectors.

03

CORPORATE GOVERNANCE

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

Bank ABC is licensed by the Central Bank of Bahrain ("CBB") as a conventional wholesale bank. Incorporated in 1980 as a Bahrain joint stock company, Bank ABC has an authorised capital of US$4.5 billion and a paid-up capital of US$3.11 billion as at 31 December 2023 (2022: US$3.11 billion).

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

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

Shareholders

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

The following table shows the ownership structure of Bank ABC as at 31 December 2023:

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

The following table shows the distribution of shareholdings as at 31 December 2023 and 31 December 2022.

% of shares held	2023 No. of shares	2023 No. of shareholders	2023 % of total outstanding shares	2022 No. of shares	2022 No. of shareholders	2022 % of total outstanding shares
less than 1%	**128,344,432**	**1,341**	**4.1**	128,344,432	1,312	4.1
1% up to less than 5%	**211,976,668**	**3**	**6.8**	211,976,668	3	6.8
5% up to less than 10%	**-**	**-**	**-**	-	-	-
10% up to less than 20%	**-**	**-**	**-**	-	-	-
20% up to less than 50%	**923,289,191**	**1**	**29.7**	923,289,191	1	29.7
50% and above	**1,846,389,709**	**1**	**59.4**	1,846,389,709	1	59.4
Total	**3,110,000,000**	**1,346**	**100**	3,110,000,000	1,317	100

Bank ABC's Corporate Governance Charter

In 2010, the CBB substantially updated its corporate governance requirements (particularly the CBB Rulebook's High Level Controls Module) for financial institutions, which are incorporated in Bahrain (the "CBB Corporate Governance Requirements"). The most recent updates were made via revisions to the High-Levels Control (HC) Module in April 2023, which came into effect from 1 October 2023. Such regulatory requirements largely correspond with the Corporate Governance Code of Bahrain of 2022 (the "Code"), which is issued by the Ministry of Industry and Commerce. The Board of Directors adopted the Bank ABC Corporate Governance Charter in December 2010 (the "Corporate Governance Charter"), which substantially reflects the CBB's Corporate Governance Requirements and the Code as they have evolved. Bank ABC reviews on a regular basis the Corporate Governance Charter and, whenever required, makes the necessary and appropriate amendments. The Corporate Governance Charter is published on the Bank ABC corporate website and deals with a number of corporate governance related matters, including:

- the role and responsibilities of the Board and its committees;
- the responsibilities of Directors to Bank ABC and the shareholders;

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

Recent Corporate Governance Changes

In 2023, there were no signficant changes to the Corporate Governance Charter. However, there were some changes to the Group Audit Charter, Group Compliance Charter, and Group Risk Committee Charter, mainly to align these charters with the revised CBB Rulebook's High Level Controls Module that was issued in April 2023 and came into effect from 1 October 2023.

Compliance with CBB Corporate Governance Requirements and the Code

Bank ABC was compliant with the CBB Corporate Governance Requirements and the Code as at 31 December 2023, save that the Chairman of the Board is not an independent Director, the Corporate Governance Committee comprised less than three independent Directors (although the majority of Directors are independent) and the Board Audit Committee comprised two independent Directors (including its Chairman) and two non-executive Directors (which requires that the Audit Committee shall comprise at least three members, provided that the majority of them are independent). Despite the variance in the letter of the requirements, given the checks and balances in the decision making process and alignment with the CBB, Bank ABC is compliant with the CBB Corporate Governance Requirements.

Board of Directors

Responsibilities of the Board

Bank ABC adopts a Corporate Governance Charter for the Board and charters for the various Board committees (the "Bank ABC Board Mandates"). The Bank ABC Board Mandates are published on the Bank ABC corporate website. The Board of Directors, collectively, are responsible for the overall strategic direction, supervision and control of the Bank, ensuring that no individual or group has unfetter powers in the decision making process. In particular, the Board's responsibilities include (but are not limited to):

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

b) setting the 'tone at the top', with leading role in establishing corporate culture and value, including the Bank's objectives,;

c) the Bank's overall business performance;

d) monitoring management performance;

e) the adoption and annual review of strategy;

f) monitoring the implementation of strategy by management;

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

h) convening and preparing the agenda for shareholder meetings;

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

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

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

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

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

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

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

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

Appointment of Directors

The shareholders appoint the Board for a term of three years, with the current term of the Board commencing on 23rd March 2022 and terminating in March 2025. At the 2023 year end, there were nine Directors on the Board, with diverse and relevant skills, who worked well together as a team. Collectively, they exercised independent and objective judgement in meeting their responsibilities.

The current Board consists of nine Directors from diverse backgrounds and their term will terminate in March 2025.

In accordance with Bank ABC's Articles of Association, a shareholder or group of shareholders holding 25% or more of the share capital may nominate Directors proportionate to their respective shareholdings. Other Directors are elected.

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

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

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

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

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

Assessment of the Board

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

a) assessing how the Board operates;

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

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

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

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

The Board has conducted an evaluation and self-assessment of its performance, and the performance of each Board committee and each individual Director in relation to the financial year ended on 31 December 2023.

As at December 2023, the Board has **four independent, non-executive Directors and five non-independent, non-executive Directors.**

Independence of Directors

The Bank ABC Board Mandates include detailed criteria to determine whether a Director should be classified as independent or not. The Bank ABC independence criteria are at least as restrictive as the formal criteria specified in the CBB Corporate Governance Requirements.

Bank ABC had four independent, non-executive Directors and five non-independent, non-executive Directors as at 31 December 2023. The CBB Corporate Governance Requirements require that at least a one-third of Bank ABC's Board of Directors is independent and also require that certain Board committees (including the Group Audit Committee, the Remuneration Committee, Group Compliance Committee, and Board Risk Committee) comprise a certain number of Directors, a certain proportion of independent Directors and/or that such Board committees be chaired by an independent Director. Save as may otherwise be disclosed in this section, Bank ABC is now fully compliant with such requirements. The CBB Corporate Governance Requirements also state that it is preferable for the Chairman of the Board to be an independent Director, whereas the Chairman of the Board is, in fact, classified as a non-executive, non-independent Director.

As a rule, Directors may not have any direct or indirect material interest in any contract of significance with Bank ABC, or any of its subsidiaries, or any material conflicts of interest. This remained the case in 2023.

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

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

Compensation & Interests of Directors

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

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

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

[1]This is refered to in the following table, according to the MOIC disclousre tables as "Remunerations of the chairman and BOD".
[2]This is refered to in the following table, according to the MOIC disclousre tables as "Total allowance for attending Board and committee meetings".

The aggregate remuneration paid to Board members in 2023 amounted to US$1,897,023 (2022: US$1,760,511), which was divided among the three elements as follows:

Name	Fixed remunerations					Variable remunerations					End-of-service award	**Aggregate amount** (Does not include expense allowance)	**Expenses allowance**
	Remunerations of the chairman and BOD	Total allowance for attending Board and committee meetings	Salaries	Others*	Total	Remunerations of the chairman and BOD	Bonus	Incentive plans	Others	Total			
First: Independent Directors:													
Dr. Khaled Kawan	50,000	4,500	-	9,407	63,907	-	-	-	-	-	-	-	-
Dr. Farouk El Okdah	75,833	3,000	-	13,191	92,024	-	-	-	-	-	-	-	-
Dr. Ibrahim El Danfour	135,000	22,500	-	95,566	253,066	-	-	-	-	-	-	-	-
Mr. Abdallah Al Humaidhi	133,750	12,000	-	46,114	191,864	-	-	-	-	-	-	-	-
Mr. Khalil Nooruddin	150,833	31,500	-	24,819	207,152	-	-	-	-	-	-	-	-
Second: Non-Executive Directors:													
Mr. Saddek Omar El Kaber	147,500	9,000	-	49,911	206,411	-	-	-	-	-	-	-	-
Mr. Mohammad Saleem	138,750	15,000	-	59,577	213,327	-	-	-	-	-	-	-	-
Mr. Ashraf Mukhtar	110,000	9,000	-	58,149	177,149	-	-	-	-	-	-	-	-
Dr. Tarik Yousef	137,917	30,000	-	112,768	280,685	-	-	-	-	-	-	-	-
Ms. Huda Al Mousa	127,083	28,500	-	55,854	211,437	-	-	-	-	-	-	-	-
Third: Executive Directors:													
-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	**1,206,667**	**165,000**	**-**	**525,356**	**1,897,023**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

*Travel and accommodation costs.

Note: The aggregate remuneration paid to the members of the Board Remuneration Committee with respect to their membership of such committee for the year 2023 was US$20,000, which sum is included in the Retainer fee (2022: US$20,000).

No Director owned or traded Bank ABC shares in 2023.

Board Committees

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

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

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

As at 31 December 2023, the current members of each of the Board committees were as set out in the following table:

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

Attendance of Directors

The details of Directors' attendance at Board and Board committee meetings for 2023 are set out in the following table:

Board Members	Board Meetings	The Board Risk Committee	The Corporate Governance Committee	The Group Board Audit Committee	The Board Remuneration Committee	The Group Board Compliance Committee	The Strategy Committee
Mr. Saddek Omar El Kaber Chairman	6(6)	N/A	N/A	N/A	N/A	N/A	1(1)
Mr. Mohammad Saleem Deputy Chairman	6(6)	4(4)	N/A	N/A	N/A	N/A	1(1)
Ms. Huda Al Mousa Director	6(6)	N/A	N/A	7(8)	N/A	4(4)	N/A
Mr. Abdallah Al Humaidhi Director	6(6)	2(4)	2(2)	N/A	2(2)	N/A	1(1)
Dr. Ibrahim El Danfour Director	6(6)	4(4)	N/A	8(8)	2(2)	4(4)	N/A
Dr. Tarik Yousef Director	6(6)	N/A	2(2)	8(8)	N/A	4(4)	1(1)
Mr. Ashraf Mukhtar Director	6(6)	N/A	N/A	N/A	N/A	N/A	N/A
Mr. Khalil Nooruddin Director	6(6)	4(4)	N/A	8(8)	N/A	4(4)	1(1)
Dr. Farouk El Okdah Director	2(6)[1]	N/A	1(2)[2]	N/A	1(2)[3]	N/A	N/A
Dr. Khaled Kawan Director	3(6)[4]	N/A	1(2)[5]	N/A	1(2)[6]	N/A	N/A

Figures in brackets indicate the maximum number of meetings during the period of membership. "N/A" indicates that a Director was not a member of the relevant Board committee during 2023.

[1] Resigned from the Board in July 2023
[2] Resigned from the Corporate Governance Committee in July 2023
[3] Resigned from the Board Remuneration Committee in July 2023
[4] Appointed to the Board in July 2023
[5] Appointed to the Corporate Governance Committee in November 2023
[6] Appointed to the Board Remuneration Committee in November 2023

Meeting Dates During 2023

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

The Board Strategy Committee meets as required to effectively discharge its responsibilities. In 2023, the Board Strategy Committee met once on 19-20 May, to review and approve Bank ABC's new three-year strategy.

The details of the dates of the Board and Board committee meetings in 2023 are set out below:

	Dates of Meetings
Board	12 February 2023 19 March 2023 21 May 2023 24 July 2023 12 and 13 November 2023 (two-day meeting) 10 December 2023
The Board Risk Committee	7 February 2023 2 May 2023 10 August 2023 31 October 2023
The Corporate Governance Committee	11 February 2023 9 December 2023
The Group Board Audit Committee	9 February 2023 16 March 2023 3 May 2023 15 June 2023 6 July 2023 7 August 2023 1 November 2023 7 December 2023
The Board Remuneration Committee	11 February 2023 9 December 2023
The Group Board Compliance Committee	9 February 2023 3 May 2023 7 August 2023 7 December 2023
The Strategy Committee	19 and 20 May 2023 (two-day meeting)

Internal Controls

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

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

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

- a well-defined management structure with clear authorities and delegation of responsibilities, documented procedures and authority levels to ensure that all material risks are properly assessed and controlled;
- internal control policies that require management to identify major risks, and to monitor the effectiveness of internal control procedures for adequate reporting and mitigation;
- a robust compliance function, exercised through Group Compliance reports to the Board Compliance Committee over Compliance Risks
- an internal audit function, exercised through Group Audit, which reports to the Group Audit Committee on the effectiveness of key internal controls in relation to the major risks faced by the Group, and conducts reviews of the efficacy of management oversight in regard to delegated responsibilities, as part of its regular audits of Group departments and business units;
- a comprehensive planning and budgeting process that delivers detailed annual financial forecasts and targets for Board approval;
- a Group Risk Management function, comprising overarching Head Office risk management committees and a dedicated risk management function supporting the Group.

Management Structure

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

Senior managers did not hold or trade any shares of Bank ABC during 2023.

The management organisation chart is included on pages 34-35.

Compliance

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

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

No Director or senior manager held or traded any shares of Bank ABC during 2023.

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

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

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

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

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

External Auditors

1. In 2023, the Bank ABC Group paid external auditors of the Parent US$1,991,667 in audit/assurance fees.
2. All non-assurance services were pre-approved by the Audit Committee of the Parent. The Bank ABC Group paid external auditors of the Parent US$797,279 for non-assurance services.
3. Ernst & Young have expressed their willingness to continue as the auditors of the Group for the year ending 31 December 2024. Bank ABC's management, based on evaluation of services provided by its external auditors, has recommended the appointment of Ernst & Young and a resolution proposing their reappointment was presented and approved at the annual general meeting held in March 2024.

Policy on the employment of relatives and approved persons

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

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

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

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

In January 2014, the CBB issued new rules relating to the remuneration of approved persons and material risk-takers and others, which were subsequently amended later during 2014 (the "CBB Sound Remuneration Practices"), with recent amendments via CBB HC Module in April 2023. Bank ABC has implemented remuneration policies and procedures to cover Bank ABC, ila Bank and Bank ABC Islamic, which are compliant with the CBB Remuneration Rules.

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

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

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

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

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

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

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

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

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

Bank ABC conducts business within a set of overarching goals and limits that, together, define its risk appetite and tolerance. This is approved by the Board Risk Committee as part of the Group Risk Strategy, which complements the budgets and strategic plans proposed by the business. The Bank's bonus pool is subject to potential adjustments based on the review of the RemCo, in the respect of the approved risk appetite, risk tolerance and risk policies during the fiscal year.

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

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

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

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

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

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

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

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

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

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

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

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

Pay Principles

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

Summary

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

Principle 1 | We pay for performance

Approach

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

Delivery

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

Principle 2 | We take risk seriously

Approach

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

Delivery

- Financial performance is not the sole measure of performance.
- Bonuses can be diminished (or nil) in light of excessive risk taking at Group, business or individual level.
- Bonus pools reflect the cost of capital required, and liquidity risk assumed, in the conduct of business.
- Bonus pools are adjusted for all types of risk, both tangible and intangible, which are reflected in both Group and business unit performance.
- Both quantitative and qualitative approaches are used to measure risk.
- Pay for material risk takers is significantly weighted towards variable pay.
- Material risk takers' performance is rewarded using a mix of cash and equity (or an equity-linked vehicle) to reflect their influence on the Bank's risk profile.
- Risk behaviours of material risk takers have a direct impact on variable pay outcomes.

Principle 3 | We think long-term

Approach

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

Delivery

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

Principle 4 | Pay decisions are governed effectively

Approach

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

Delivery

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

Principle 5 | Clear and simple

Approach

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

Delivery

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

Principle 6 | Competitive, sustainable and affordable

Approach

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

Delivery

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

Application of Pay Principles

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

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

- Approved persons in business lines: For the GCEO and the five most highly-paid business line employees, variable pay in 2019 was paid as 40% upfront cash, 10% in deferred cash and 50% in a deferred equity-linked vehicle. For the others in the same category, the pay split was 50% upfront cash, 10% upfront equity-linked vehicle, 40% deferred equity-linked vehicle.
- Approved persons in control functions: The variable pay for employees in this category was paid as 50% upfront cash, 10% upfront equity-linked vehicle, 40% deferred equity-linked vehicle.
- Other material risk takers: The variable pay for employees in this category was paid as 50% upfront cash, 10% upfront equity-linked vehicle, 40% deferred equity-linked vehicle.
- Other staff of Bahrain operations: The variable pay was paid fully in cash up front.

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

The Bank's remuneration mechanisms follow **a structure designed to encourage sound risk behaviours** and measures performance across several risk factors.

Remuneration

a) 2023

Employee Group	Number of Employees (as on 31/12/23)	Fixed Remuneration US$ million	Variable Remuneration US$ million
Approved Persons in Business Lines	12	9.9	7.4
Approved Persons in Control Functions	32	12.7	5.1
Other Material Risk Takers	78	18.5	7.9
Other staff of Bahrain operations not covered above	417	55.2	15.7
Total	**539**	**96.3**	**36.1**

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

	Variable Remuneration Details*			
Employee Group	Upfront Cash US$ million	Deferred Cash US$ million	Upfront Equity-Linked Instrument US$ million	Deferred Equity Linked Instrument US$ million
Approved Persons in Business Lines	3.2	0.5	0.2	3.5
Approved Persons in Control Functions	2.7	0.1	0.4	2.0
Other Material Risk Takers	4.7	-	0.6	2.6
Other staff of Bahrain operations not covered above	15.7	-	-	-
Total	**26.3**	**0.6**	**1.2**	**8.1**

*no guaranteed bonus was awarded in 2023

	Sign on Bonuses (Cash/Shares)		Severance Payments	
Employee Group	Number of employees	Amount US$ million	Number of employees	Amount US$ million
Approved Persons in Business Lines	-	-	-	-
Approved Persons in Control Functions	-	-	1	0.2
Other Material Risk Takers	-	-	3	0.9
Other staff of Bahrain operations not covered above	-	-	10	1.8
Total	**-**	**-**	**14**	**2.9**

		Shares		
Deferred Awards	Cash US$ million	Number	US$ million	Total US$ million
Opening Balance	1.2	11.4	13.9	15.1
Awarded during the period	0.6	7.3	9.2	9.8
Paid out/released through performance adjustments	(0.3)	(4.0)	(4.8)	(5.1)
Other adjustments	-	0.6	0.7	0.7
Closing balance	**1.5**	**15.3**	**19.0**	**20.5**

b) 2022

Employee Group	Number of Employees (as on 31/12/22)	Fixed Remuneration US$ million	Variable Remuneration US$ million
Approved Persons in Business Lines	14	9.8	5.4
Approved Persons in Control Functions	19	7.4	2.6
Other Material Risk Takers	62	14.4	5.4
Other staff of Bahrain operations not covered above	415	55.0	15.1
Total	**510**	**86.6**	**28.5**

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

	Variable Remuneration Details*			
Employee group	Upfront Cash US$ million	Deferred Cash US$ million	Upfront Equity-Linked Instrument US$ million	Deferred Equity Linked Instrument US$ million
Approved Persons in Business Lines	2.3	0.4	0.2	2.5
Approved Persons in Control Functions	1.4	-	0.2	1.0
Other Material Risk Takers	3.2	-	0.4	1.8
Other staff of Bahrain operations not covered above	14.3	-	0.1	0.6
Total	**21.3**	**0.4**	**1.0**	**5.9**

*no guaranteed bonus was awarded in 2022

	Sign on Bonuses (Cash/Shares)		Severance Payments	
Employee Group	Number of employees	Amount US$ million	Number of employees	Amount US$ million
Approved Persons in Business Lines	-	-	2	5.1
Approved Persons in Control Functions	-	-	2	0.6
Other Material Risk Takers	-	-	1	0.1
Other staff of Bahrain operations not covered above	-	-	4	1.1
Total	**-**	**-**	**9**	**6.9**

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

FINANCIAL RESULTS

Offering comprehensive Transaction Banking solutions across Trade Finance, Supply Chain Finance and Cash Management to facilitate trade flows across multiple markets in the MENA region and globally.

04

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

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C.R. No. 29977-1

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Arab Banking Corporation (B.S.C.) ("the Bank") and its subsidiaries (together "the Group"), which comprise the consolidated statement of financial position as at 31 December 2023 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 material accounting policy information.

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 2023, 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 2023. 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.

Impairment provision for loans and advances

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

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Impairment provision for loans and advances (continued)

Description of key audit matter	How the key audit matter was addressed in the audit
As at 31 December 2023, the Group's gross loans and advances amounted to US$19,744 million and the related ECL amounted to US$648 million, comprising US$213 million of ECL against Stage 1 and 2 exposures and US$435 million of ECL against exposures classified under Stage 3. The basis of calculation of ECL is presented in note 4 "summary of material accounting policies" and note 25 "risk management" to the consolidated financial statements. Material accounting judgements, estimates and assumptions and disclosures of loans and advances and credit risk are included in notes 4, 9 and 25 to the consolidated financial statements.	• For a sample of exposures, we performed procedures to evaluate: - Appropriateness of exposure at default, probability of default and loss given default (including collateral values used) in the calculation of ECL; - Timely identification of exposures with a significant increase in credit risk and appropriateness of the Group's staging; and - Appropriateness of the ECL calculation. • For forward looking information used by the Group's management in its ECL calculations, we held discussions with management and checked internal approvals by management for the economic outlook used for purposes of calculating ECL; • We considered the adequacy of the disclosures included in the consolidated financial statements in relation to impairment of loans and advances as required under IFRS. We also involved our specialists in performing the above procedures.

Other information included in the Group's 2023 annual report

Other information consists of the information included in the Group's 2023 annual report, other than the consolidated financial statements and our auditor's report thereon. The Board of Directors is responsible for the other information. Prior to the date of this auditors' report, we obtained the Directors report which forms part of the annual report, and the remaining sections of the annual report are expected to be made available to us after that date.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of the auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors for the consolidated financial statements

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

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

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

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

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

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

We communicate with the audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

Report on other legal and regulatory requirements

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

a) the Bank has maintained proper accounting records and the consolidated financial statements are in agreement therewith;

b) the financial information contained in the Directors report is consistent with the consolidated financial statements;

c) we are not aware of any violations of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 1 and applicable provisions of Volume 6) and CBB directives, regulations and associated resolutions, rules and procedures of the Bahrain Bourse or the terms of the Bank's memorandum and articles of association during the year ended 31 December 2023 that might have had a material adverse effect on the business of the Bank or on its consolidated financial position; and

d) satisfactory explanations and information have been provided to us by management in response to all our requests.

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

Ernst + Young

Partner's registration no: 244
11 February 2024
Manama, Kingdom of Bahrain

\ 31 December 2023 (All figures in US$ Million)

CONSOLIDATED STATEMENT OF **FINANCIAL POSITION**

	Note	2023	2022
ASSETS			
Liquid funds	6	**4,466**	2,886
Trading securities	7	**1,070**	590
Placements with banks and other financial institutions		**2,231**	2,226
Securities bought under repurchase agreements	27	**2,191**	1,386
Non-trading investments	8	**11,368**	8,080
Loans and advances	9	**19,096**	18,190
Other assets	11	**3,210**	3,016
Premises and equipment		**260**	265
TOTAL ASSETS		**43,892**	36,639
LIABILITIES			
Deposits from customers		**23,705**	21,396
Deposits from banks		**4,135**	3,764
Certificates of deposit		**142**	435
Securities sold under repurchase agreements	27	**6,933**	2,878
Taxation	12	**146**	84
Other liabilities	13	**2,724**	2,264
Borrowings	14	**1,303**	1,297
TOTAL LIABILITIES		**39,088**	32,118
EQUITY	15		
Share capital		**3,110**	3,110
Treasury shares		**(6)**	(6)
Statutory reserve		**569**	545
Retained earnings		**1,283**	1,125
Other reserves		**(1,046)**	(1,069)
EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT		**3,910**	3,705
Additional / perpetual tier-1 capital	16	**390**	390
EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT AND PERPETUAL INSTRUMENT HOLDERS		**4,300**	4,095
Non-controlling interests		**504**	426
Total equity		**4,804**	4,521
TOTAL LIABILITIES AND EQUITY		**43,892**	36,639

The consolidated financial statements were authorised for issue by the Board of Directors on 11 February 2024 and signed on their behalf by the Chairman, Deputy Chairman and the Group Chief Executive Officer.

Saddek El Kaber
Chairman

Mohammad Abdulredha Saleem
Deputy Chairman

Sael Al Waary
Group Chief Executive Officer

\ 31 December 2023 (All figures in US$ Million)

CONSOLIDATED STATEMENT OF **PROFIT OR LOSS**

	Note	2023	2022
OPERATING INCOME			
Interest and similar income	17	**3,052**	2,039
Interest and similar expense	18	**(2,117)**	(1,253)
Net interest income		**935**	786
Other operating income	19	**344**	315
Total operating income		**1,279**	1,101
OPERATING EXPENSES			
Staff		**462**	426
Premises and equipment		**56**	54
Other		**246**	210
Total operating expenses		**764**	690
NET OPERATING PROFIT BEFORE CREDIT LOSS EXPENSE AND TAXATION		**515**	411
Credit loss expense	10	**(145)**	(119)
PROFIT BEFORE TAXATION		**370**	292
Taxation on foreign operations	12	**(74)**	(83)
PROFIT FOR THE YEAR		**296**	209
Profit attributable to non-controlling interests		**(61)**	(55)
PROFIT ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT		**235**	154
BASIC AND DILUTED EARNINGS PER SHARE (EXPRESSED IN US$)	32	**0.07**	0.05

Saddek El Kaber
Chairman

Mohammad Abdulredha Saleem
Deputy Chairman

Sael Al Waary
Group Chief Executive Officer

\ 31 December 2023 (All figures in US$ Million)

CONSOLIDATED STATEMENT OF **COMPREHENSIVE INCOME**

	Note	2023	2022
PROFIT FOR THE YEAR		**296**	209
Other comprehensive income (loss):			
Other comprehensive income (loss) that will be reclassified			
(or recycled) to profit or loss in subsequent periods:			
Foreign currency translation:			
Unrealised gain (loss) on exchange translation in foreign subsidiaries		**18**	(139)
Debt instruments at FVOCI:			
Net change in fair value during the year	15 (e)	**31**	(85)
		49	(224)
Other comprehensive income (loss) that will not be reclassified			
(or recycled) to profit or loss in subsequent periods:			
Net change in fair value of FVOCI equity securities during the year		**4**	(2)
Net change in pension fund reserve		**-**	(1)
		4	(3)
Other comprehensive income (loss) for the year		**53**	(227)
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR		**349**	(18)
Attributable to:			
Shareholders of the parent		**258**	(98)
Non-controlling interests		**91**	80
		349	(18)

\ 31 December 2023 (All figures in US$ Million)

CONSOLIDATED STATEMENT OF **CASH FLOWS**

	Note	2023	2022
OPERATING ACTIVITIES			
Profit for the year		**296**	209
Adjustments for:			
Credit loss expense	10	**145**	119
Depreciation and amortisation		**65**	63
Gain on disposal of non-trading debt investments - net	19	**(14)**	(16)
Changes in operating assets and liabilities:			
Treasury bills and other eligible bills		**38**	3
Trading securities		**(423)**	377
Placements with banks and other financial institutions		**(129)**	278
Securities bought under repurchase agreements		**(739)**	(677)
Loans and advances		**(611)**	(2,062)
Other assets		**(97)**	(762)
Deposits from customers*		**2,138**	2,157
Deposits from banks		**231**	(618)
Securities sold under repurchase agreements		**4,027**	861
Other liabilities		**433**	742
Exchange rate changes and non-cash movements		**20**	261
Net cash from operating activities		**5,380**	935
INVESTING ACTIVITIES			
Purchase of non-trading investments		**(12,953)**	(5,322)
Sale and redemption of non-trading investments		**9,629**	4,942
Purchase of premises and equipment		**(55)**	(36)
Sale of premises and equipment		**8**	6
Investment in subsidiaries - net		**3**	(13)
Net cash used in investing activities		**(3,368)**	(423)
FINANCING ACTIVITIES			
Issue of certificates of deposit		**442**	294
Repayment of certificates of deposit		**(741)**	(480)
Issue of borrowings		**163**	83
Repayment of borrowings		**(161)**	(3)
Interest paid on additional / perpetual tier-1 capital instruments		**(18)**	(9)
Dividend paid to the Group's shareholders		**(46)**	(31)
Dividend paid to non-controlling interests		**(28)**	(23)
Net cash used in financing activities		**(389)**	(169)
Net change in cash and cash equivalents		**1,623**	343
Effect of exchange rate changes on cash and cash equivalents		**(5)**	(81)
Cash and cash equivalents at beginning of the year		**2,848**	2,586
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	6	**4,466**	2,848

*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 ended 31 December 2022.

\ 31 December 2023 (All figures in US$ Million)

CONSOLIDATED STATEMENT OF **CHANGES IN EQUITY**

	Equity attributable to the shareholders of the parent									Additional / perpetual tier - 1 capital	Non-controlling interests	Total equity
						Other reserves						
	Share capital	Treasury shares	Statutory reserve	Retained earnings*	General reserve	Foreign exchange translation adjustments	Cumulative changes in fair value	Pension fund reserve	Total			
At 31 December 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
Profit for the year	-	-	-	235	-	-	-	-	235	-	61	296
Other comprehensive (loss) income for the year	-	-	-	-	-	(12)	35	-	23	-	30	53
Total comprehensive income (loss) for the year	-	-	-	235	-	(12)	35	-	258	-	91	349
Transfers during the year	-	-	24	(24)	-	-	-	-	-	-	-	-
Dividend (Note 32)	-	-	-	(46)	-	-	-	-	(46)	-	(28)	(74)
Interest paid on additional / perpetual tier-1 capital	-	-	-	(18)	-	-	-	-	(18)	-	-	(18)
Decrease in ownership of a subsidiary	-	-	-	1	-	-	-	-	1	-	(1)	-
Other equity movements in subsidiaries	-	-	-	10	-	-	-	-	10	-	16	26
At 31 December 2023	**3,110**	**(6)**	**569**	**1,283**	**100**	**(1,126)**	**13**	**(33)**	**3,910**	**390**	**504**	**4,804**

* Retained earnings include non-distributable reserves arising from consolidation of subsidiaries amounting to US$555 million (2022: US$517 million).

NOTES TO THE CONSOLIDATED **FINANCIAL STATEMENTS**

31 December 2023 (All figures in US$ Million)

1 Incorporation and activities

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

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

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

2 Basis of preparation

2.1 Statement of compliance

The consolidated financial statements of the Group are prepared in accordance with International Financial Reporting Standards ("IFRS") issued by International Accounting Standard Board ("IASB") and the relevant provisions of the Bahrain Commercial Companies Law and the Central Bank of Bahrain and Financial Institutions Law and the CBB Rulebook (Volume 1 and applicable provisions of Volume 6) and CBB directives.

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 2023. Control is achieved when the Bank has:

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

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

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

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

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

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

3 New and amended standards and interpretations

3.1 Standards effective for the year

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in previous year, except for the adoption of the new and amended standards and interpretations, applicable to the Group, and which are effective for annual periods beginning on or after 1 January 2023.

These amendments had no impact on the consolidated financial statements of the Group as it is not a first-time adopter.

International Tax Reform—Pillar Two Model Rules – Amendments to IAS 12

The amendments to IAS 12 have been introduced in response to the OECD's BEPS Pillar Two rules and include:

- A mandatory temporary exception to the recognition and disclosure of deferred taxes arising from the jurisdictional implementation of the Pillar Two model rules; and
- Disclosure requirements for affected entities to help users of the financial statements better understand an entity's exposure to Pillar Two income taxes arising from that legislation, particularly before its effective date.

In periods in which Pillar Two legislation is (substantively) enacted but not yet effective, the amendment requires disclosure of known or reasonably estimable information that helps users of financial statements understand the entity's exposure arising from Pillar Two income taxes including both qualitative and quantitative information about its exposure to Pillar Two income taxes at the end of the reporting period. For example:

a) Qualitative information such as how an entity is affected by Pillar Two legislation and the main jurisdictions in which exposures to Pillar Two income taxes might exist, and

b) Quantitative information such as:

- An indication of the proportion of an entity's profits that might be subject to Pillar Two income taxes and the average effective tax rate applicable to those profits; or
- An indication of how the entity's overall effective tax rate would have changed if Pillar Two legislation had been effective.

Once the legislation is effective, additional disclosures are required for the current tax expense related to Pillar Two income taxes. The requirements apply for annual reporting periods beginning on or after 1 January 2023, but not for any interim periods ending on or before 31 December 2023.

The Group has reviewed its corporate structure in light of the introduction of Pillar Two Model Rules in the various jurisdictions in which it operates. The Group has determined that it will be subject to Pillar Two taxes once the legislation becomes effective since its effective tax rate is below 15% in some of the jurisdictions in which it operates.

IAS 12 does not offer specific guidance on accounting for Pillar Two income taxes. As noted in the IASB's Exposure Draft International Tax Reform—Pillar Two Model Rules (Proposed amendments to IAS 12), it is unclear whether the Pillar Two model rules create additional temporary differences, whether to remeasure deferred taxes for the Pillar Two model rules and which tax rate to use to measure deferred taxes. Furthermore, the tax rate that will apply to an entity's excess profit in future periods depends on a number of factors that are difficult, if not impossible, to forecast reliably.

The Group has, therefore, applied judgement and developed an accounting policy, in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, and concluded that not accounting for deferred taxes related to Pillar Two income taxes would result in the most relevant and reliable information.

Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2

The amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements provide guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments have had an impact on the Group's disclosures of accounting policies, but not on the measurement, recognition or presentation of any items in the Group's financial statements.

Definition of Accounting Estimates - Amendments to IAS 8

The amendments to IAS 8 clarify the distinction between changes in accounting estimates, changes in accounting policies and the correction of errors. They also clarify how entities use measurement techniques and inputs to develop accounting estimates. The amendments had no impact on the Group's consolidated financial statements.

Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12

The amendments to IAS 12 Income Tax narrow the scope of the initial recognition exception, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences such as leases and decommissioning liabilities. The amendments had no impact on the Group's consolidated financial statements.

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.

Amendments to IFRS 16: Lease Liability in a Sale and Leaseback: effective for annual reporting periods beginning on or after 1 January 2024;

Amendments to IAS 1: Classification of Liabilities as Current or Non-current : effective for annual reporting periods beginning on or after 1 January 2024;

4 Summary of material 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.

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

Right-of-use assets

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

Lease liabilities

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

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

The Group discloses lease liabilities under other liabilities.

Short-term leases and leases of low-value assets

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

4.9 Collateral repossessed

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

4.10 Repurchase and reverse repurchase agreements

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

4.11 Employee pension and other end of service benefits

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

4.12 Recognition of income and expenses

4.12.1 The effective interest rate (EIR) method

Under IFRS 9 Financial instruments (IFRS 9), interest income is recorded using the EIR method for all financial assets measured at amortised cost, interest rate derivatives for which hedge accounting is applied and the related amortisation/recycling effect of hedge accounting. Interest income on interest bearing financial 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 IBOR reform Phase 2 amendments allow 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.

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 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.

4.13 Treasury shares

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

4.14 Financial instruments

4.14.1 Date of recognition

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

The Group recognises deposits from customers and banks when funds are received by the Group.

4.14.2 Initial measurement

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments, as described in notes 4.15 and 4.16.
At initial recognition, the Group measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss (FVTPL), transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at FVTPL are expensed in profit or loss. Immediately after initial recognition, an expected credit loss (ECL) is recognised for financial assets measured at amortised cost and investments in debt instruments measured at FVOCI, which results in an accounting loss being recognised in the consolidated statement of profit or loss when an asset is newly originated. When the fair value of financial assets and liabilities at initial recognition differs from the transaction price, the Group accounts for the Day 1 profit or loss, as described below.

4.14.3 Day 1 profit or loss

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

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

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

4.15 Financial assets

4.15.1 Debt type instruments - classification and subsequent measurement

The classification requirements for financial assets is as below.

Classification and subsequent measurement of debt instruments depend on:

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

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

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

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

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

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

4.15.2 Business model

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

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

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

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

4.15.3 SPPI test

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

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

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

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

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

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

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

4.15.4 Reclassification

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

4.15.5 Equity type instruments - classification and subsequent measurement

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

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

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

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

4.15.6 Modified or forbearance of loans

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

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

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

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

- All of its facilities has to be considered performing;
- Regular payments of more than an insignificant amount of principal or interest have been made during most of the period when asset has been classified as forborne; and
- The customer does not have any contract that is more than 30 days past due.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Group recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in consolidated profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original EIR (or credit-adjusted EIR for purchased or originated credit-impaired financial assets).

Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms. It is the Group's policy to monitor forborne loans to help ensure that future payments continue to be likely to occur. Derecognition decisions and classification between Stage 2 and Stage 3 are determined on a case-by-case basis or based on SICR criteria. If these procedures identify a loss in relation to a loan, it is disclosed and managed as an impaired Stage 3 forborne asset until it is collected or written off or is transferred back to Stage 2.

4.15.7 Derecognition other than on a modification

Financial assets, or a portion thereof, are derecognised when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) the Group transfers substantially all the risks and rewards of ownership, or (ii) the Group neither transfers nor retains substantially all the risks and rewards of ownership and the Group has not retained control.

The Group enters into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards. These transactions are accounted for as 'pass through' transfers that result in derecognition if the Group:

(i) Has no obligation to make payments unless it collects equivalent amounts from the assets;

(ii) Is prohibited from selling or pledging the assets; and

(iii) Has an obligation to remit any cash it collects from the assets without material delay.

Collateral (shares and bonds) furnished by the Group under standard repurchase agreements and securities lending and borrowing transactions are not derecognised because the Group retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met.

4.15.8 Derecognition of financial instruments in the context of IBOR reform

As explained in note 4.15.6 and 4.16.2, the Group derecognises financial assets and financial liabilities if there has been a substantial modification of their terms and conditions. In the context of IBOR reform, substantially all of the financial instruments have already been amended during 2023 as they transitioned from IBORs to ARRs. Only those instruments that reference synthetic LIBORs or local IBORs will be amended in the future as they complete the transition from IBORs to ARRs. In addition to the interest rate of a financial instrument changing, there may be other changes made to the terms of the financial instrument at the time of transition.

For financial instruments measured at amortised cost, the Group applies the practical expedient as described in note 4.12, to reflect the change in the referenced interest rate from an IBOR to an RFR. 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.

4.17 Financial instruments measured using amortised cost measurement and lease receivables

In the context of IBOR reform, the Group's assessment of whether a change to an amortised cost financial instrument is substantial, is made after applying the practical expedient introduced by IBOR reform Phase 2. This requires the transition from an IBOR to an RFR to be treated as a change to a floating interest rate, as described in Note 4.12.1.

4.18 Impairment of financial assets

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

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

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

Measurement of ECL

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

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: estimates the expected portion of the loan commitment that are drawn down over the expected life of the loan commitment; and calculates the present value of cash shortfalls between the contractual cash flows that are due to the entity if the holder of the loan commitment draws down that expected portion of the loan and the cash flows that the entity expects to receive if that expected portion of the loan is drawn down; and
- financial guarantee contracts: estimates the ECLs based on the present value of the expected payments to reimburse the holder for a credit

loss that it incurs less any amounts that the guarantor expects to receive from the holder, the debtor or any other party. If a loan is fully guaranteed, the ECL estimate for the financial guarantee contract would be the same as the estimated cash shortfall estimate for the loan subject to the guarantee.

For the purposes of calculation of ECL, the Group categorises its FVOCI and amortised cost 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. 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.

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 among others:

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

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

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

Other than originated credit-impaired loans, loans are transferred out of Stage 3 if they no longer meet the criteria of credit-impaired after a cooling-off period of 12 months.

Purchased or originated credit impaired ('POCI')

For POCI financial assets, the Group only recognises the lifetime ECL and any cumulative changes since initial recognition are recorded in the ECL allowance. There are no migration from POCI to other Stages.

Forward looking information

The Group incorporates forward-looking information in the measurement of ECLs.

The Group considers forward-looking information such as macroeconomic factors (e.g., GDP growth, oil prices, country's equity indices and unemployment rates) and economic forecasts. To evaluate a range of possible outcomes, the Group formulates three scenarios: a base case, an upward and a downward scenario. The base case scenario represents the more likely outcome from Moody's macro-economic models. For each scenario, the Group derives an ECL and apply a probability weighted approach to determine the impairment allowance.

The Group also uses published external information from International Monetary Fund (IMF).

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the consolidated statement of financial position as follows:

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: as a provision under other liabilities; and
- debt instruments measured at FVOCI: The ECL for debt instruments measured at FVOCI do 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 assets were measured at amortised cost is recognised in OCI as an accumulated impairment amount, with a corresponding charge to the consolidated statement of profit or loss. The accumulated loss recognised in OCI is recycled to the consolidated statement of profit and loss upon derecognition of the assets.

Limitation of estimation techniques

The models applied by the Group may not always capture all characteristics of the market at a point in time as they cannot be recalibrated at the same pace as changes in market conditions. Interim adjustments are expected to be made until the base models are validated. Although the Group uses data that is as current as possible, models used to calculate ECLs are based on data that is up to date except for certain macro-economic factors for which the data is updated once it is available.

Experienced credit adjustment

The Group's ECL allowance methodology requires the Group to use its experienced credit judgement to incorporate the estimated impact of factors not captured in the modelled ECL results, in all reporting periods. Refer note 25.4.1 for additional details.

4.19 Impairment of non-financial assets

"At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that is largely independent of the cash inflows of others assets or cash generating units (CGU). Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or CGU is the greater of its value in use an fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recogised if the carrying amount of an asset or CGU exceeds its recoverable amount. Impairment losses are recognised in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to CGU, and then to reduce the carrying amounts of others assets in the CGU on pro-rata basis. An impairment loss on goodwill is not reversed. For, other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

4.20 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the consolidated statement of profit or loss net of any reimbursement.

4.21 Financial guarantee contracts and loan commitments

The Group issues financial guarantees, letters of credit and loan commitments.

Financial guarantees are initially recognised in the consolidated financial statements at fair value, being the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the consolidated statement of profit or loss, and an ECL provision.

The premium received is recognised in the consolidated statement of profit or loss in 'Other operating income' on a straight line basis over the life of the guarantee.

Undrawn loan commitments and letters of credits are commitments under which, over the duration of the commitment, the Group is required to provide a loan with pre-specified terms to the customer.

The nominal contractual value of financial guarantees, letters of credit and undrawn loan commitments, where the loan agreed to be provided is on market terms, are not recorded in the consolidated statement of financial position.

An ECL is calculated and recorded for these in a similar manner as for debt type financial instruments as explained in note 4.18.

4.22 Derivatives and hedging activities

The Group has adopted IFRS 9 on its effective date of 1 January 2018 and applies the same for hedge accounting.

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided that, in the case of a non-financial variable, it is not specific to a party to the contract (i.e., the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts expected to have a similar response to changes in market factors.
- It is settled at a future date.

The Group enters into derivative transactions with various counterparties. These include interest rate swaps, futures, credit default swaps, cross-currency swaps, forward foreign exchange contracts and options on interest rates, foreign currencies and equities. Derivatives are initially recognised at fair value on the date on which the derivative contract is entered into and are subsequently remeasured at fair value. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

All derivatives are measured at FVTPL except for when the derivative is designated and qualifies as a hedging instrument, and if so, the nature of the item being hedged determines the method of recognising the resulting gain or loss. The Group designates certain derivatives as either:

(a) Hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedges);

(b) Hedges of highly probable future cash flows attributable to a recognised asset or liability (cash flow hedges); or

(c) Hedges of a net investment in a foreign operation (net investment hedges).

The Group documents, at the inception of the hedge, the relationship between hedged items and hedging instruments, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

(a) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the consolidated statement of profit or loss, together with changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest rate method is used is amortised to profit or loss over the period to maturity and recorded as net interest income.

(b) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the consolidated statement of profit or loss.

Amounts accumulated in equity are recycled to the consolidated statement of profit or loss in the periods when the hedged item affects profit or loss. They are recorded in the income or expense lines in which the revenue or expense associated with the related hedged item is reported.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised in the periods when the hedged item affects profit or loss. When a forecast transaction is no longer expected to occur (for example, the recognised hedged asset is disposed of), the cumulative gain or loss previously recognised in other comprehensive income is immediately reclassified to the consolidated statement of profit or loss.

(c) Net investment hedge

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised directly in other comprehensive income; the gain or loss relating to the ineffective portion is recognised immediately in the consolidated statement of profit or loss. Gains and losses accumulated in equity are included in the consolidated statement of profit or loss when the foreign operation is disposed of as part of the gain or loss on the disposal.

4.23 Fair value measurement

The Group measures financial instruments at fair value at each reporting date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interests.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 valuation: Directly observable quotes for the same instrument.
- Level 2 valuation: Directly observable proxies for the same instrument accessible at valuation date.
- Level 3 valuation: Derived proxies (interpolation of proxies) for similar instruments that have not been observed.

For assets and liabilities that are recognised in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

4.24 Taxation on foreign operations

There is no tax on corporate income of the Bank in the Kingdom of Bahrain. Taxation on foreign operations is provided for in accordance with the fiscal regulations applicable in each location. No provision is made for any liability that may arise in the event of distribution of the reserves of subsidiaries. A substantial portion of such reserves is required to be retained to meet local regulatory requirements.

Current tax

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date in the countries where the Group operates and generates taxable income.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the consolidated statement of profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date. Deferred tax liabilities are recognised for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

In assessing the recoverability of deferred tax assets, the Group relies on forecasts used for its budgeting purposes and in other management reports.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date. Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in OCI or directly in equity.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognised subsequently if new information about facts and circumstances change. The adjustment is either treated as a reduction in goodwill (as long as it does not exceed goodwill) if it was incurred during the measurement period or recognised in profit or loss.

The Group offsets deferred tax assets and deferred tax liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

4.25 Foreign currencies

Transactions and balances

Transactions in foreign currencies are initially recorded at the spot rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities in foreign currencies are translated into functional currency at the rates of exchange ruling at the reporting date. Any gains or losses are taken to the consolidated statement of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in OCI or profit or loss are also recognised in OCI or profit or loss, respectively).

Group companies

As at the reporting date, the assets and liabilities of foreign operations are translated into the Bank's functional currency at rates of exchange ruling at the reporting date. Income and expense items are translated at average exchange rates for the year. Exchange differences arising on translation are recorded in the consolidated statement of comprehensive income under unrealised gain or loss on exchange translation in foreign subsidiaries. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the consolidated statement of profit or loss.

4.26 Trade and settlement date accounting

All "regular way" purchases and sales of financial assets are recognised on the trade date, i.e. the date that the Group commits to purchase or sell the asset, except for loans and advances to customers, deposits to customers and banks.

4.27 Fiduciary assets

Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and, accordingly, are not included in the consolidated statement of financial position.

4.28 Offsetting

Financial assets and financial liabilities are only offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognised amounts and the Group intends to settle on a net basis, or to realise the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the consolidated statement of financial position.

4.29 Borrowings

Issued financial instruments (or their components) are classified as liabilities under 'Borrowings', where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder.

Borrowings are initially measured at fair value plus transaction costs. After initial measurement, the borrowings are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective interest rate.

4.30 Write-off

Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to consolidated statement of profit and loss.

4.31 Collateral valuation

To mitigate its credit risks on financial assets, the Group seeks to use collateral, where possible. The collateral comes in various forms, such as cash, securities, letters of credit/financial guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. Collateral, unless repossessed, is not recorded on the Group's consolidated statement of financial position. However, the fair value of collateral affects the calculation of ECLs. It is generally assessed, at a minimum, at inception and re-assessed on a periodic basis. However, some collateral, for example, cash or securities relating to margining requirements, is valued daily.

To the extent possible, the Group uses active market data for valuing financial assets held as collateral. Other financial assets which do not have readily determinable market values are valued using internal valuation techniques as appropriate. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as mortgage brokers, or based on housing price indices.

4.32 Business combination and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in relevant line items in the consolidated statement of profit or loss.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed). If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss. After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Where goodwill has been allocated to a cash-generating unit (CGU) and part of the business within that unit is disposed of, the goodwill associated with the disposed business operation is included in the carrying amount of the business operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

Impairment of non-financial assets

Impairment exists when the carrying value of an asset or CGU exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs of disposing of the asset. The value in use calculation is based on a DCF model. The cash flows are derived from the 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 Material accounting judgements, estimates and assumptions

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures, as well as the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. In the process of applying the Group's accounting policies, management has made the following judgements and assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Existing circumstances and assumptions about future developments may change due to circumstances beyond the Group's control and are reflected in the assumptions if and when they occur. Items with the most significant effect on the amounts recognised in the consolidated financial statements with substantial management judgement and/or estimates are collated below with respect to judgements/estimates involved.

Going concern

The Bank's management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on the going concern basis.

Measurement of the expected credit loss allowance (ECL)

The measurement of the ECL for financial assets subject to credit risk measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions, credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses), estimation of the amount and timing of the future cash flows and collateral values. These estimates are driven by several factors, changes in which can result in different levels of allowances.

The Group's ECL calculation are outputs of complex models with several 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);

4.33 Material accounting judgements, estimates and assumptions

- 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 shareholders' equity.

31 December 2023 (All figures in US$ Million)

5 Classification of financial instruments

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

At 31 December 2023	FVTPL	FVOCI	Amortised cost	Total
ASSETS				
Liquid funds	-	-	4,466	4,466
Trading securities	1,070	-	-	1,070
Placements with banks and other financial institutions	-	-	2,231	2,231
Securities bought under repurchase agreements	-	-	2,191	2,191
Non-trading investments	-	5,405	5,963	11,368
Loans and advances	39	754	18,303	19,096
Other assets	952	-	1,681	2,633
	2,061	6,159	34,835	43,055
LIABILITIES				
Deposits from customers	-	-	23,705	23,705
Deposits from banks	-	-	4,135	4,135
Certificates of deposit	-	-	142	142
Securities sold under repurchase agreements	-	-	6,933	6,933
Other liabilities	779	-	1,851	2,630
Borrowings	-	-	1,303	1,303
	779	-	38,069	38,848

At 31 December 2022	FVTPL	FVOCI	Amortised cost	Total
ASSETS				
Liquid funds	-	-	2,886	2,886
Trading securities	590	-	-	590
Placements with banks and other financial institutions	-	-	2,226	2,226
Securities bought under repurchase agreements	-	-	1,386	1,386
Non-trading investments	-	6,683	1,397	8,080
Loans and advances	95	631	17,464	18,190
Other assets	968	-	1,570	2,538
	1,653	7,314	26,929	35,896
LIABILITIES				
Deposits from customers	-	-	21,396	21,396
Deposits from banks	-	-	3,764	3,764
Certificates of deposit	-	-	435	435
Securities sold under repurchase agreements	-	-	2,878	2,878
Other liabilities	809	-	1,356	2,165
Borrowings	-	-	1,297	1,297
	809	-	31,126	31,935

6 Liquid funds

	2023	2022
Cash on hand	13	80
Balances with banks	562	516
Deposits with central banks	3,630	2,062
Treasury bills and other eligible bills with original maturities of three months or less	261	190
Cash and cash equivalents	4,466	2,848
Treasury bills and other eligible bills with original maturities of more than three months	-	38
	4,466	2,886
ECL allowances	-	-
	4,466	2,886

7 Trading securities

	2023	2022
Debt instruments	1,060	576
Equity instruments	10	14
	1,070	590

31 December 2023 (All figures in US$ Million)

8 Non-trading investments

	2023	2022
Debt securities		
At amortised cost	5,977	1,397
At FVOCI	5,458	6,755
	11,435	8,152
ECL allowances	(88)	(87)
Debt securities - net	11,347	8,065
Equity securities		
At FVOCI	21	15
	11,368	8,080

The external ratings distribution of non-trading debt investments are given below:

	2023	2022
AAA rated debt securities	5,466	1,400
AA to A rated debt securities	1,646	2,011
Other investment grade debt securities	1,130	1,365
Other non-investment grade debt securities	2,818	3,116
Unrated debt securities	375	260
	11,435	8,152
ECL allowances	(88)	(87)
	11,347	8,065

Following are the stage wise break-up of debt securities as at 31 December 2023 and 31 December 2022:

	2023			
	Stage 1	Stage 2	Stage 3	Total
Debt securities, gross	11,361	-	74	11,435
ECL allowances	(14)	-	(74)	(88)
	11,347	-	-	11,347

	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

An analysis of movement in the ECL allowances during the years ended 31 December 2023 and 31 December 2022 are as follows:

	2023			
	Stage 1	Stage 2	Stage 3	Total
As at 1 January	13	-	74	87
Additions	1	-	-	1
Recoveries / write back	-	-	-	-
Charge for the year - net	4	-	-	4
Amounts written-off	-	-	-	-
Exchange adjustments and other movements	(3)	-	-	(3)
As at 31 December	14	-	74	88

	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)
Charge for the year - net	-	-	(10)	(10)
Exchange adjustments and other movements	(1)	-	-	(1)
As at 31 December	13	-	74	87

No interest income was received during the year on impaired investments classified under Stage 3 (2022: nil).

31 December 2023 (All figures in US$ Million)

9 Loans and advances

Below is the classification of loans and advances by measurement:

	2023				
	Stage 1	**Stage 2**	**Stage 3**	**POCI**	**Total**
At FVTPL					
- Wholesale	**39**	**-**	**-**	**-**	**39**
At FVOCI					
- Wholesale	**754**	**-**	**-**	**-**	**754**
At Amortised cost					
- Wholesale	**16,574**	**755**	**655**	**-**	**17,984**
- Retail	**852**	**60**	**55**	**-**	**967**
	18,219	**815**	**710**	**-**	**19,744**
ECL allowances	**(139)**	**(74)**	**(435)**	**-**	**(648)**
	18,080	**741**	**275**	**-**	**19,096**

	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	611	17,214
- Retail	838	41	44	44	923
	17,466	742	655	655	18,863
ECL allowances	(139)	(71)	(463)	(463)	(673)
	17,327	671	192	192	18,190

Below is the classification of loans and advances by industrial sector:

	Gross loans		ECL allowances		Net loans	
	2023	2022	**2023**	2022	**2023**	2022
Financial services	**4,057**	3,729	**21**	20	**4,036**	3,709
Government	**917**	1,220	**8**	7	**909**	1,213
Other services	**1,748**	1,549	**257**	285	**1,491**	1,264
Manufacturing	**2,876**	2,751	**123**	99	**2,753**	2,652
Agriculture, fishing and forestry	**1,681**	1,408	**25**	13	**1,656**	1,395
Construction	**2,095**	1,863	**61**	74	**2,034**	1,789
Utilities	**772**	627	**6**	5	**766**	622
Energy	**802**	1,004	**3**	3	**799**	1,001
Distribution	**1,074**	1,059	**5**	5	**1,069**	1,054
Personal /consumer finance	**1,500**	1,496	**51**	44	**1,449**	1,452
Transport	**542**	632	**22**	30	**520**	602
Commercial real estate financing	**492**	331	**21**	10	**471**	321
Technology, media and telecommunications	**440**	447	**3**	22	**437**	425
Trade	**287**	370	**23**	41	**264**	329
Retailers	**330**	250	**1**	-	**329**	250
Mining and quarrying	**128**	90	**18**	15	**110**	75
Residential mortgage	**3**	37	**-**	-	**3**	37
	19,744	18,863	**648**	673	**19,096**	18,190

An analysis of movement in the ECL allowances during the years ended 31 December 2023 and 31 December 2022 are as follows:

	2023			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
As at 1 January	**139**	**71**	**463**	**673**
Transfers to stage 1	**3**	**(3)**	**-**	**-**
Transfers to stage 2	**(2)**	**2**	**-**	**-**
Transfers to stage 3	**(1)**	**(15)**	**16**	**-**
Net transfers between stages	**-**	**(16)**	**16**	**-**
Net remeasurements / additions	**(14)**	**15**	**193**	**194**
Recoveries / write back	**-**	**-**	**(54)**	**(54)**
Charge for the year - net	**(14)**	**15**	**139**	**140**
Amounts written-off	**-**	**-**	**(205)**	**(205)**
Exchange adjustments and other movements	**14**	**4**	**22**	**40**
As at 31 December	**139**	**74**	**435**	**648**

	2022			
	Stage 1	Stage 2	Stage 3	Total
As at 1 January	109	89	493	691
Transfers to stage 1	7	(7)	-	-
Transfers to stage 2	(2)	2	-	-
Transfers to stage 3	-	(23)	23	-
Net transfers between stages	5	(28)	23	-
Net remeasurements / 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)
Exchange adjustments and other movements	(2)	2	18	18
As at 31 December	139	71	463	673

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 2023 amounts to US$111 million (2022: US$59 million).

At 31 December 2023, interest in suspense on impaired loans under Stage 3 amounts to US$97 million (2022: US$99 million).

31 December 2023 (All figures in US$ Million)

10 Credit loss expense

	2023			
	Stage 1	Stage 2	Stage 3	Total
Non-trading debt investments (note 8)	4	-	-	4
Loans and advances (note 9)	(14)	15	139	140
Credit commitments and contingent items (note 22)	2	3	(2)	3
Other financial assets	(1)	(5)	4	(2)
	(9)	13	141	145

	2022			
	Stage 1	Stage 2	Stage 3	Total
Non-trading debt investments (note 8)	(5)	-	(2)	(7)
Loans and advances (note 9)	27	10	82	119
Credit commitments and contingent items (note 22)	1	-	(1)	-
Other financial assets	-	1	6	7
	23	11	85	119

11 Other Assets

	2023	2022
Interest receivable	581	460
Goodwill (note 35)	41	51
Right-of-use assets	57	52
Trade receivables	341	340
Positive fair value of derivatives (note 21)	952	968
Assets acquired on debt settlement	37	40
Deferred tax assets	282	220
Bank owned life insurance	40	40
Margin dealing accounts	247	133
Staff loans	39	40
Advances and prepayments	200	154
Investments in associates	33	33
IT projects work-in-progress	109	62
Others	251	423
	3,210	3,016

The negative fair value of derivatives amounting to US$779 million (2022: US$809 million) is included in other liabilities (note 13). Details of derivatives are given in note 21. Allowances for ECL against other financial assets included in "other assets" amounts to US$2 million (2022: US$6 million).

Below are the carrying amounts of the Group's right-of-use assets and movements during the year:

	Right-of-use assets	
	2023	2022
As at 1 January	52	48
Add: New/terminated leases - net	16	16
Less: Amortisation	(12)	(10)
Others (including foreign exchange movements)	1	(2)
As at 31 December	57	52

12 Taxation on foreign operations

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

	2023	2022
Consolidated statement of financial position		
Current tax liability	44	20
Deferred tax liability	102	64
	146	84
Consolidated statement of profit or loss		
Current tax on foreign operations	91	70
Deferred tax on foreign operations	(17)	13
	74	83
Analysis of tax charge		
At Bahrain (income tax rate of nil)	-	-
On profits of subsidiaries operating in other jurisdictions	72	82
Charge arising from tax treatment of hedging currency movements	2	1
Income tax expense reported in the consolidated statement of profit or loss	74	83

The effective tax rates on the profit of subsidiaries in MENA was 36% (2022: 40%) and United Kingdom was 18% (2022: 18%) as against the actual tax rates of 19% to 35% (2022: 19% to 35%) in MENA and 25% (2022: 25%) in United Kingdom.

In the Bank's Brazilian subsidiary, the effective tax rate on normalised earnings was 12% (2022: 13%) as against the actual tax rate of 45% (2022: 45%), after taking into account the tax debit for the year of US$1 million arising from the tax treatment of hedging currency movements (2022: tax debit of US$1 million) on a certain transaction. Adjusted for deferred tax, the effective tax rate was 1% (2022: 20%).

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

	2023	2022
Interest payable	1,074	693
Lease liabilities	62	55
Negative fair value of derivatives (note 21)	779	809
Employee related payables	120	127
Margin deposits including cash collateral	31	32
Deferred income	21	18
ECL allowances for credit commitments and contingent items (note 22)	32	44
Accrued charges and other payables	605	486
	2,724	2,264

The positive fair value of derivatives amounting to US$952 million (2022: US$968 million) is included in other assets (note 11). Details of derivatives are given in note 21.

31 December 2023 (All figures in US$ Million)

13 Other liabilities (continued)

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

	Lease Liabilities	
	2023	2022
As at 1 January	**55**	50
Add: New/terminated leases - net	**16**	16
Add: Interest expense	**3**	2
Less: Repayments	**(14)**	(11)
Others (including foreign exchange movements)	**1**	(2)
As at 31 December	**61**	55

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 2023

	Currency	Rate of Interest %	Parent bank	Subsidiaries	Total
Aggregate maturities					
2024	EUR	EURIBOR +1.15%	**-**	**55**	**55**
2025*	US$	SOFR +1.35%		**175**	**175**
2027*	US$	SOFR +2%	**470**	**-**	**470**
2028*	US$	SOFR +2%	**470**	**-**	**470**
2024-2029	US$	2.67%	**-**	**30**	**30**
2024-2027	TND	9.7-11.50%	**-**	**5**	**5**
Perpetual**	BRL	Selic *1.2	**-**	**98**	**98**
			940	**363**	**1,303**

Total obligations outstanding at 31 December 2022

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

*These borrowings are from ultimate parent as disclosed in note 28.

**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.

15 Equity

a) Share capital

	2023	2022
Authorised – 4,500 million shares of US$1 each (2022: 4,500 million shares of US$1 each)	**4,500**	4,500
Issued, subscribed and fully paid – 3,110 million shares of US$1 each (2022: 3,110 million shares of US$1 each)	**3,110**	3,110

b) Treasury shares

The Group owns 15,515,000 treasury shares (2022: 15,515,000 shares) for a cash consideration of US$6 million (2022: 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 for distribution 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

	2023	2022
At 1 January	**(22)**	63
Net movement in fair value during the year	**35**	(85)
At 31 December	**13**	(22)

16 Additional / Perpetual Tier-1 Capital

The Group issued Basel 3 compliant additional / perpetual Tier 1 Capital securities amounting to US$390 million during the year. These securities are perpetual, subordinated and unsecured and carry an interest of 4.75% per annum payable semi-annually. The holders of these securities do not have a right to claim the interest and such an event of non-payment will not be considered an event of default. Further, the corresponding interest paid to investors is accounted for as an appropriation of profits.

17 Interest and similar expense

	2023	2022
Loans and advances	**1,773**	1,290
Securities and investments	**696**	495
Placements with banks and other financial institutions	**494**	232
Others	**89**	22
	3,052	2,039

31 December 2023 (All figures in US$ Million)

18 Interest and similar expense

	2023	2022
Deposits from banks	596	239
Deposits from customers	1,399	932
Borrowings	99	50
Certificates of deposit and others	23	32
	2,117	1,253

19 Other operating income

	2023	2022
Fee and commission income - net*	190	184
Bureau processing income	48	32
Net gain from trading book (including foreign currencies transaction)	33	38
Gain on disposal of non-trading debt investments - net	14	16
Merchant acquiring income	14	12
Others - net	43	32
	342	314
Gain on hedging foreign currency movements**	2	1
	344	315

*Included in the fee and commission income is US$13 million (2022: US$12 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.)	
			2023 %	2022 %
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	63.6	63.7
ABC Algeria	Banking	Algeria	88.9	88.9
Arab Banking Corporation - Egypt [S.A.E.]*	Banking	Egypt	99.6	99.6
ABC Tunisie	Banking	Tunisia	100.0	100.0
Arab Financial Services Company B.S.C. (c)	Credit card and Fintech services	Bahrain	90.4	90.4

* On 1 January 2023, the Group has completed legal merger of Arab Banking Corporation - Egypt [S.A.E.] with BLOM Bank - Egypt [S.A.E.]. The interest disclosed for Arab Banking Corporation - Egypt [S.A.E.] reflects the interests of the Group in the combined entity including 99.6% holding in BLOM Bank - Egypt [S.A.E.].

20.2 Significant restrictions

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

20.3 Material partly-owned subsidiaries

Financial information of a subsidiary that has material non-controlling interests is provided below:

Banco ABC Brasil S.A.

	2023	2022
Proportion of equity interest held by non-controlling interests (%)	**36.4%**	36.3%
Dividends paid to non-controlling interests	**27**	23

The summarised financial information of this subsidiary is provided below.

	2023	2022
Summarised statement of profit or loss:		
Interest and similar income	**1,146**	950
Interest and similar expense	**(838)**	(664)
Other operating income	**134**	120
Operating expenses	**(199)**	(169)
Credit loss expense	**(78)**	(47)
Profit before tax	**165**	190
Taxation *	**(1)**	(37)
Profit for the year	**164**	153
Profit attributable to non-controlling interests	**60**	56
Total comprehensive income	**240**	207
Total comprehensive income attributable to non-controlling interests	**87**	75

* This includes tax debit of US$2 million (2022: tax debit of US$1 million) relating to hedging of currency movements as explained in note 12.

	2023	2022
Summarised statement of financial position:		
Total assets	**11,341**	9,613
Total liabilities	**10,125**	8,610
Total equity	**1,216**	1,003
Equity attributable to non-controlling interests	**443**	365
Summarised cash flow information:		
Operating activities	**8**	272
Investing activities	**81**	(265)
Financing activities	**(25)**	(85)
Net increase (decrease) in cash and cash equivalents	**64**	(78)

31 December 2023 (All figures in US$ Million)

21 Derivatives and hedging

In the ordinary course of business the Group enters into various types of transactions that involve derivative financial instruments.

The table below shows the positive and negative fair values of derivative financial instruments. The notional amount is that of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at year end and are not indicative of either market or credit risk.

	2023			2022		
	Positive fair value	Negative fair value	Notional amount	Positive fair value	Negative fair value	Notional amount
Derivatives held for trading						
Interest rate swaps	210	219	9,216	314	287	8,369
Currency swaps	32	25	980	5	3	248
Forward foreign exchange contracts	77	85	9,370	63	33	8,415
Options*	517	415	12,991	460	420	11,011
Futures	17	22	5,386	23	62	2,985
	853	766	37,943	865	805	31,028
Derivatives held as hedges						
Interest rate swaps	81	13	2,308	103	2	3,248
Currency swaps	17	-	133	-	-	118
Forward foreign exchange contracts	1	-	169	-	2	86
	99	13	2,610	103	4	3,452
	952	779	40,553	968	809	34,480
Risk weighted equivalents (credit and market risk)			1,328			1,232

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 2023, net impact from ineffectiveness from hedges is US$ nil (2022: US$ nil) comprising net loss of US$30 million (2022: net loss of US$173 million) on hedging instruments offsetting the total gain on hedged items attributable to the hedged risk amounted to US$30 million (2022: gain of US$ 173 million).

The Group uses deposits which are accounted for as hedges of net investment in foreign operations. As at 31 December 2023, the Group had deposits amounting to US$718 million (2022: US$ 636 million) which were designated as net investment hedges.

Derivatives held or issued for trading purposes

Most of the Group's derivative trading activities relate to sales, positioning and arbitrage. Sales activities involve offering products to customers. Positioning involves managing market risk positions with the expectation of profiting from favourable movements in prices, rates or indices. Arbitrage involves identifying and profiting from price differentials between markets or products. Also included under this heading are any derivatives which do not meet IFRS 9 hedging requirements.

Derivative related credit risk

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

Derivatives held or issued for hedging purposes

The Group has adopted a comprehensive system for the measurement and management of risk. Part of the risk management process involves managing the Group's exposure to fluctuations in foreign exchange rates (currency risk) and interest rates through asset and liability management activities. It is the Group's policy to reduce its exposure to currency and interest rate risks to acceptable levels as determined by the Board of Directors. The Board has established levels of currency risk by setting limits on currency position exposures. Positions are monitored on an ongoing basis and hedging strategies used to ensure positions are maintained within established limits. The Board has established levels of interest rate risk by setting limits on the interest rate gaps for stipulated periods. Interest rate gaps are reviewed on an ongoing basis and hedging strategies used to reduce the interest rate gaps to within the limits established by the Board of Directors.

As part of its asset and liability management the Group uses derivatives for hedging purposes in order to reduce its exposure to currency and interest rate risks. This is achieved by hedging specific financial instruments, forecasted transactions as well as strategic hedging against overall statement of financial position exposures. For interest rate risk this is carried out by monitoring the duration of assets and liabilities using simulations to estimate the level of interest rate risk and entering into interest rate swaps and futures to hedge a proportion of the interest rate exposure, where appropriate. Since strategic hedging does not qualify for special hedge accounting related derivatives are accounted for as trading instruments.

The Group uses forward foreign exchange contracts, currency options, currency swaps to hedge against specifically identified currency risks. In addition, the Group uses interest rate swaps and interest rate futures to hedge against the interest rate risk arising from specifically identified loans and securities bearing fixed interest rates. In all such cases the hedging relationship and objective, including details of the hedged item and hedging instrument, are formally documented and the transactions are accounted for as hedges.

The Group applies hedge accounting in two separate hedging strategies, as follows:

Interest rate risk on fixed rate debt type instruments (fair value hedge)

The Group holds a portfolio of long-term variable and fixed rate loans / securities / deposits and therefore is exposed to changes in fair value due to movements in market interest rates. The Group manages this interest rate risk exposure by entering into pay fixed / receive floating interest rate swaps.

Only the interest rate risk element is hedged and therefore other risks, such as credit risk, are managed but not hedged by the Group. The interest rate risk component is determined as the change in fair value of the long-term variable / fixed rate loans and securities arising solely from changes in the benchmark rate of interest. Such changes are usually the largest component of the overall change in fair value. The Group primarily designates the benchmark rate as the hedged risk and, accordingly, enters into interest rate swaps whereby the fixed legs represent the economic risks of the hedged items. This strategy is designated as a fair value hedge and its effectiveness is assessed by critical terms matching and measured by comparing changes in the fair value of the loans / secuities 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.

31 December 2023 (All figures in US$ Million)

21 Derivatives and hedging (continued)

Net investment in foreign operation (net investment hedge)

The Group has an investment in a foreign operation which is consolidated in its financial statements. The foreign exchange rate exposure arising from this investment is hedged through the use of deposits. These deposits are designated as net investment hedges to hedge the equity of the subsidiaries. The Group establishes the hedging ratio by matching the deposits with the net assets of the foreign operation.

The following table sets out the maturity profile of the trading and hedging instruments used in the Group's trading and non-dynamic hedging strategies:

	Within 1 month	1 - 3 months	3 - 6 months	6 - 12 months	1 - 5 years	5-10 years	Over 10 years	Total
Notional								
2023	**5,815**	**5,806**	**1,994**	**9,261**	**14,462**	**3,110**	**105**	**40,553**
2022	5,881	5,129	2,579	6,791	8,775	5,025	300	34,480

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.

The ineffectiveness during 2023 or 2022 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:

	2023	2022
Short-term self-liquidating trade and transaction-related contingent items	**4,536**	2,892
Direct credit substitutes and guarantees	**3,102**	2,970
Undrawn loans and other commitments	**2,738**	2,119
	10,376	7,981
Credit exposure after applying credit conversion factor	**4,332**	3,339
Risk weighted equivalents	**3,696**	2,657

The table below shows the contractual expiry by maturity of the Group's credit commitments and contingent items:

	2023	2022
On demand	**1,861**	1,360
1 - 6 months	**2,881**	2,450
6 - 12 months	**2,413**	1,894
1 - 5 years	**3,201**	2,248
Over 5 years	**20**	29
	10,376	7,981

Exposure (after applying credit conversion factor) and ECL by stage

	2023			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Credit commitments and contingencies	**4,212**	**100**	**20**	**4,332**
ECL allowances	**8**	**13**	**11**	**32**

	2022			
	Stage 1	Stage 2	Stage 3	Total
Credit commitments and contingencies	3,229	71	39	3,339
ECL allowances	7	9	28	44

31 December 2023 (All figures in US$ Million)

22 Credit commitments and contingent items (continued)

An analysis of changes in the ECL allowances are as follows:

	2023			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
As at 1 January	**7**	**9**	**28**	**44**
Net transfers between stages	**-**	**-**	**-**	**-**
Additions	**2**	**3**	**1**	**6**
Recoveries / write back	**-**	**-**	**(3)**	**(3)**
Charge for the year - net	**2**	**3**	**(2)**	**3**
Amounts written-off	**-**	**-**	**(2)**	**(2)**
Exchange adjustments and other movements	**(1)**	**1**	**(13)**	**(13)**
As at 31 December	**8**	**13**	**11**	**32**

	2022			
	Stage 1	Stage 2	Stage 3	Total
As at 1 January	12	9	41	62
Transfers to stage 1	-	-	-	-
Transfers to stage 1	(3)	3	-	-
Transfers to stage 1	-	(1)	1	-
Net transfers between stages	(3)	2	1	-
Additions	1	-	3	4
Recoveries / write back	-	-	(4)	(4)
Charge for the year - net	1	-	(1)	-
Exchange adjustments and other movements	(3)	(2)	(13)	(18)
As at 31 December	7	9	28	44

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:

	2023		2022	
Long (short)	Currency	US$ equivalent	Currency	US$ equivalent
Brazilian Real	5,255	1,083	3,366	637
Pound Sterling	(2)	(3)	(5)	(6)
Egyptian Pound	9,826	318	8,886	359
Jordanian Dinar	99	140	87	123
Algerian Dinar	23,693	176	22,828	166
Tunisian Dinar	104	34	83	27
Euro	22	25	83	89
Bahraini Dinar	15	39	14	37
Omani Riyal	2	4	2	5

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 2023

Quantitative disclosure of fair value measurement hierarchy for assets as at 31 December 2023:

Financial assets measured at fair value:

	Level 1	Level 2	Total
Trading securities	1,070	-	1,070
Non-trading investments	4,702	777	5,479
Loans and advances	-	793	793
Derivatives held for trading	458	395	853
Derivatives held as hedges	-	99	99

Quantitative disclosure of fair value measurement hierarchy for liabilities as at 31 December 2023:

Financial liabilities measured at fair value:

	Level 1	Level 2	Total
Derivatives held for trading	361	405	766
Derivatives held as hedges	-	13	13

31 December 2023 (All figures in US$ Million)

24 Fair value of financial instruments (continued)

24.1 31 December 2023 (continued)

Fair values of financial instruments not carried at fair value

Except for the following, the fair value of financial instruments which are not carried at fair value are not materially different from their carrying value.

	Carrying value	Fair value
Financial assets		
Non-trading investments at amortised cost - gross (level 1 and level 2)	**5,978**	**5,982**
Financial liabilities		
Borrowings - perpetual (level 1)	**98**	**104**

24.2 31 December 2022

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

Financial assets measured at fair value:

	Level 1	Level 2	Total
Trading securities	590	-	590
Non-trading investments	5,859	911	6,770
Loans and advances	-	726	726
Derivatives held for trading	324	541	865
Derivatives held as hedges	-	103	103

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

Financial liabilities measured at fair value:

	Level 1	Level 2	Total
Derivatives held for trading	323	482	805
Derivatives held as hedges	-	4	4

Fair values of financial instruments not carried at fair value

Except for the following, the fair value of financial instruments which are not carried at fair value are not materially different from their carrying value.

	Carrying value	Fair value
Financial assets		
Non-trading investments at amortised cost - gross (level 1 and level 2)	1,397	1,354
Financial liabilities		
Borrowings - perpetual (level 1)	92	97

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 2023 (31 December 2022: 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 financial and non-financial risks including credit risk, liquidity risk, operational risk, market risk, legal risk, strategic risk as well as other forms of risk inherent in its financial operations, all of which are captured and detailed in the Group's Risk Taxonomy.

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 the 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 primary objectives of the GRC are to define, develop and monitor the Group's overarching risk management framework taking into account the Group's strategy and business plans. 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).

The GALCO assists the BRC in overseeing the implementation of the Group's Asset / Liability Management Framework which includes capital, liquidity

& funding and market risk in line with the risk appetite framework. 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.

25.3 Risk mitigation techniques

25.3.1 Risk mitigation

As part of the Credit review process, the Bank assesses the facility structure, primary source of repayment and the need for any credit risk mitigation. This includes collateral or any third-party guarantees that provide additional support for inherent and identified credit risk.

The Group uses collaterals to reduce its credit risk. The Bank manages and monitors collateral value on a regular basis to ensure proper risk mitigation, supported by legal documentation that is enforceable and can protect the Bank's interest, particularly in a default scenario.

As a 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 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 undertake 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 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 an obligor fail to discharge its contractual obligation with the Group 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 or group of connected obligors as per the Bank's risk appetite, credit acceptance criteria and 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.

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% to <100%

The PDs obtained as above are then adjusted for IFRS 9 ECL calculations to incorporate forward looking information. This is repeated for each economic scenario as appropriate.

Loss given default (LGD)

The credit risk mitigation assessment is based on a standardised LGD framework. The Group uses models to calculate the LGD values based on the collateral type and value, obligor rating, economic scenarios, seniority of tranche, industry and country of the borrower, etc.

The Group segments its retail lending products into smaller homogeneous portfolios, based on key characteristics that are relevant to the estimation of future cash flows. The applied data is based on historically collected loss data and involves a wider set of transaction characteristics (e.g., product type, wider range of collateral types) as well as borrower characteristics.

Definition of default and cure

The Group considers a contract to be in default, if the terms of that contract have not been met. If the contractual repayments on a facility are 90 days past due the facility is moved to Stage 3 and a specific ECL allowance is recorded.

The 90 days past due is rebutted only if there is reasonable and supportive information demonstrating that this does not meet the impairment definition requirements. For example, this may include:

- Non-payment was an administrative oversight or technical fault instead of resulting from the obligor's financial difficulty (or) the management at the Group has strong evidence, that there is no dispute regarding payments and the obligor is likely to pay its outstanding amount, without any loss to the Group.
- For direct loan to the government or the contractors directly working for a government entity and the repayment of the loan is contingent on payment from government entity even though all prerequisite conditions for the payment have been complied with.

As a part of a qualitative assessment of whether a customer is in default, the Group also considers a variety of instances that may indicate unlikeliness to pay. When such events occur, the Group carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate. Such events include:

- Principal and/or interest and / or fees are past due for more than 90 days after the last billing date and/or scheduled payment date, ignoring technical defaults and / or data errors. However, the Group can rebut 90 days past due assumption on a case-by-case basis, only upon prior approval from Group Chief Credit Officer (GCCO) / Group Chief Credit and Risk Officer (GCCRO) (at Head Office level) / Chief Risk Officer (CRO) or CRO (at Subsidiary level), as applicable;
- Any account put on non-accrual status i.e. interest suspended;
- A loan is classified as "Substandard", "Doubtful" or "Loss";
- A covenant breach not waived by the Group;
- Bankruptcy, liquidation, administration, insolvency or similar proceedings have been filed by or against the customer;
- The purchase or origination of a financial asset at a deep discount that reflects an incurred loss; and
- Other cases where the assessment of the Bank's GCC / GCCRO / GCCO suggests customers unlikeliness to pay.

The above criteria have been applied to all financial instruments held by the Group and are consistent with the definition of default used for internal credit risk management purposes. The default definition has been applied consistently to model the PD, EAD and LGD throughout the Group's expected loss calculations.

The Bank employs 'cooling-off' periods when moving a cured account from Stage 3 (12 month) to Stage 2 (6 to 12 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. The Bank may choose to make exceptions to this on a case-by-case basis, upon prior approval from GCCO / GCCRO (at Head Office level) or CRO (at Subsidiary level). The Bank will be guided by the CBB's requirements while approving the exceptions.

Credit risk grading and PD estimation process

The following are additional considerations for each type of portfolio held by the Group:

Wholesale portfolio

The wholesale portfolio includes obligors across sovereigns, banks, corporates, non-bank financial institutions and small and medium enterprises (SME) sub-sectors.

At the request of the obligor the Bank's first line of defense generates a paper to be considered at a business acceptance committee to confirm the facility is in line with the Bank's strategy and meets the Bank's profitability criteria. If approved at the business acceptance committee, a credit application form (CAF), is presented to the second line of defense which confirms that the request is factually correct and in line with the Bank's policies and standards relating to the risk being underwritten. The credit risk units of the Group validate the IRR being proposed. The CAF is then presented to a credit committee appropriate to the geography, product, IRR, maturity 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.

- 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 30 or more 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'.

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- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis.
- A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward-looking information.

The following diagram summarises the impairment requirements under IFRS 9 (other than purchased or originated credit-impaired financial assets):

Change in credit quality since initial recognition

Stage 1	Stage 2	Stage 3
(Initial recognition)	Significant increase in credit risk (since initial recognition)	(Default or credit-impaired assets)
12-month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses (specific provisions)

Measuring ECL – Explanation of inputs, assumptions and estimation techniques

The ECL is measured on either a 12-month (12m) or lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. Expected credit losses are the discounted product of PD, EAD and LGD, defined as follows:

The PD represents the likelihood of a borrower defaulting on its financial obligation (as per "Definition of default" above), either over the next 12 months (12m PD), or over the remaining lifetime (Lifetime PD) of the obligation.

EAD is based on the amounts the Group expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD). For example, for a revolving commitment, the Group includes the current drawn balance plus any further amount that is expected to be drawn up to the current contractual limit by the time of default, should it occur.

LGD represents the Group's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim, availability of collateral or other credit support, geography and industry. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD). LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be made if the default occurs in the next 12 months and Lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

The ECL is determined by projecting the PD and LGD for each future month and for each individual exposure. The three components (PD, LGD and EAD) are multiplied together, and the projected PD is adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in an earlier month). This effectively calculates an ECL for each future month, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

The Lifetime PD is developed by applying the forward-looking information on 12-month PD over the maturity of the loan. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band.

For amortising products and bullet repayment loans, this is based on the contractual repayments owed by the borrower over a 12 month or lifetime basis.

For revolving products, the behavioral maturity of upto 2 years or contractual maturity is considered. The behavioral maturity treatment is only applicable to on-balance sheet exposures, for off-balance sheet exposures contractual maturity is used and exposure at default is predicted by applying a "credit conversion factor" to the off-balance sheet exposures which allows for the expected drawdown of the remaining limit by the time of default. These assumptions vary by product type.

For secured products, this is primarily based on collateral values after applying approved haircuts depending on the collateral type. Further, the Group has applied LGD floors with respect to the fully secured portion of the portfolio depending on the collateral type.

For unsecured products, LGD's are computed based on models which consider several factors such as country, industry, PD, etc. which consider the recoveries made post default.

Forward-looking economic information is also included in determining the 12-month and lifetime PD and LGD. 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 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. To ensure appropriate ECL estimation, the Bank uses independent third party data sources (e.g Moody's and IMF).

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 global economy and specially the regional economies for the Bank; and

(iii) Relevant equity indices, given its impact on the economy, counterparty performance and collateral valuations.

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25 Risk Management (continued)

25.4 Credit risk (continued)

25.4.1 Credit risk assessment and mitigation (continued)

Economic variable assumptions (continued)

The following table sets out the key macroeconomic variables of ECL calculation and weightages used for scenarios showing increase /decrease in comparison to 2023 as base year (2022 as base year for assumptions used in 2022):

Assumptions used in 2023

Key macroeconomic variables used	ECL scenario and assigned weightage	2024	2025	2026	2027	2028
GDP growth rate*	Base (40%)	[0.4%, 5.8%]	[1.4%, 10.4%]	[2.7%, 15.3%]	[4.2%, 20.9%]	[5.9%, 26.8%]
	Upside (30%)	[2.9%, 8.0%]	[5.0%, 13.2%]	[6.5%, 18.2%]	[8.0%, 24.0%]	[10.0%, 30.0%]
	Downside (30%)	[- 9.9%, 0.63%]	[- 6.8%, 4.5%]	[- 4.0%, 10.7%]	[- 0.8%, 16.9%]	[1.1%, 23.1%]
Oil price	Base (40%)	-2.5%	-12.2%	-12.5%	-12.2%	-11.9%
	Upside (30%)	0.2%	-12.1%	-12.5%	-12.2%	-11.9%
	Downside (30%)	-29.3%	-25.1%	-15.1%	-14.8%	-13.9%
Equity index*	Base (40%)	[- 1.7%, 14.4%]	[- 0.6%, 25.9%]	[6.2%, 42.5%]	[11%, 58.2%]	[14.3%, 70.3%]
	Upside (30%)	[4.9%, 32.9%]	[4.8%, 43.2%]	[9.4%, 57.3%]	[13.3%, 66.4%]	[16.7%, 76.3%]
	Downside (30%)	[- 33.8%, -13.2%]	[- 26.3%, -2.0%]	[-9.8%, 24.9%]	[2.4%, 43.1%]	[5.5%, 59.3%]

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%]

* GDP and equity index are represented as range as they cover the indices of multiple countries the Group operates in.

The above macroeconomic variables are selected based on the regression analysis between the macroeconomic variables and the PD. These economic variables and their associated impact on the PD and LGD vary by country and industry. Forecasts of these economic variables (for all scenarios) are provided by Moody's on a quarterly basis and provide the best estimate view of the economy over future years.

As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The Group considers these forecasts to represent its best estimate of the possible outcomes and has analysed the non-linearities and asymmetries within the Group's different geographies to establish that the chosen scenarios are appropriately representative of the range of possible scenarios.

Sensitivity analysis

Based on the above significant assumptions and changes in each economic variable by +5% and -5% while keeping other key variables constant will result in a change in the ECL (stage 1 and 2) in the range of decrease by 11.2% (2022: decrease by 11.2%) to an increase by 7.7% (2022: increase by 10.7%.)

31 December 2023 (All figures in US$ Million)

25 Risk Management (continued)

25.4 Credit risk (continued)

25.4.2 Maximum exposure to credit risk without taking account of any collateral and other credit enhancements

The Group's concentration of risk is managed by geographical region and by industry sector. The table below shows the maximum exposure to credit risk for the components of the consolidated statement of financial position, including credit commitments and contingent items. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements.

	Gross maximum exposure	
	2023	2022
Liquid funds	**4,453**	2,806
Trading debt securities	**1,060**	576
Placements with banks and other financial institutions	**2,231**	2,226
Securities bought under repurchase agreements	**2,191**	1,386
Non-trading debt investments	**11,347**	8,065
Loans and advances	**19,096**	18,190
Other credit exposures	**2,633**	2,538
	43,011	35,787
Credit commitments and contingent items (note 21)	**10,376**	7,981
Total	**53,387**	43,768

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

25.4.3 Risk concentration of the maximum exposure to credit risk

The Group's assets (before taking into account any cash collateral held or other credit enhancements) can be analysed by the following geographical regions:

	Assets			
	2023			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Western Europe	**4,812**	**85**	**24**	**4,921**
Arab World	**12,736**	**281**	**141**	**13,158**
Asia	**868**	**-**	**-**	**868**
North America	**10,704**	**221**	**-**	**10,925**
Latin America	**10,418**	**159**	**108**	**10,685**
Other	**2,451**	**-**	**3**	**2,454**
Total	**41,989**	**746**	**276**	**43,011**

	Assets			
	2022			
	Stage 1	Stage 2	Stage 3	Total
Western Europe	3,598	196	-	3,794
Arab World	14,336	249	102	14,687
Asia	841	-	-	841
North America	5,445	45	-	5,490
Latin America	8,836	179	91	9,106
Other	1,869	-	-	1,869
Total	34,925	669	193	35,787

The Group's liabilities and equity can be analysed by the following geographical regions:

	Liabilities and equity	
	2023	2022
Western Europe	**5,670**	3,019
Arab World	**24,618**	23,204
Asia	**940**	492
North America	**3,930**	2,672
Latin America	**8,325**	6,721
Other	**409**	531
Total	**43,892**	36,639

31 December 2023 (All figures in US$ Million)

25 Risk Management (continued)

25.4 Credit risk (continued)

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

The Group's commitments and contingencies can be analysed by the following geographical regions:

	Credit commitments and contingent items			
	2023			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Western Europe	**2,331**	**53**	**-**	**2,384**
Arab World	**3,471**	**98**	**20**	**3,589**
Asia	**148**	**-**	**-**	**148**
North America	**1,280**	**4**	**-**	**1,284**
Latin America	**2,816**	**14**	**1**	**2,831**
Other	**111**	**28**	**1**	**140**
Total	**10,157**	**197**	**22**	**10,376**

	Credit commitments and contingent items			
	2022			
	Stage 1	Stage 2	Stage 3	Total
Western Europe	1,131	46	5	1,182
Arab World	3,195	39	36	3,270
Asia	135	-	3	138
North America	707	37	-	744
Latin America	2,466	9	6	2,481
Other	146	20	-	166
Total	7,780	151	50	7,981

An industry sector analysis of the Group's financial assets (after taking risk transfer into account), before taking into account cash collateral held or other credit enhancements, is as follows:

	Gross maximum exposure			
	2023			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Financial services	**15,853**	**16**	**-**	**15,869**
Government	**10,903**	**9**	**-**	**10,912**
Other services	**2,417**	**69**	**100**	**2,586**
Manufacturing	**2,718**	**86**	**36**	**2,840**
Agriculture, fishing and forestry	**1,653**	**34**	**13**	**1,700**
Construction	**1,784**	**246**	**14**	**2,044**
Utilities	**989**	**54**	**-**	**1,043**
Energy	**986**	**2**	**-**	**988**
Distribution	**1,063**	**32**	**-**	**1,095**
Personal / consumer finance	**1,502**	**29**	**11**	**1,542**
Transport	**540**	**20**	**16**	**576**
Commercial real estate financing	**370**	**77**	**24**	**471**
Technology, media and telecommunications	**533**	**1**	**2**	**536**
Trade	**230**	**53**	**55**	**338**
Retailers	**351**	**6**	**-**	**357**
Mining and quarrying	**94**	**12**	**5**	**111**
Residential mortgage	**3**	**-**	**-**	**3**
Total	**41,989**	**746**	**276**	**43,011**

	Gross maximum exposure			
	2022			
	Stage 1	Stage 2	Stage 3	Total
Financial services	12,660	15	-	12,675
Government	7,741	-	-	7,741
Other services	2,458	56	81	2,595
Manufacturing	2,629	94	17	2,740
Agriculture, fishing and forestry	1,544	21	4	1,569
Construction	1,583	192	14	1,789
Utilities	884	12	-	896
Energy	1,093	2	-	1,095
Distribution	1,021	33	-	1,054
Personal / consumer finance	1,434	12	6	1,452
Transport	538	69	9	616
Commercial real estate financing	251	70	-	321
Technology, media and telecommunications	540	1	4	545
Trade	216	60	53	329
Retailers	235	20	-	255
Mining and quarrying	61	12	5	78
Residential mortgage	37	-	-	37
Total	34,925	669	193	35,787

31 December 2023 (All figures in US$ Million)

25 Risk Management (continued)

25.4 Credit risk (continued)

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

An industry sector analysis of the Group's financial assets, after taking into account cash collateral held or other credit enhancements, is as follows:

	Net maximum exposure	
	2023	2022
Financial services	**13,443**	11,557
Government	**10,906**	7,712
Other services	**2,479**	2,625
Manufacturing	**2,792**	2,722
Agriculture, fishing and forestry	**1,692**	1,561
Construction	**1,945**	1,782
Utilities	**1,042**	896
Energy	**988**	1,095
Distribution	**1,095**	1,054
Personal / consumer finance	**1,542**	1,452
Transport	**558**	610
Commercial real estate financing	**432**	321
Technology, media and telecommunications	**535**	544
Trade	**325**	319
Retailers	**357**	255
Mining and quarrying	**111**	78
Residential mortgage	**-**	-
Total	**40,242**	34,583

An industry sector analysis of the Group's credit commitments and contingent items, before taking into account cash collateral held or other credit enhancements, is as follows:

	Gross maximum exposure			
	2023			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Financial services	**3,874**	**53**	**-**	**3,927**
Government	**52**	**-**	**1**	**53**
Other services	**712**	**27**	**-**	**739**
Manufacturing	**1,295**	**41**	**3**	**1,339**
Agriculture, fishing and forestry	**172**	**-**	**-**	**172**
Construction	**1,478**	**49**	**13**	**1,540**
Utilities	**823**	**4**	**-**	**827**
Energy	**377**	**-**	**-**	**377**
Distribution	**186**	**8**	**-**	**194**
Personal / consumer finance	**315**	**-**	**1**	**316**
Transport	**464**	**11**	**-**	**475**
Commercial real estate financing	**33**	**-**	**-**	**33**
Technology, media and telecommunications	**104**	**-**	**1**	**105**
Trade	**113**	**4**	**3**	**120**
Retailers	**98**	**-**	**-**	**98**
Mining and quarrying	**61**	**-**	**-**	**61**
Total	**10,157**	**197**	**22**	**10,376**

	Gross maximum exposure			
	2022			
	Stage 1	Stage 2	Stage 3	Total
Financial services	2,813	47	2	2,862
Government	64	-	-	64
Other services	669	2	-	671
Manufacturing	867	40	7	914
Agriculture, fishing and forestry	117	-	-	117
Construction	1,073	53	28	1,154
Utilities	698	-	1	699
Energy	264	-	1	265
Distribution	115	6	1	122
Personal / consumer finance	341	1	-	342
Transport	380	-	6	386
Commercial real estate financing	24	-	-	24
Technology, media and telecommunications	151	-	2	153
Trade	101	2	2	105
Retailers	68	-	-	68
Mining and quarrying	35	-	-	35
Total	7,780	151	50	7,981

An industry sector analysis of the Group's credit commitments and contingent items, after taking into account cash collateral held or other credit enhancements, is as follows:

	Net maximum exposure	
	2023	2022
Financial services	**3,736**	2,697
Government	**53**	56
Other services	**719**	666
Manufacturing	**1,296**	908
Agriculture, fishing and forestry	**170**	114
Construction	**1,532**	1,117
Utilities	**825**	698
Energy	**366**	262
Distribution	**177**	120
Personal / consumer finance	**316**	342
Transport	**464**	380
Commercial real estate financing	**33**	24
Technology, media and telecommunications	**104**	152
Trade	**114**	99
Retailers	**98**	68
Mining and quarrying	**58**	35
Total	**10,061**	7,738

31 December 2023 (All figures in US$ Million)

25 Risk Management (continued)

25.4 Credit risk (continued)

25.4.4 Credit quality per class of financial assets

The credit quality of financial assets is managed by the Group using internal credit ratings. The table below shows the credit quality by class of financial asset, based on the Group's credit rating system.

31 December 2023	Neither past due nor impaired		Past due but not impaired	Past due and individually impaired	Total
	High grade	Standard grade*			
Liquid funds	4,271	182	-	-	4,453
Trading debt securities	504	556	-	-	1,060
Placements with banks and other financial institutions	780	1,451	-	-	2,231
Securities bought under repurchase agreements	545	1,646	-	-	2,191
Non-trading debt investments	8,067	3,280	-	-	11,347
Loans and advances	3,630	15,040	151	275	19,096
Other credit exposures	2,193	439	-	1	2,633
	19,990	22,594	151	276	43,011

31 December 2022	Neither past due nor impaired		Past due but not impaired	Past due and individually impaired	Total
	High grade	Standard grade*			
Liquid funds	2,411	395	-	-	2,806
Trading debt securities	271	305	-	-	576
Placements with banks and other financial institutions	705	1,521	-	-	2,226
Securities bought under repurchase agreements	-	1,386	-	-	1,386
Non-trading debt investments	4,501	3,564	-	-	8,065
Loans and advances	3,859	14,006	133	192	18,190
Other credit exposures	2,175	362	-	1	2,538
	13,922	21,539	133	193	35,787

* Including exposures categorised as watchlist.

The table below shows the credit quality by class of financial asset net ECL, based on internal credit ratings.

31 December 2023	Liquid funds	Trading debt securities	Placements with banks and other financial institutions	Securities bought under repurchase agreements	Non-trading debt investments	Loans and advances
Stage 1 (12-month ECL)						
Rating grades 1 to 4-	4,267	504	780	545	8,067	3,630
Rating grades 5+ to 5-	76	556	542	844	1,349	6,783
Rating grades 6+ to 6-	103	-	795	802	1,878	6,992
Rating grade 7+ to 7-	3	-	114	-	53	675
Carrying amount (net)	4,449	1,060	2,231	2,191	11,347	18,080
Stage 2 (Lifetime ECL but not credit-impaired)						
Rating grades 1 to 4-	4	-	-	-	-	-
Rating grades 5+ to 5-	-	-	-	-	-	55
Rating grades 6+ to 6-	-	-	-	-	-	210
Rating grade 7+ to 7-	-	-	-	-	-	339
Rating grade 8	-	-	-	-	-	137
Carrying amount (net)	4	-	-	-	-	741
Stage 3 (Lifetime ECL and credit-impaired)						
Rating grades 9 to 11	-	-	-	-	-	275
Carrying amount (net)	-	-	-	-	-	275
POCI	-	-	-	-	-	-
Total	4,453	1,060	2,231	2,191	11,347	19,096

Other credit exposures are not internally rated, hence, not included in the above table.

31 December 2023 (All figures in US$ Million)

25 Risk Management (continued)

25.4 Credit risk (continued)

25.4.4 Credit quality per class of financial assets (continued)

31 December 2022	Liquid funds	Trading debt securities	Placements with banks and other financial institutions	Securities bought under repurchase agreements	Non-trading debt investments	Loans and advances
Stage 1 (12-month ECL)						
Rating grades 1 to 4-	2,409	271	705	-	4,501	3,852
Rating grades 5+ to 5-	115	301	259	868	1,431	7,234
Rating grades 6+ to 6-	275	4	1,210	518	2,069	5,529
Rating grade 7+ to 7-	5	-	52	-	64	712
Carrying amount (net)	2,804	576	2,226	1,386	8,065	17,327
Stage 2 (Lifetime ECL but not credit-impaired)						
Rating grades 1 to 4-	2	-	-	-	-	7
Rating grades 5+ to 5-	-	-	-	-	-	29
Rating grades 6+ to 6-	-	-	-	-	-	179
Rating grade 7+ to 7-	-	-	-	-	-	145
Rating grade 8	-	-	-	-	-	311
Carrying amount (net)	2	-	-	-	-	671
Stage 3 (Lifetime ECL and credit-impaired)						
Rating grades 9 to 11	-	-	-	-	-	192
Carrying amount (net)	-	-	-	-	-	192
POCI	-	-	-	-	-	-
Total	2,806	576	2,226	1,386	8,065	18,190

Other credit exposures are not internally rated, hence, not included in the above table.

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

	2023	2022
Loans and advances	**406**	351

25.4.6 Overview of modified or forborne loans

From a risk management point of view, once an asset is forborne or modified, the Group's Remedial Loan Unit (RLU) continues to monitor the exposure until it is completely and ultimately derecognised.

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$2,082 million (2022: US$1,576 million). The average loan to value ratios for this exposure is 54% (2022 average: 47%).

25.4.8 Maximum exposure to credit risk – Financial instruments not subject to impairment

The following table contains an analysis of the maximum credit risk exposure from financial assets not subject to impairment (i.e. FVTPL):

	Maximum exposure to credit risk	
	2023	2022
Trading securities		
- Debt Securities	**1,060**	576
Trading derivatives	**853**	865
Hedging derivatives	**99**	103
Financial assets designated at FVTPL		
- Loans and advances to customers	**39**	95

25 Risk Management (continued)

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. Where relevant and/or where possible, 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 oversight of market risk policy, risk measuring/monitoring methodology and product limits prior to GALCO approval. The unit also has the responsibility to independently 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 independently overseen and monitored by RMD's Market Risk team daily. A full suite of risk limits is utilised including Value at Risk, sensitivity limits on key market parameters, notional limits on the size of investment portfolios and stop-loss limits. Stress testing is also performed to monitor the impact of various scenarios and significant market movements.

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 because of mismatches of interest rate re pricing of assets and liabilities. This risk is minimised as the Group's rate sensitive assets and liabilities are mostly floating rate, where the duration risk is lower. The Group has set risk limits for both earnings at risk (EAR) and economic value of equity (EVE) for interest rate risk in the banking book (IRRBB). In general, the Group uses matched currency funding and translates fixed rate instruments to floating rate to better manage the duration in the asset book.

The sensitivity of the consolidated statement of profit or loss is the effect of the assumed changes in interest rates on the net interest income for one year, based on financial assets and financial liabilities held at 31 December, including the effect of hedging instruments. The sensitivity of equity is calculated by revaluing fixed rate FVOCI financial assets, including the effect of any associated hedges and swaps. Substantially all the FVOCI non-trading securities held by the Group are floating rate assets. Hence, the sensitivity to changes in equity due to interest rate changes is minimal.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's consolidated statement of profit or loss.

	2023			
	Increase in basis points	**Sensitivity consolidated statement of profit or loss**	**Decrease in basis points**	**Sensitivity consolidated statement of profit or loss**
US Dollar	**25**	**1**	**25**	**(1)**
Euro	**25**	**1**	**25**	**(1)**
Pound Sterling	**25**	**1**	**25**	**(1)**
Brazilian Real	**25**	**2**	**25**	**(2)**
Others	**25**	**1**	**25**	**(1)**

	2022			
	Increase in basis points	Sensitivity consolidated statement of profit or loss	Decrease in basis points	Sensitivity consolidated statement of profit or loss
US Dollar	25	-	25	-
Euro	25	1	25	(1)
Pound Sterling	25	-	25	-
Brazilian Real	25	2	25	(2)
Others	25	1	25	(1)

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 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. As at 31 December 2023, majority of the Group's exposures have transitioned to ARRs.

31 December 2023 (All figures in US$ Million)

25 Risk Management (continued)

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 2023 and 31 December 2022 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.

	2023			2022		
	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%**	**-**	**+/-38**	+/- 5%	-	+/-31
Pound Sterling	**+/- 5%**	**-**	**-**	+/- 5%	-	-
Egyptian Pound	**+/- 5%**	**-**	**+/-16**	+/- 5%	-	+/-18
Jordanian Dinar	**+/- 5%**	**+/-3**	**+/-10**	+/- 5%	+/-4	+/-10
Algerian Dinar	**+/- 5%**	**-**	**+/-9**	+/- 5%	-	+/-8
Tunisian Dinar	**+/- 5%**	**-**	**+/-1**	+/- 5%	-	-
Bahrain Dinar	**+/- 5%**	**+/-2**	**-**	+/- 5%	+/-2	-
Euro	**+/- 5%**	**+/-1**	**-**	+/- 5%	+/-1	-

25.9 Equity price risk

Equity price risk is the risk that the fair values of equities decrease as the result of changes in the levels of equity indices and the value of individual stocks. The non-trading equity price risk exposure arises from the Group's securities portfolio.

The effect on equity (as a result of a change in the fair value of trading equity instruments and equity instruments held at FVOCI) due to a reasonably possible change in equity indices or the net asset values, with all other variables held constant, is as follows:

	2023 Change in		2022 Change in	
	% Change in equity price	Effect on consolidated statement of profit or loss/ equity	% Change in equity price	Effect on consolidated statement of profit or loss/ equity
Trading equities	+/- 5%	+/-1	+/- 5%	+/-1
Equity securities at FVOCI	+/- 5%	+/-1	+/- 5%	+/-1

25.10 Operational risk

Operational Risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems including internal frauds, or from external events.

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 Framework and 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 for approval by the GRC and BRC.
- Monitors and reviews the Operational Risk profile 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 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 elements for the management of Operational Risks:

- Operational Risk Appetite, as part of the Group Risk Appetite Statement;
- Group Risk Taxonomy
- Incident management;
- Risk & Control Self-Assessments;
- Issue and Action management;
- Key Risk Indicators; and
- Risk Register

25 Risk Management (continued)

25.10 Operational risk (continued)

Operational Risk incidents, issues and Key Risk Incidents are captured in a group-wide Governance, Risk and Compliance solution, GRC platform. This group-wide solution is being used by Audit, Risk and Compliance.

A wide range of management information reports have been tailored to meet the needs of different stakeholders, these also provide information on the Operational Risk profile of the Bank and its subsidiaries.

Operational risk appetite

The Group has its Operational Risk appetite defined to measure Cumutlative Gross and Net Operational Risk Losses and Single Operational Loss Events. In addition a set of Early Warning Indicators are used to monitor different sub risk categories related to operational risk.

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

25.10.1 Operational resilience

Operational resilience is the ability of the Bank to anticipate, prevent, adapt, respond to, recover and learn from operational disruptions while minimising customer, firm and market impact.

The Group Operational Resilience Committee ("GORC") assists GRC with the oversight of the Bank's Operational resilience practices that is driven by the activities in the following areas. , by such it oversees:

- Cyber security and Information 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.

25.11 Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress conditions. To mitigate this risk, the Group seeks to fund its assets from diversified funding sources. In order to mitigate the liquidity risk, in addition to its core deposit base, maintains an adequate pool of high-quality liquid assets (HQLA) that can be monetised within a short timeframe to meet potential outflows arising from stress. The Group monitors its future cash flows and liquidity daily. This incorporates an assessment of expected cash flows and the availability of high-grade collateral which could be used to secure additional funding if required.

The Group maintains a highly liquid balance sheet with positive asset-liability mismatches. As such, the Group is generally in a position of surplus liquidity, its principal sources of liquidity being its deposit base, liquidity derived from its operations and interbank borrowings. The Liquidity Survival Horizon (LSH) represents the number of days the Group can survive the combined contractual outflow of deposits and loan drawdowns, under severe but plausible stress scenarios.

The Group is required to comply with the liquidity requirements as stipulated by its regulator, the CBB. These requirements relate to maintaining a minimum of 100% for liquidity coverage ratio (LCR) and net stable funding ratio (NSFR). LCR is calculated as a ratio of its stock of high quality liquid assets (HQLA) and net outflows over the next 30 calendar days. NSFR is calculated as a ratio of 'available stable funding' to 'required stable funding'. As at 31 December 2023, the Group's LCR and NSFR were at 278% (31 December 2022: 225%) and 128% (31 December 2022: 124%) respectively.

	31 December 2023					31 December 2022				
	Unweighted Values (i.e. before applying relevant factors)					Unweighted Values (i.e. before applying relevant factors)				
	No specified maturity	Less than 6 months	Over 6 months and less than one year	Over one year	Total weighted value	No specified maturity	Less than 6 months	Over 6 months and less than one year	Over one year	Total weighted value
Available Stable Funding (ASF):										
Capital:										
Regulatory Capital	4,249	-	-	-	4,249	3,995	-	-	-	3,995
Other Capital Instruments	464	-	-	325	789	470	-	-	290	760
Retail deposits and deposits from small business customers:										
Stable deposits	-	-	63	-	60	-	-	91	-	86
Less stable deposits	-	2,072	362	580	2,772	-	1,526	241	280	1,871
Wholesale funding:										
Operational deposits										
Other wholesale funding	-	21,391	4,080	8,206	14,270	-	16,403	4,056	7,393	12,863
Other liabilities:										
NSFR derivative liabilities	-	-	-	-	-	-	-	-	-	-
All other liabilities not included in the above categories	-	1,318	-	-	-	-	1,084	-	-	-
Total ASF (A)					22,140					19,575

31 December 2023 (All figures in US$ Million)

25 Risk Management (continued)

25.11 Liquidity risk (continued)

	31 December 2023					31 December 2022				
	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)	11,336	368	-	-	718	7,744	88	-	-	452
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	-	4,464	927	789	1,854	-	4,099	819	693	1,677
Performing loans to non- financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which:	-	7,393	2,512	5,907	9,973	-	7,281	2,128	5,729	9,574
With a risk weight of less than or equal to 35% as per the CBB Capital Adequacy Ratio guidelines	-	-	-	344	223	-	-	-	100	65
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	-	209	208	986	1,047	-	231	444	854	1,064
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	-	116	-	-	116	-	-	-	-	-
NSFR derivative liabilities before deduction of variation margin posted	-	-	-	-	-	-	-	-	-	-
All other assets not included in the above categories	4,210	350	3	2,649	2,865	2,772	327	18	2,214	2,504
OBS items	-	10,293	-	-	515	-	8,130	-	-	406
Total RSF (B)					17,311					15,742
NSFR (A/B)					128%					124%

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 2023 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 2023	Within 1 month	1 - 3 months	3 - 6 months	6 - 12 months	1 - 5 years	5-10 years	Over 10 years and undated	Total
Financial liabilities								
Deposits from customers	6,825	6,126	2,811	2,673	6,732	268	238	25,673
Deposits from banks	1,788	986	827	481	146	10	7	4,244
Certificates of deposits	23	51	14	24	37	-	-	149
Securities sold under repurchase agreements	1,427	4,761	258	156	473	-	-	7,075
Interest payable and other liabilities	1,074	-	-	-	-	-	1,650	2,724
Borrowings	-	15	41	106	1,398	4	107	1,671
Total non-derivative undiscounted financial liabilities on statement of financial position	11,137	11,939	3,951	3,440	8,786	282	2,002	41,536
ITEMS OFF STATEMENT OF FINANCIAL POSITION								
Gross settled foreign currency derivatives	4,803	4,626	1,658	5,889	4,909	70	-	21,955
Guarantees	2,782	-	-	-	-	-	-	2,782

At 31 December 2022	Within 1 month	1 - 3 months	3 - 6 months	6 - 12 months	1 - 5 years	5-10 years	Over 10 years and undated	Total
Financial liabilities								
Deposits from customers	7,416	4,534	1,766	3,349	5,310	239	168	22,782
Deposits from banks	1,809	983	548	361	114	2	-	3,817
Certificates of deposits	92	104	16	54	177	-	-	443
Securities sold under repurchase agreements	1,320	379	262	181	882	-	-	3,024
Interest payable and other liabilities	693	-	-	-	-	-	1,571	2,264
Borrowings	-	-	43	84	879	478	100	1,584
Total non-derivative undiscounted financial liabilities on statement of financial position	11,330	6,000	2,635	4,029	7,362	719	1,839	33,914
ITEMS OFF STATEMENT OF FINANCIAL POSITION								
Gross settled foreign currency derivatives	4,239	3,808	1,670	5,651	1,847	1,520	30	18,765
Guarantees	2,738	-	-	-	-	-	-	2,738

31 December 2023 (All figures in US$ Million)

25 Risk Management (continued)

25.11 Liquidity risk (continued)

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

At 31 December 2023	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	4,339	-	127	-	4,466	-	-	-	-	-	-	4,466
Trading securities	27	6	12	536	581	170	111	197	1	10	489	1,070
Placements with banks and other financial institutions	1,696	165	26	344	2,231	-	-	-	-	-	-	2,231
Securities bought under repurchase agreements	1,630	332	-	229	2,191	-	-	-	-	-	-	2,191
Non-trading investments	3,722	3,995	431	430	8,578	1,264	1,401	103	1	21	2,790	11,368
Loans and advances	2,724	3,230	3,107	3,010	12,071	5,442	1,452	128	3	-	7,025	19,096
Others	-	-	-	-	-	-	-	-	-	3,470	3,470	3,470
Total assets	14,138	7,728	3,703	4,549	30,118	6,876	2,964	428	5	3,501	13,774	43,892
LIABILITIES, SHAREHOLDERS' EQUITY AND NON-CONTROLLING INTERESTS												
Deposits from customers	6,766	3,993	2,223	4,720	17,702	5,689	170	144	-	-	6,003	23,705
Deposits from banks	1,698	797	781	463	3,739	387	2	7	-	-	396	4,135
Certificates of deposit	23	50	13	22	108	34	-	-	-	-	34	142
Securities sold under repurchase agreements	347	213	-	133	693	6,240	-	-	-	-	6,240	6,933
Borrowings	-	-	4	58	62	1,140	3	-	-	98 *	1,241	1,303
Others	-	-	-	-	-	-	-	-	-	2,870	2,870	2,870
Shareholders' equity and non-controlling interests	-	-	-	-	-	-	-	-	-	4,804	4,804	4,804
Total liabilities, shareholders' equity and non-controlling interests	8,834	5,053	3,021	5,396	22,304	13,490	175	151	-	7,772	21,588	43,892
Net liquidity gap	5,304	2,675	682	(847)	7,814	(6,614)	2,789	277	5	(4,271)	(7,814)	-
Cumulative net liquidity gap	5,304	7,979	8,661	7,814		1,200	3,989	4,266	4,271	-		

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

At 31 December 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	-		

* These represent perpetual instruments, refer note 14 for details.

31 December 2023 (All figures in US$ Million)

26 Operating segments

For management purposes, the Group is organised into five operating segments which are based on business units and their activities. The Group has accordingly been structured to place its activities under the distinct divisions which are as follows:

- **MENA subsidiaries** cover retail, corporate and treasury activities of subsidiaries in North Africa and Levant;
- **International wholesale banking** encompasses corporate and structured finance, trade finance, Islamic banking services and syndications;
- **Group treasury** comprises treasury activities of Bahrain Head Office, New York and London;
- **ABC Brasil** primarily reflects the commercial banking and treasury activities of the Brazilian subsidiary Banco ABC Brasil S.A., focusing on the corporate and middle market segments in Brazil and its related holding Company; and
- **Other** includes activities of Arab Financial Services Company B.S.C. (c) and ila Bank.

	2023					
	MENA subsidiaries	International wholesale banking	Group treasury	Banco ABC Brasil	Other	Total
Net interest income	221	203	46	307	158	935
Other operating income	45	82	39	131	47	344
Total operating income	266	285	85	438	205	1,279
Total operating expenses	(134)	(132)	(31)	(199)	(102)	(598)
Net operating profit (loss) before credit loss expense, taxation and unallocated operating expenses	132	153	54	239	103	681
Credit loss expense	(34)	(32)	-	(78)	(1)	(145)
Profit (loss) before taxation and unallocated operating expenses	98	121	54	161	102	536
Taxation expense on foreign operations	(50)	(14)	(2)	(8)	-	(74)
Unallocated operating expenses						(166)
Profit for the year						296
Operating assets as at 31 December 2023	5,343	8,698	18,034	11,364	453	43,892
Operating liabilities as at 31 December 2023	4,641	-	23,629	10,113	705	39,088

	2022					
	MENA subsidiaries	International wholesale banking	Group treasury	Banco ABC Brasil	Other	Total
Net interest income	218	172	59	287	50	786
Other operating income	47	77	41	113	37	315
Total operating income	265	249	100	400	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	70	231	(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) credit 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

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 2023 and 2022:

	Bahrain	Europe	Brazil	Other	Total
2023					
Total operating income	**341**	**167**	**441**	**330**	**1,279**
2022					
Total operating income	262	115	406	318	1,101

There were no revenues derived from transactions with a single external customer that amounted to 10% or more of the Group's revenue (2022: none).

31 December 2023 (All figures in US$ Million)

27 Repurchase and resale agreements

Proceeds from assets sold under repurchase agreements at the year-end amounted to US$6,933 million (2022: US$ 2,878 million). The carrying value of securities sold under repurchase agreements at the year-end amounted to US$7,245 million (2022: US$2,984 million).

Amounts paid for assets purchased under resale agreements at the year-end amounted to US$2,191 million (2022: US$1,386 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$2,577 million (2022: US$1,559 million).

28 Transactions with related parties

Related parties represent the ultimate parent, major shareholders, associates, directors and key management personnel of the Group and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Group's management.

The year-end balances in respect of related parties included in the consolidated financial statements are as follows:

	Ultimate parent	Major shareholder	Directors	2023	2022
Deposits from customers	2,949	-	37	2,986	3,179
Borrowings	1,115	-	-	1,115	1,115
Additional / perpetual tier-1 capital*	390	-	-	390	390
Short-term self-liquidating trade and transaction-related contingent items	966	-	-	966	387

* During the year, the Group has paid interest on additional / perpetual tier-1 capital amounting to US$18 million (2022: 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:

	2023	2022
Commission income	18	8
Interest expense	257	119

Compensation of the key management personnel is as follows:

	2023	2022
Short term employee benefits	21	20
Post employment benefits	4	8
	25	28

29 Fiduciary assets

Funds under management at the year-end amounted to US$18,506 million (2022: US$17,018 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$3,769 million (2022: US$2,618 million). Loans and advances, non-trading investments and placements include Islamic assets of US$ 1,021 million (2022: US$984 million), US$809 million (2022: US$882 million) and US$ nil (2022: US$8 million).

31 Assets pledged as security

At the reporting date, in addition to the items mentioned in note 27, assets amounting to US$363 million (2022: US$265 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:

	2023	2022
Profit attributable to the shareholders of the parent	**235**	154
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)	**217**	145
Weighted average number of shares outstanding during the year (millions) for basic and diluted earnings per share	**3,094**	3,094
Basic and diluted earnings per share (US$)	**0.07**	0.05

32.2 Proposed dividends and transfers

	2023	2022
Proposed cash dividend for 2023 of US$0.0225 per share (2022: US$0.015 per share)	**70**	46

The proposed cash dividend is subject to regulatory approvals and approval at the Annual General Meeting.

31 December 2023 (All figures in US$ Million)

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 2023 are based on standardised measurement methodology and in accordance with the CBB Basel III guidelines.

		2023	2022
Capital Base			
CET 1	[a]	**4,080**	3,866
AT 1		**464**	470
Total Tier 1 capital	[b]	**4,544**	4,336
Tier 2		**325**	290
Total capital base	[c]	**4,869**	4,626

		2023	2022
Risk-Weighted Exposures			
Credit risk weighted assets and off balance sheet items		**27,632**	25,003
Market risk weighted assets and off balance sheet items		**836**	866
Operational risk weighted assets		**1,758**	1,677
Total risk-weighted assets	[d]	**30,226**	27,546
CET 1 ratio	[a/d*100]	**13.5%**	14.0%
Tier 1 ratio	[b/d*100]	**15.0%**	15.7%
Risk asset ratio	[c/d*100]	**16.1%**	16.8%
Minimum requirement for Risk asset ratio		**12.5%**	12.5%

The Group's capital base primarily comprises:

(a) Tier 1 capital: share capital, treasury shares, reserves, retained earnings, non controlling interests, profit for the year and cumulative changes in fair value;

(b) Additional Tier 1 Capital: eligible portion of a perpetual financial instrument issued by the Bank's subsidiary; and

(c) Tier 2 capital: eligible non controlling interests and expected credit losses.

The Group has complied with all the capital adequacy requirements as set by the Central Bank of Bahrain.

34 Changes in liabilities arising from financing activities

	1 January 2023	Cash flow, net	Foreign exchange movement	31 December 2023
Certificates of deposit	**435**	**(299)**	**6**	**142**
Borrowings	**1,297**	**2**	**4**	**1,303**
Total liabilities from financing activities	**1,732**	**(297)**	**10**	**1,445**

	1 January 2022	Cash flow, net	Foreign exchange movement	31 December 2022
Certificates of deposit	725	(187)	(103)	435
Borrowings	1,211	75	11	1,297
Total liabilities from financing activities	1,936	(112)	(92)	1,732

31 December 2023 (All figures in US$ Million)

35 Goodwill on business acquistion

35.1 Goodwill on acquisition of BLOM Bank Egypt

	2023	2022
As at 1 January	51	80
Exchange rate movement	(10)	(29)
As at 31 December	41	51

35.2 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 Group'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 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 20% (2022: 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% (2022: 7%), adjusted for expected changes in benchmark interest rates and sector growth rates over time, applied to projected periods beyond 2031.

The calculation of VIU in the CGU is most sensitive to the following assumptions:

- interest margins;
- discount rates; and
- projected growth rates used to extrapolate cash flows beyond the projection period.

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 2023, the goodwill impairment test determined there was no impairment required to the CGU allocated to MENA subsidiaries.

The forecast cash flows have been discounted using the discount rate mentioned above. A 1% point increase in the discount rate or decrease in the terminal growth rate keeping other factors constant would reduce the recoverable amount of the CGU and will result in a goodwill impairment.

Other intangibles

Acquired other intangibles are recognised at their 'fair value' upon initial recognition. The specific criteria which needs to be satisfied for an intangible asset to be recognised separately from goodwill in an acquisition is that the intangible asset must be clearly identifiable, in that it either;

- be separable, that is, be capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or liability; or
- arise from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

The Bank identified CDI's as other intangibles which are being amortised using the straight-line method over the useful life of the asset, which is estimated to be 10 years. If an indication of impairment arises, the recoverable amount is estimated and an impairment loss is recognised if the recoverable amount is lower than the carrying amount. There were no indicators of impairment identified with respect to CDI.

36 Subsequent events

There were no subsequent events through 11 February 2024, the date the consolidated financial statements were approved by the Board of Directors which may impact the consolidated financial statements.

APPENDICES

Bank ABC's multi-award winning digital mobile-only bank, ila, offers a seamless banking experience that reflects the fast-paced and connected lifestyles of today's tech-empowered consumers.

05

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