

**Arab Banking Corporation (B.S.C.)**

**CONSOLIDATED FINANCIAL STATEMENTS**

**31 DECEMBER 2023**

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

### **Report on the audit of the consolidated financial statements**

#### *Opinion*

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

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

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

*Key audit matters (continued)*

*Impairment provision for loans and advances*

<i>Description of key audit matter</i>	<i>How the key audit matter was addressed in the audit</i>
<p>IFRS 9 Financial Instruments (IFRS 9) requires use of expected credit loss ("ECL") models for the purposes of calculating impairment loss against loans and advances carried at amortised cost and FVOCI. The process for estimating the impairment provision on loans and advances in accordance with IFRS 9 is a significant and complex area, due to subjective nature of ECL calculation and the level of estimation involved.</p>	<p>Our approach included testing the controls associated with the relevant processes for estimating ECL and performing substantive procedures on such estimates. Our procedures, among others, focused on following:</p> <ul style="list-style-type: none"> <li>● We assessed: <ul style="list-style-type: none"> <li>- 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;</li> <li>- the Group's ECL modelling techniques and methodology against the requirements of IFRS 9;</li> <li>- 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;</li> <li>- the theoretical soundness and tested the mathematical integrity of the models.</li> </ul> </li> </ul>

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

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

*Key audit matters (continued)*

*Impairment provision for loans and advances (continued)*

<i>Description of key audit matter</i>	<i>How the key audit matter was addressed in the audit</i>
<p>Additional subjectivity and judgement has been introduced into measurement of ECL due to the heightened uncertainty associated with the impact of current economic outlook and uncertain geopolitical situation in countries where the Group and its customers operate. Due to the complexity of ECL related IFRS 9 requirements, effect of the matters stated above, significance of the judgements applied in determination of ECL and the Group's exposure to loans and advances forming a major portion of the Group's assets, the audit of ECL is a key area of focus.</p>	<ul style="list-style-type: none"> <li>● 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.</li> <li>● 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.</li> </ul>

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

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

*Key audit matters (continued)*

*Impairment provision for loans and advances (continued)*

<i>Description of key audit matter</i>	<i>How the key audit matter was addressed in the audit</i>
<p>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.</p> <p>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.</p>	<ul style="list-style-type: none"> <li>● For a sample of exposures, we performed procedures to evaluate: <ul style="list-style-type: none"> <li>- Appropriateness of exposure at default, probability of default and loss given default (including collateral values used) in the calculation of ECL;</li> <li>- Timely identification of exposures with a significant increase in credit risk and appropriateness of the Group's staging; and</li> <li>- Appropriateness of the ECL calculation.</li> </ul> </li> <li>● 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;</li> <li>● 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.</li> </ul> <p>We also involved our specialists in performing the above procedures.</p>

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

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

#### *Other information included in the Group's 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.

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

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

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

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

### **Report on other legal and regulatory requirements**

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

- a) the Bank has maintained proper accounting records and the consolidated financial statements are in agreement therewith;
- b) the financial information contained in the Directors report is consistent with the consolidated financial statements;
- c) we are not aware of any violations of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 1 and applicable provisions of Volume 6) and CBB directives, regulations and associated resolutions, rules and procedures of the Bahrain Bourse or the terms of the Bank's memorandum and articles of association during the year ended 31 December 2023 that might have had a material adverse effect on the business of the Bank or on its consolidated financial position; and





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

**Report on other legal and regulatory requirements (continued)**

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

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

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

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

# Arab Banking Corporation (B.S.C.)

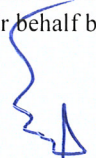
## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

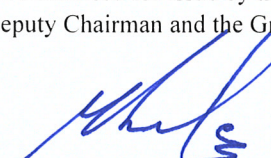
31 December 2023

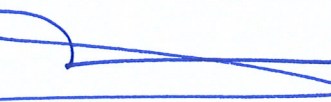
*All figures in US\$ Million*

	Note	2023	2022
<b>ASSETS</b>			
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
<b>TOTAL ASSETS</b>		<b>43,892</b>	<b>36,639</b>
<b>LIABILITIES</b>			
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
<b>Total liabilities</b>		<b>39,088</b>	<b>32,118</b>
<b>EQUITY</b>			
Share capital	15	3,110	3,110
Treasury shares		(6)	(6)
Statutory reserve		569	545
Retained earnings		1,283	1,125
Other reserves		(1,046)	(1,069)
<b>EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT</b>		<b>3,910</b>	<b>3,705</b>
Additional / perpetual tier-1 capital	16	390	390
<b>EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT AND PERPETUAL INSTRUMENT HOLDERS</b>		<b>4,300</b>	<b>4,095</b>
Non-controlling interests		504	426
<b>Total equity</b>		<b>4,804</b>	<b>4,521</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>43,892</b>	<b>36,639</b>

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

  
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 Mohammad Abdulredha Saleem  
 Deputy Chairman

  
 \_\_\_\_\_  
 Sael Al Waary  
 Group Chief Executive Officer

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



# Arab Banking Corporation (B.S.C.)

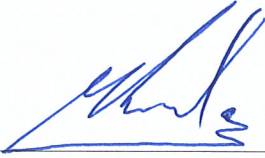
## CONSOLIDATED STATEMENT OF PROFIT OR LOSS

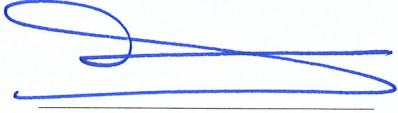
Year ended 31 December 2023

*All figures in US\$ Million*

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

  
Saddek El Kaber  
Chairman

  
Mohammad Abdulredha Saleem  
Deputy Chairman

  
Sael Al Waary  
Group Chief Executive Officer

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

# Arab Banking Corporation (B.S.C.)

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2023

All figures in US\$ Million

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

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

# Arab Banking Corporation (B.S.C.)

## CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2023

*All figures in US\$ Million*

	Note	2023	2022
<b>OPERATING ACTIVITIES</b>			
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		<u>5,380</u>	<u>935</u>
<b>INVESTING ACTIVITIES</b>			
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		<u>(3,368)</u>	<u>(423)</u>
<b>FINANCING ACTIVITIES</b>			
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		<u>(389)</u>	<u>(169)</u>
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
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>	6	<u><u>4,466</u></u>	<u><u>2,848</u></u>

\*This excludes non-cash item amounting to US\$ 390 million, which was converted from deposits from customers to additional / perpetual tier-1 capital instruments during the year ended 31 December 2022.

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

Arab Banking Corporation (B.S.C.)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2023

All figures in US\$ Million

	Equity attributable to the shareholders of the parent								Additional / perpetual tier - 1 capital	Non- controlling interests	Total equity	
	Share capital	Treasury shares	Statutory reserve	Retained earnings*	General reserve	Other reserves						Total
						Foreign exchange translation adjustments	Cumulative changes in fair value	Pension fund reserve				
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
<b>At 31 December 2023</b>	<b>3,110</b>	<b>(6)</b>	<b>569</b>	<b>1,283</b>	<b>100</b>	<b>(1,126)</b>	<b>13</b>	<b>(33)</b>	<b>3,910</b>	<b>390</b>	<b>504</b>	<b>4,804</b>

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

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

## 1 INCORPORATION AND ACTIVITIES

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

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

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

## 2 BASIS OF PREPARATION

### 2.1 Statement of compliance

The consolidated financial statements of the Group are prepared in accordance with International Financial Reporting Standards ("IFRS") 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.



**2 BASIS OF PREPARATION (continued)**

**2.3 Basis of consolidation (continued)**

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

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

**3 NEW AND AMENDED STANDARDS AND INTERPRETATIONS**

**3.1 Standards effective for the year**

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



**3 NEW AND AMENDED STANDARDS AND INTERPRETATIONS (continued)**

**3.1 Standards effective for the year (continued)**

***International Tax Reform—Pillar Two Model Rules – Amendments to IAS 12 (continued)***

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.

**4 SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)**

**4.8 Leases - Group as a lessee (continued)**

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

*Right-of-use assets*

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

*Lease liabilities*

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

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

The Group discloses lease liabilities under other liabilities.

*Short-term leases and leases of low-value assets*

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

**4.9 Collateral repossessed**

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

**4.10 Repurchase and reverse repurchase agreements**

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

**4 SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)**

**4.11 Employee pension and other end of service benefits**

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

**4.12 Recognition of income and expenses**

*4.12.1 The effective interest rate (EIR) method*

Under IFRS 9 Financial instruments (IFRS 9), interest income is recorded using the EIR method for all financial assets measured at amortised cost, interest rate derivatives for which hedge accounting is applied and the related amortisation/recycling effect of hedge accounting. Interest income on interest bearing financial assets measured at fair value through other comprehensive income (FVOCI) under IFRS 9 is also recorded using the EIR method. Interest expense is also calculated using the EIR method for all financial liabilities held at amortised cost. The EIR is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability or, when appropriate, a shorter period, to the gross carrying amount of the financial asset or liability.

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

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

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

The 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 SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)**

**4.12 Recognition of income and expenses (continued)**

*4.12.3 Fee and commission income*

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

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

Performance obligations satisfied over time include asset management and other services, where the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs. The Group's fee and commission income from services where performance obligations are satisfied over time include the following:

*Asset management fees*

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

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

*Loan commitment and other fees*

These are fixed 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 SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)**

**4.14 Financial instruments (continued)**

*4.14.2 Initial measurement*

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

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

*4.14.3 Day 1 profit or loss*

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

- (a) When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a Level 1 input) or based on a valuation technique that uses data only from observable markets, the difference is recognised as a day 1 gain or loss.
- (b) In all other cases, the difference is deferred and the timing of recognition of deferred day 1 profit or loss is determined individually. It is either amortised over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or when the instrument is derecognised.

**4.15 Financial assets**

*4.15.1 Debt type instruments - classification and subsequent measurement*

The classification requirements for financial assets is as below.

Classification and subsequent measurement of debt instruments depend on:

- (i) the Group's business model for managing the asset; and
- (ii) the cash flow characteristics of the asset i.e. solely payments of principal and interest (SPPI) test.

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

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

**4 SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)**

**4.15 Financial assets (continued)**

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

- Fair value through profit or loss (FVTPL): Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. The Group may also designate a financial asset at FVTPL, if so doing eliminates or significantly reduces measurement or recognition inconsistencies. A gain or loss on a debt investment that is subsequently measured at FVTPL is recognised and presented in the consolidated statement of profit or loss within 'Other operating income' as '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 realizing cash flows through the sale of the assets;
- How the asset's and business model performance is evaluated and reported to key management personnel and Group Asset and Liability Committee (GALCO);
- How risks are assessed and managed; and
- The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realised.

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

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

*4.15.3 SPPI test*

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

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

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

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

**4 SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)**

**4.15 Financial assets (continued)**

*4.15.3 SPPI test (continued)*

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

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

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

*4.15.4 Reclassification*

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

*4.15.5 Equity type instruments - classification and subsequent measurement*

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

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

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

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

*4.15.6 Modified or forbearance of loans*

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

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



**4 SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)**

**4.15 Financial assets (continued)**

*4.15.6 Modified or forbearance of loans (continued)*

- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

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

In order for the loan to be reclassified out of the forbore category, the customer has to meet all of the following 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 forbore; and
- The customer does not have any contract that is more than 30 days past due.

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

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

*4.15.7 Derecognition other than on a modification*

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

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

- (i) Has no obligation to make payments unless it collects equivalent amounts from the assets;
- (ii) Is prohibited from selling or pledging the assets; and
- (iii) Has an obligation to remit any cash it collects from the assets without material delay.

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

**4 SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)**

**4.15 Financial assets (continued)**

*4.15.8 Derecognition of financial instruments in the context of IBOR reform*

As explained in note 4.15.6 and 4.16.2, the Group derecognises financial assets and financial liabilities if there has been a substantial modification of their terms and conditions. In the context of IBOR reform, substantially all of the financial instruments have already been amended during 2023 as they transitioned from IBORs to ARR. 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 SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)**

**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 POCL, 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.

**4 SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)**

**4.18 Impairment of financial assets (continued)**

*Measurement of ECL (continued)*

- 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.

**4 SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)**

**4.18 Impairment of financial assets (continued)**

*Stage 2 (continued)*

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 reorganization; or
- the disappearance of an active market for a security because of financial difficulties.

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

- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of creditworthiness.
- 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.

**4 SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)**

**4.18 Impairment of financial assets (continued)**

*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 and fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

**4 SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)**

**4.19 Impairment of non-financial assets (continued)**

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount. Impairment losses are recognised in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to CGU, and then to reduce the carrying amounts of others assets in the CGU on pro-rata basis. An impairment loss on goodwill is not reversed. For, other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognised.

**4.20 Provisions**

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the consolidated statement of profit or loss net of any reimbursement.

**4.21 Financial guarantee contracts and loan commitments**

The Group issues financial guarantees, letters of credit and loan commitments.

Financial guarantees are initially recognised in the consolidated financial statements at fair value, being the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the consolidated statement of profit or loss, and an ECL provision.

The premium received is recognised in the consolidated statement of profit or loss in 'Other operating income' on a straight line basis over the life of the guarantee.

Undrawn loan commitments and letters of credits are commitments under which, over the duration of the commitment, the Group is required to provide a loan with pre-specified terms to the customer.

The nominal contractual value of financial guarantees, letters of credit and undrawn loan commitments, where the loan agreed to be provided is on market terms, are not recorded in the consolidated statement of financial position.

An ECL is calculated and recorded for these in a similar manner as for debt type financial instruments as explained in note 4.18.

**4.22 Derivatives and hedging activities**

The Group has adopted IFRS 9 on its effective date of 1 January 2018 and applies the same for hedge accounting.

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided that, in the case of a non-financial variable, it is not specific to a party to the contract (i.e., the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts expected to have a similar response to changes in market factors.
- It is settled at a future date.

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.

**4 SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)**

**4.22 Derivatives and hedging activities (continued)**

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:



**4 SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)**

**4.23 Fair value measurement (continued)**

- 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.

**4 SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)**

**4.24 Taxation on foreign operations (continued)**

**Deferred tax (continued)**

- 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.

**4 SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)**

**4.25 Foreign currencies (continued)**

*Transactions and balances (continued)*

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 SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)**

**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.

**4 SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)**

**4.32 Business combination and goodwill (continued)**

*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 SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)**

**4.33 Material accounting judgements, estimates and assumptions**

*Measurement of the expected credit loss allowance (ECL) (continued)*

- Selection and relative weightings of forward-looking scenarios to derive the economic inputs into the ECL models;
- Establishing groups of similar financial assets for the purposes of measuring ECL; and
- Determining relevant period of exposure with respect to the revolving credit facilities and facilities undergoing restructuring at the time of the reporting date.

*Classification of financial assets*

Classification of financial assets in the appropriate category depends upon the business model and SPPI test. Determining the appropriate business model and assessing whether the cash flows generated by the financial asset meet the SPPI test is complex and requires significant judgements by management.

The Group applies judgement while carrying out SPPI test and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

*Fair value of financial instruments*

Where the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of valuation models. The inputs to these models are derived from observable market data where possible, but if this is not available, judgement is required to establish fair values. Refer to note 23 for further disclosures.

**4.34 Corresponding figures**

Certain of the prior year's figures have been re-classified to conform to the presentation adopted in the current year. Such reclassifications do not affect previously reported net profit and total comprehensive income for the year or shareholder's equity.

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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	<i>FVTPL</i>	<i>FVOCI</i>	<i>Amortised cost</i>	<i>Total</i>
<b>ASSETS</b>				
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
	<u>2,061</u>	<u>6,159</u>	<u>34,835</u>	<u>43,055</u>
	<u>2,061</u>	<u>6,159</u>	<u>34,835</u>	<u>43,055</u>
			<i>Amortised cost</i>	<i>Total</i>
<b>LIABILITIES</b>				
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
	<u>779</u>	<u>-</u>	<u>38,069</u>	<u>38,848</u>
	<u>779</u>	<u>-</u>	<u>38,069</u>	<u>38,848</u>
			<i>Amortised cost</i>	<i>Total</i>
At 31 December 2022	<i>FVTPL</i>	<i>FVOCI</i>	<i>Amortised cost</i>	<i>Total</i>
<b>ASSETS</b>				
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
	<u>1,653</u>	<u>7,314</u>	<u>26,929</u>	<u>35,896</u>
	<u>1,653</u>	<u>7,314</u>	<u>26,929</u>	<u>35,896</u>
			<i>Amortised cost</i>	<i>Total</i>
<b>LIABILITIES</b>				
Deposits from customers	-	-	21,396	21,396
Deposits from banks	-	-	3,764	3,764
Certificates of deposit	-	-	435	435
Securities sold under repurchase agreements	-	-	2,878	2,878
Other liabilities	809	-	1,356	2,165
Borrowings	-	-	1,297	1,297
	<u>809</u>	<u>-</u>	<u>31,126</u>	<u>31,935</u>
	<u>809</u>	<u>-</u>	<u>31,126</u>	<u>31,935</u>

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*All figures in US\$ Million*

**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
<b>Cash and cash equivalents</b>	<b>4,466</b>	<b>2,848</b>
Treasury bills and other eligible bills with original maturities of more than three months	-	38
	<b>4,466</b>	<b>2,886</b>
ECL allowances	-	-
	<b>4,466</b>	<b>2,886</b>

**7 TRADING SECURITIES**

	2023	2022
Debt instruments	1,060	576
Equity instruments	10	14
	<b>1,070</b>	<b>590</b>

**8 NON-TRADING INVESTMENTS**

	2023	2022
<b>Debt securities</b>		
At amortised cost	5,977	1,397
At FVOCI	5,458	6,755
	<b>11,435</b>	<b>8,152</b>
ECL allowances	(88)	(87)
<b>Debt securities - net</b>	<b>11,347</b>	<b>8,065</b>
<b>Equity securities</b>		
At FVOCI	21	15
	<b>11,368</b>	<b>8,080</b>

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
	<b>11,435</b>	<b>8,152</b>
ECL allowances	(88)	(87)
	<b>11,347</b>	<b>8,065</b>



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**8 NON-TRADING INVESTMENTS (continued)**

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)
	<b>11,347</b>	<b>-</b>	<b>-</b>	<b>11,347</b>
	2022			
	Stage 1	Stage 2	Stage 3	Total
Debt securities, gross	8,078	-	74	8,152
ECL allowances	(13)	-	(74)	(87)
	<b>8,065</b>	<b>-</b>	<b>-</b>	<b>8,065</b>

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	<b>14</b>	<b>-</b>	<b>74</b>	<b>88</b>
	2022			
	Stage 1	Stage 2	Stage 3	Total
As at 1 January	19	-	86	105
Additions	-	-	-	-
Recoveries / write back	(5)	-	(2)	(7)
Charge for the year - net	(5)	-	(2)	(7)
Amounts written-off	-	-	(10)	(10)
Exchange adjustments and other movements	(1)	-	-	(1)
As at 31 December	<b>13</b>	<b>-</b>	<b>74</b>	<b>87</b>

No interest income was received during the year on impaired investments classified under Stage 3 (2022: nil).

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**9 LOANS AND ADVANCES**

Below is the classification of loans and advances by measurement:

	2023			
	Stage 1	Stage 2	Stage 3	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
	<b>18,219</b>	<b>815</b>	<b>710</b>	<b>19,744</b>
ECL allowances	(139)	(74)	(435)	(648)
	<b>18,080</b>	<b>741</b>	<b>275</b>	<b>19,096</b>
	2022			
	Stage 1	Stage 2	Stage 3	Total
At FVTPL				
- Wholesale	95	-	-	95
At FVOCI				
- Wholesale	631	-	-	631
At Amortised cost				
- Wholesale	15,902	701	611	17,214
- Retail	838	41	44	923
	17,466	742	655	18,863
ECL allowances	(139)	(71)	(463)	(673)
	<b>17,327</b>	<b>671</b>	<b>192</b>	<b>18,190</b>

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
	<b>19,744</b>	<b>18,863</b>	<b>648</b>	<b>673</b>	<b>19,096</b>	<b>18,190</b>

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All figures in US\$ Million

**9 LOANS AND ADVANCES (continued)**

An analysis of movement in the ECL allowances during the years ended 31 December 2023 and 31 December 2022 are as follows:

	<i>2023</i>			<i>Total</i>
	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	
As at 1 January	<b>139</b>	<b>71</b>	<b>463</b>	<b>673</b>
Transfers to stage 1	<b>3</b>	<b>(3)</b>	<b>-</b>	<b>-</b>
Transfers to stage 2	<b>(2)</b>	<b>2</b>	<b>-</b>	<b>-</b>
Transfers to stage 3	<b>(1)</b>	<b>(15)</b>	<b>16</b>	<b>-</b>
Net transfers between stages	<b>-</b>	<b>(16)</b>	<b>16</b>	<b>-</b>
Net remeasurements / additions	<b>(14)</b>	<b>15</b>	<b>193</b>	<b>194</b>
Recoveries / write back	<b>-</b>	<b>-</b>	<b>(54)</b>	<b>(54)</b>
Charge for the year - net	<b>(14)</b>	<b>15</b>	<b>139</b>	<b>140</b>
Amounts written-off	<b>-</b>	<b>-</b>	<b>(205)</b>	<b>(205)</b>
Exchange adjustments and other movements	<b>14</b>	<b>4</b>	<b>22</b>	<b>40</b>
As at 31 December	<b>139</b>	<b>74</b>	<b>435</b>	<b>648</b>
	<i>2022</i>			
	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
As at 1 January	109	89	493	691
Transfers to stage 1	7	(7)	-	-
Transfers to stage 2	(2)	2	-	-
Transfers to stage 3	-	(23)	23	-
Net transfers between stages	5	(28)	23	-
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).

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**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)
	<b>(9)</b>	<b>13</b>	<b>141</b>	<b>145</b>
	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
	<b>23</b>	<b>11</b>	<b>85</b>	<b>119</b>

**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
	<b>3,210</b>	<b>3,016</b>

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	<b>57</b>	<b>52</b>

**12 TAXATION ON FOREIGN OPERATIONS**

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

	2023	2022
<b>Consolidated statement of financial position</b>		
Current tax liability	44	20
Deferred tax liability	102	64
	<u>146</u>	<u>84</u>
<b>Consolidated statement of profit or loss</b>		
Current tax on foreign operations	91	70
Deferred tax on foreign operations	(17)	13
	<u>74</u>	<u>83</u>
<b>Analysis of tax charge</b>		
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
	<u>74</u>	<u>83</u>
Income tax expense reported in the consolidated statement of profit or loss	<u>74</u>	<u>83</u>

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
	<u>2,724</u>	<u>2,264</u>

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.

**13 OTHER LIABILITIES (continued)**

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

	<i>Lease liabilities</i>	
	<i>2023</i>	<i>2022</i>
As at 1 January	<b>55</b>	50
Add: New/terminated leases - net	<b>16</b>	16
Add: Interest expense	<b>3</b>	2
Less: Repayments	<b>(14)</b>	(11)
Others (including foreign exchange movements)	<b>1</b>	(2)
As at 31 December	<b>61</b>	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**

	<i>Currency</i>	<i>Rate of interest</i> %	<i>Parent bank</i>	<i>Subsidiaries</i>	<i>Total</i>
<b>Aggregate maturities</b>					
2024	EUR	<i>EURIBOR +1.15%</i>	-	<b>55</b>	<b>55</b>
2025*	US\$	<i>SOFR +1.35%</i>	-	<b>175</b>	<b>175</b>
2027*	US\$	<i>SOFR +2%</i>	<b>470</b>	-	<b>470</b>
2028*	US\$	<i>SOFR +2%</i>	<b>470</b>	-	<b>470</b>
2024-2029	US\$	<i>2.67%</i>	-	<b>30</b>	<b>30</b>
2024-2027	TND	<i>9.7-11.50%</i>	-	<b>5</b>	<b>5</b>
Perpetual**	BRL	<i>Selic *1.2</i>	-	<b>98</b>	<b>98</b>
			<b>940</b>	<b>363</b>	<b>1,303</b>

**Total obligations outstanding at 31 December 2022**

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

\*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.

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**15 EQUITY**

**a) Share capital**

	<b>2023</b>	<b>2022</b>
Authorised – 4,500 million shares of US\$ 1 each (2022: 4,500 million shares of US\$ 1 each)	<b>4,500</b>	4,500
Issued, subscribed and fully paid – 3,110 million shares of US\$ 1 each (2022: 3,110 million shares of US\$ 1 each)	<b>3,110</b>	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**

	<b>2023</b>	<b>2022</b>
At 1 January	<b>(22)</b>	63
Net movement in fair value during the year	<b>35</b>	(85)
At 31 December	<b>13</b>	(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 INCOME**

	<b>2023</b>	<b>2022</b>
Loans and advances	<b>1,773</b>	1,290
Securities and investments	<b>696</b>	495
Placements with banks and other financial institutions	<b>494</b>	232
Others	<b>89</b>	22
	<b>3,052</b>	2,039

# Arab Banking Corporation (B.S.C.)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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
	<u>2,117</u>	<u>1,253</u>

### 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
	<u>342</u>	<u>314</u>
Gain on hedging foreign currency movements**	2	1
	<u>344</u>	<u>315</u>

\*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:

	<i>Principal activities</i>	<i>Country of incorporation</i>	<i>Interest of Arab Banking Corporation (B.S.C.)</i>	
			2023	2022
			%	%
ABC International Bank Plc	<i>Banking</i>	<i>United Kingdom</i>	<b>100.0</b>	100.0
ABC SA	<i>Banking</i>	<i>France</i>	<b>100.0</b>	100.0
ABC Islamic Bank (E.C.)	<i>Banking</i>	<i>Bahrain</i>	<b>100.0</b>	100.0
Arab Banking Corporation (ABC) - Jordan	<i>Banking</i>	<i>Jordan</i>	<b>87.0</b>	87.0
Banco ABC Brasil S.A.	<i>Banking</i>	<i>Brazil</i>	<b>63.6</b>	63.7
ABC Algeria	<i>Banking</i>	<i>Algeria</i>	<b>88.9</b>	88.9
Arab Banking Corporation - Egypt [S.A.E.]*	<i>Banking</i>	<i>Egypt</i>	<b>99.6</b>	99.6
ABC Tunisie	<i>Banking</i>	<i>Tunisia</i>	<b>100.0</b>	100.0
Arab Financial Services Company B.S.C. (c)	<i>Credit card and Fintech services</i>	<i>Bahrain</i>	<b>90.4</b>	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 GROUP INFORMATION (continued)**

**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
<b>Summarised statement of profit or loss:</b>		
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)
<b>Profit before tax</b>	<b>165</b>	190
Taxation *	(1)	(37)
<b>Profit for the year</b>	<b>164</b>	153
<b>Profit attributable to non-controlling interests</b>	<b>60</b>	56
<b>Total comprehensive income</b>	<b>240</b>	207
<b>Total comprehensive income attributable to non-controlling interests</b>	<b>87</b>	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.

**Summarised statement of financial position:**

Total assets	11,341	9,613
Total liabilities	10,125	8,610
<b>Total equity</b>	<b>1,216</b>	1,003
<b>Equity attributable to non-controlling interests</b>	<b>443</b>	365

**Summarised cash flow information:**

Operating activities	8	272
Investing activities	81	(265)
Financing activities	(25)	(85)
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>64</b>	(78)

## 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		
	<i>Positive fair value</i>	<i>Negative fair value</i>	<i>Notional amount</i>	<i>Positive fair value</i>	<i>Negative fair value</i>	<i>Notional amount</i>
<i>Derivatives held for trading</i>						
Interest rate swaps	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
	<b>853</b>	<b>766</b>	<b>37,943</b>	<b>865</b>	<b>805</b>	<b>31,028</b>
<i>Derivatives held as hedges</i>						
Interest rate swaps	81	13	2,308	103	2	3,248
Currency swaps	17	-	133	-	-	118
Forward foreign exchange contracts	1	-	169	-	2	86
	<b>99</b>	<b>13</b>	<b>2,610</b>	<b>103</b>	<b>4</b>	<b>3,452</b>
	<b>952</b>	<b>779</b>	<b>40,553</b>	<b>968</b>	<b>809</b>	<b>34,480</b>
Risk weighted equivalents (credit and market risk)			<b>1,328</b>			<b>1,232</b>

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.

## 21 DERIVATIVES AND HEDGING (continued)

### *Derivative related credit risk*

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

### *Derivatives held or issued for hedging purposes*

The Group has adopted a comprehensive system for the measurement and management of risk. Part of the risk management process involves managing the Group's exposure to fluctuations in foreign exchange rates (currency risk) and interest rates through asset and liability management activities. It is the Group's policy to reduce its exposure to currency and interest rate risks to acceptable levels as determined by the Board of Directors. The Board has established levels of currency risk by setting limits on currency position exposures. Positions are monitored on an ongoing basis and hedging strategies used to ensure positions are maintained within established limits. The Board has established levels of interest rate risk by setting limits on the interest rate gaps for stipulated periods. Interest rate gaps are reviewed on an ongoing basis and hedging strategies used to reduce the interest rate gaps to within the limits established by the Board of Directors.

As part of its asset and liability management the Group uses derivatives for hedging purposes in order to reduce its exposure to currency and interest rate risks. This is achieved by hedging specific financial instruments, forecasted transactions as well as strategic hedging against overall statement of financial position exposures. For interest rate risk this is carried out by monitoring the duration of assets and liabilities using simulations to estimate the level of interest rate risk and entering into interest rate swaps and futures to hedge a proportion of the interest rate exposure, where appropriate. Since strategic hedging does not qualify for special hedge accounting related derivatives are accounted for as trading instruments.

The Group uses forward foreign exchange contracts, currency options, currency swaps to hedge against specifically identified currency risks. In addition, the Group uses interest rate swaps and interest rate futures to hedge against the interest rate risk arising from specifically identified loans and securities bearing fixed interest rates. In all such cases the hedging relationship and objective, including details of the hedged item and hedging instrument, are formally documented and the transactions are accounted for as hedges.

The Group applies hedge accounting in two separate hedging strategies, as follows:

### **Interest rate risk on fixed rate debt type instruments (fair value hedge)**

The Group holds a portfolio of long-term variable and fixed rate loans / securities / deposits and therefore is exposed to changes in fair value due to movements in market interest rates. The Group manages this interest rate risk exposure by entering into pay fixed / receive floating interest rate swaps.

Only the interest rate risk element is hedged and therefore other risks, such as credit risk, are managed but not hedged by the Group. The interest rate risk component is determined as the change in fair value of the long-term variable / fixed rate loans and securities arising solely from changes in the benchmark rate of interest. Such changes are usually the largest component of the overall change in fair value. The Group primarily designates the benchmark rate as the hedged risk and, accordingly, enters into interest rate swaps whereby the fixed legs represent the economic risks of the hedged items. This strategy is designated as a fair value hedge and its effectiveness is assessed by critical terms matching and measured by comparing changes in the fair value of the loans / securities attributable to changes in the benchmark rate of interest with changes in the fair value of the interest rate swaps.

The Group establishes the hedging ratio by matching the notional of the derivatives with the principal of the portfolio being hedged. Possible sources of ineffectiveness are as follows:

- (i) differences between the expected and actual volume of prepayments, as the Group hedges to the expected repayment date taking into account expected prepayments based on past experience;
- (ii) hedging derivatives with a non-zero fair value at the date of initial designation as a hedging instrument; and
- (iii) counterparty credit risk which impacts the fair value of uncollateralised interest rate swaps but not the hedged items.

## 21 DERIVATIVES AND HEDGING (continued)

### Net investment in foreign operation (net investment hedge)

The Group has an investment in a foreign operation which is consolidated in its financial statements. The foreign exchange rate exposure arising from this investment is hedged through the use of deposits. These deposits are designated as net investment hedges to hedge the equity of the subsidiaries. The Group establishes the hedging ratio by matching the deposits with the net assets of the foreign operation.

The following table sets out the maturity profile of the trading and hedging instruments used in the Group's trading and non-dynamic hedging strategies:

	<i>Within 1 month</i>	<i>1 - 3 months</i>	<i>3 - 6 months</i>	<i>6 - 12 months</i>	<i>1 - 5 years</i>	<i>5-10 years</i>	<i>Over 10 years</i>	<i>Total</i>
Notional								
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
	<b>10,376</b>	<b>7,981</b>
Credit exposure after applying credit conversion factor	<b>4,332</b>	<b>3,339</b>
Risk weighted equivalents	<b>3,696</b>	<b>2,657</b>

**22 CREDIT COMMITMENTS AND CONTINGENT ITEMS (continued)**

The table below shows the contractual expiry by maturity of the Group's credit commitments and contingent items:

	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
	<b>10,376</b>	<b>7,981</b>

**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

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	<b>8</b>	<b>13</b>	<b>11</b>	<b>32</b>

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All figures in US\$ Million

**22 CREDIT COMMITMENTS AND CONTINGENT ITEMS (continued)**

	2022			Total
	Stage 1	Stage 2	Stage 3	
As at 1 January	12	9	41	62
Transfers to stage 1	-	-	-	-
Transfers to stage 2	(3)	3	-	-
Transfers to stage 3	-	(1)	1	-
Net transfers between stages	(3)	2	1	-
Additions	1	-	3	4
Recoveries / write back	-	-	(4)	(4)
Charge for the year - net	1	-	(1)	-
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	
	Currency	US\$ equivalent	Currency	US\$ equivalent
<b>Long (short)</b>				
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:**

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

	<i>Level 1</i>	<i>Level 2</i>	<i>Total</i>
Derivatives held for trading	361	405	766
Derivatives held as hedges	-	13	13

**Fair values of financial instruments not carried at fair value**

Except for the following, the fair value of financial instruments which are not carried at fair value are not materially different from their carrying value.

	<i>Carrying value</i>	<i>Fair value</i>
<b>Financial assets</b>		
Non-trading investments at amortised cost - gross (level 1 and level 2)	5,978	5,982
<b>Financial liabilities</b>		
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:**

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

**24 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)**

**24.2 31 December 2022 (continued)**

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

Financial liabilities measured at fair value:

	<i>Level 1</i>	<i>Level 2</i>	<i>Total</i>
Derivatives held for trading	323	482	805
Derivatives held as hedges	-	4	4

Fair values of financial instruments not carried at fair value

Except for the following, the fair value of financial instruments which are not carried at fair value are not materially different from their carrying value.

	<i>Carrying value</i>	<i>Fair value</i>
Financial assets		
Non-trading investments at amortised cost - gross (level 1 and level 2)	1,397	1,354
Financial liabilities		
Borrowings - perpetual (level 1)	92	97

**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 RISK MANAGEMENT (continued)**

**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 RISK MANAGEMENT (continued)**

**25.4 Credit risk (continued)**

**25.4.1 Credit risk assessment and mitigation**

***Exposure at default (EAD)***

The exposure at default (EAD) represents the gross carrying amount of the financial instruments subject to the impairment calculation. EAD for unfunded facilities is calculated by multiplying the outstanding exposure with the credit conversion factor (CCF) ranging from 20% to 100%.

To calculate the EAD for a Stage 1 loan, the Group assesses the possible default events and the cash flows within 12 months for the calculation of the 12 months ECL. For Stage 2, Stage 3 and POCI, the EAD is considered for events over the lifetime of the instruments.

***Internal Risk Rating (IRR) and the Probability of Default (PD) estimation process***

The Group assigns an IRR to each obligor which maps to the Group's assessment of PD for the obligor. The IRR scale is aligned to that of the international rating agencies (see below). An obligor's IRR is reviewed at least annually.

The Group uses internal rating models tailored to the various categories of counterparties that consider an obligor's financial standing, geographic location, its industry plus additional relevant information added through selective qualitative inputs to derive the IRR.

The credit grades are calibrated such that the risk of default increases exponentially as the credit quality weakens.

***Credit Risk Rating Scale***

The Group's rating method comprises 20 rating levels covering Stages 1 & 2 (1 to 8) and three default classes covering Stage 3 (9 to 11). The master scale maps the internal risk rating (IRR) to a percentage point which indicates a probability of default. The strongest credits are rated '1' as the credit quality weakens so the IRR increases in value. Obligors with an IRR of 4- or better are investment grade, whilst IRR of 5+ or weaker are non-investment grade.

Rating models and process is subject to periodic validation and recalibration in order to ensure that the PD accurately reflects current market default experience.

The Group's internal credit rating grades along with the respective TTC PDs are as below:

<b>Internal rating grades</b>	<b>Internal rating grade description</b>	<b>PD range (%)</b>
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.

**25 RISK MANAGEMENT (continued)**

**25.4 Credit risk (continued)**

**25.4.1 Credit risk assessment and mitigation (continued)**

***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.

**25 RISK MANAGEMENT (continued)**

**25.4 Credit risk (continued)**

**25.4.1 Credit risk assessment and mitigation (continued)**

***Definition of default and cure (continued)***

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.

**25 RISK MANAGEMENT (continued)**

**25.4 Credit risk (continued)**

**25.4.1 Credit risk assessment and mitigation (continued)**

*Retail portfolio (continued)*

- 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.

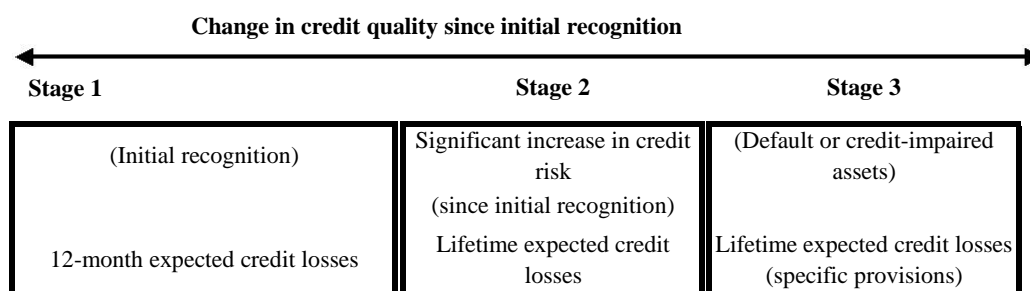
A backstop is applied, and the financial instrument is considered to have experienced SICR if the borrower is 30 or more days past due on its contractual payments.

***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’.
- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis.
- A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward-looking information.

The following diagram summarises the impairment requirements under IFRS 9 (other than purchased or originated credit-impaired financial assets):



**25 RISK MANAGEMENT (continued)**

**25.4 Credit risk (continued)**

**25.4.1 Credit risk assessment and mitigation (continued)**

*Measuring ECL – Explanation of inputs, assumptions and estimation techniques*

The ECL is measured on either a 12-month (12m) or lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. Expected credit losses are the discounted product of PD, EAD and LGD, defined as follows:

The PD represents the likelihood of a borrower defaulting on its financial obligation (as per “Definition of default” above), either over the next 12 months (12m PD), or over the remaining lifetime (Lifetime PD) of the obligation.

EAD is based on the amounts the Group expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD). For example, for a revolving commitment, the Group includes the current drawn balance plus any further amount that is expected to be drawn up to the current contractual limit by the time of default, should it occur.

LGD represents the Group’s expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim, availability of collateral or other credit support, geography and industry. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD). LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be made if the default occurs in the next 12 months and Lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

The ECL is determined by projecting the PD and LGD for each future month and for each individual exposure. The three components (PD, LGD and EAD) are multiplied together, and the projected PD is adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in an earlier month). This effectively calculates an ECL for each future month, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

The Lifetime PD is developed by applying the forward-looking information on 12-month PD over the maturity of the loan. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band.

For amortising products and bullet repayment loans, this is based on the contractual repayments owed by the borrower over a 12 month or lifetime basis.

For revolving products, the 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.

**25 RISK MANAGEMENT (continued)**

**25.4 Credit risk (continued)**

**25.4.1 Credit risk assessment and mitigation (continued)**

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

Forward-looking economic information is also included in determining the 12-month and lifetime PD and LGD. 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



**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.

**25 RISK MANAGEMENT (continued)**

**25.4 Credit risk (continued)**

**25.4.1 Credit risk assessment and mitigation (continued)**

*Economic variable assumptions (continued)*

*Sensitivity analysis*

Based on the above significant assumptions and changes in each economic variable by +5% and -5% while keeping other key variables constant will result in a change in the ECL (stage 1 and 2) in the range of decrease by 11.2% (2022: decrease by 11.2%) to an increase by 7.7% (2022: increase by 10.7%).

**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.

	<u>Gross maximum exposure</u>	
	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
	<b>43,011</b>	35,787
Credit commitments and contingent items (note 21)	<b>10,376</b>	7,981
Total	<b>53,387</b>	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:

	<u>Assets</u>			
	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	<b>41,989</b>	<b>746</b>	<b>276</b>	<b>43,011</b>

**25 RISK MANAGEMENT (continued)**

**25.4 Credit risk (continued)**

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

	<i>Assets</i>			
	<i>2022</i>			
	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
Western Europe	3,598	196	-	3,794
Arab World	14,336	249	102	14,687
Asia	841	-	-	841
North America	5,445	45	-	5,490
Latin America	8,836	179	91	9,106
Other	1,869	-	-	1,869
<b>Total</b>	<b>34,925</b>	<b>669</b>	<b>193</b>	<b>35,787</b>

The Group's liabilities and equity can be analysed by the following geographical regions:

	<i>Liabilities and equity</i>	
	<i>2023</i>	<i>2022</i>
	Western Europe	<b>5,670</b>
Arab World	<b>24,618</b>	23,204
Asia	<b>940</b>	492
North America	<b>3,930</b>	2,672
Latin America	<b>8,325</b>	6,721
Other	<b>409</b>	531
<b>Total</b>	<b>43,892</b>	<b>36,639</b>

The Group's commitments and contingencies can be analysed by the following geographical regions:

	<i>Credit commitments and contingent items</i>			
	<i>2023</i>			
	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
Western Europe	<b>2,331</b>	<b>53</b>	-	<b>2,384</b>
Arab World	<b>3,471</b>	<b>98</b>	<b>20</b>	<b>3,589</b>
Asia	<b>148</b>	-	-	<b>148</b>
North America	<b>1,280</b>	<b>4</b>	-	<b>1,284</b>
Latin America	<b>2,816</b>	<b>14</b>	<b>1</b>	<b>2,831</b>
Other	<b>111</b>	<b>28</b>	<b>1</b>	<b>140</b>
<b>Total</b>	<b>10,157</b>	<b>197</b>	<b>22</b>	<b>10,376</b>

	<i>Credit commitments and contingent items</i>			
	<i>2022</i>			
	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
Western Europe	1,131	46	5	1,182
Arab World	3,195	39	36	3,270
Asia	135	-	3	138
North America	707	37	-	744
Latin America	2,466	9	6	2,481
Other	146	20	-	166
<b>Total</b>	<b>7,780</b>	<b>151</b>	<b>50</b>	<b>7,981</b>

**25 RISK MANAGEMENT (continued)**

**25.4 Credit risk (continued)**

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

An industry sector analysis of the Group's financial assets (after taking risk transfer into account), before taking into account cash collateral held or other credit enhancements, is as follows:

	<i>Gross maximum exposure</i>			
	<i>2023</i>			
	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
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
<b>Total</b>	<b>41,989</b>	<b>746</b>	<b>276</b>	<b>43,011</b>
	<i>Gross maximum exposure</i>			
	<i>2022</i>			
	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
Financial services	12,660	15	-	12,675
Government	7,741	-	-	7,741
Other services	2,458	56	81	2,595
Manufacturing	2,629	94	17	2,740
Agriculture, fishing and forestry	1,544	21	4	1,569
Construction	1,583	192	14	1,789
Utilities	884	12	-	896
Energy	1,093	2	-	1,095
Distribution	1,021	33	-	1,054
Personal / consumer finance	1,434	12	6	1,452
Transport	538	69	9	616
Commercial real estate financing	251	70	-	321
Technology, media and telecommunications	540	1	4	545
Trade	216	60	53	329
Retailers	235	20	-	255
Mining and quarrying	61	12	5	78
Residential mortgage	37	-	-	37
<b>Total</b>	<b>34,925</b>	<b>669</b>	<b>193</b>	<b>35,787</b>

**25 RISK MANAGEMENT (continued)**

**25.4 Credit risk (continued)**

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

An industry sector analysis of the Group's financial assets, after taking into account cash collateral held or other credit enhancements, is as follows:

	<i>Net maximum exposure</i>	
	<i>2023</i>	<i>2022</i>
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	-	-
<b>Total</b>	<b>40,242</b>	<b>34,583</b>

An industry sector analysis of the Group's credit commitments and contingent items, before taking into account cash collateral held or other credit enhancements, is as follows:

	<i>Gross maximum exposure</i>			
	<i>2023</i>			
	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
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
<b>Total</b>	<b>10,157</b>	<b>197</b>	<b>22</b>	<b>10,376</b>

**25 RISK MANAGEMENT (continued)**

**25.4 Credit risk (continued)**

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

	<i>Gross maximum exposure</i>			
	<i>2022</i>			
	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
Financial services	2,813	47	2	2,862
Government	64	-	-	64
Other services	669	2	-	671
Manufacturing	867	40	7	914
Agriculture, fishing and forestry	117	-	-	117
Construction	1,073	53	28	1,154
Utilities	698	-	1	699
Energy	264	-	1	265
Distribution	115	6	1	122
Personal / consumer finance	341	1	-	342
Transport	380	-	6	386
Commercial real estate financing	24	-	-	24
Technology, media and telecommunications	151	-	2	153
Trade	101	2	2	105
Retailers	68	-	-	68
Mining and quarrying	35	-	-	35
<b>Total</b>	<b>7,780</b>	<b>151</b>	<b>50</b>	<b>7,981</b>

An industry sector analysis of the Group's credit commitments and contingent items, after taking into account cash collateral held or other credit enhancements, is as follows:

	<i>Net maximum exposure</i>	
	<i>2023</i>	<i>2022</i>
Financial services	<b>3,736</b>	2,697
Government	<b>53</b>	56
Other services	<b>719</b>	666
Manufacturing	<b>1,296</b>	908
Agriculture, fishing and forestry	<b>170</b>	114
Construction	<b>1,532</b>	1,117
Utilities	<b>825</b>	698
Energy	<b>366</b>	262
Distribution	<b>177</b>	120
Personal /consumer finance	<b>316</b>	342
Transport	<b>464</b>	380
Commercial real estate financing	<b>33</b>	24
Technology, media and telecommunications	<b>104</b>	152
Trade	<b>114</b>	99
Retailers	<b>98</b>	68
Mining and quarrying	<b>58</b>	35
<b>Total</b>	<b>10,061</b>	<b>7,738</b>

**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	<i>Neither past due nor impaired</i>		<i>Past due but not impaired</i>	<i>Past due and individually impaired</i>	<i>Total</i>
	<i>High grade</i>	<i>Standard grade*</i>			
Liquid funds	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
	<b>19,990</b>	<b>22,594</b>	<b>151</b>	<b>276</b>	<b>43,011</b>

31 December 2022	<i>Neither past due nor impaired</i>		<i>Past due but not impaired</i>	<i>Past due and individually impaired</i>	<i>Total</i>
	<i>High grade</i>	<i>Standard grade*</i>			
Liquid funds	2,411	395	-	-	2,806
Trading debt securities	271	305	-	-	576
Placements with banks and other financial institutions	705	1,521	-	-	2,226
Securities bought under repurchase agreements	-	1,386	-	-	1,386
Non-trading debt investments	4,501	3,564	-	-	8,065
Loans and advances	3,859	14,006	133	192	18,190
Other credit exposures	2,175	362	-	1	2,538
	<b>13,922</b>	<b>21,539</b>	<b>133</b>	<b>193</b>	<b>35,787</b>

\* Including exposures categorised as watchlist.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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)

The table below shows the credit quality by class of financial asset net ECL, based on internal credit ratings.

31 December 2023

	<i>Liquid funds</i>	<i>Trading debt securities</i>	<i>Placements with banks and other financial institutions</i>	<i>Securities bought under repurchase agreements</i>	<i>Non-trading debt investments</i>	<i>Loans and advances</i>
<b>Stage 1 (12-month ECL)</b>						
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
<b>Stage 2 (Lifetime ECL but not credit-impaired)</b>						
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
<b>Stage 3 (Lifetime ECL and credit-impaired)</b>						
Rating grades 9 to 11	-	-	-	-	-	275
Carrying amount (net)	-	-	-	-	-	275
<b>POCI</b>	-	-	-	-	-	-
<b>Total</b>	<b>4,453</b>	<b>1,060</b>	<b>2,231</b>	<b>2,191</b>	<b>11,347</b>	<b>19,096</b>

Other credit exposures are not internally rated, hence, not included in the above table.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

	<i>Liquid funds</i>	<i>Trading debt securities</i>	<i>Placements with banks and other financial institutions</i>	<i>Securities bought under repurchase agreements</i>	<i>Non-trading debt investments</i>	<i>Loans and advances</i>
<i>Stage 1 (12-month ECL)</i>						
Rating grades 1 to 4-	2,409	271	705	-	4,501	3,852
Rating grades 5+ to 5-	115	301	259	868	1,431	7,234
Rating grades 6+ to 6-	275	4	1,210	518	2,069	5,529
Rating grade 7+ to 7-	5	-	52	-	64	712
Carrying amount (net)	2,804	576	2,226	1,386	8,065	17,327
<i>Stage 2 (Lifetime ECL but not credit-impaired)</i>						
Rating grades 1 to 4-	2	-	-	-	-	7
Rating grades 5+ to 5-	-	-	-	-	-	29
Rating grades 6+ to 6-	-	-	-	-	-	179
Rating grade 7+ to 7-	-	-	-	-	-	145
Rating grade 8	-	-	-	-	-	311
Carrying amount (net)	2	-	-	-	-	671
<i>Stage 3 (Lifetime ECL and credit-impaired)</i>						
Rating grades 9 to 11	-	-	-	-	-	192
Carrying amount (net)	-	-	-	-	-	192
<i>POCI</i>	-	-	-	-	-	-
Total	2,806	576	2,226	1,386	8,065	18,190

Other credit exposures are not internally rated, hence, not included in the above table.

**25 RISK MANAGEMENT (continued)**

**25.4 Credit risk (continued)**

**25.4.4 Credit quality per class of financial assets (continued)**

It is the Group's policy to maintain accurate and consistent risk ratings across the credit portfolio through a risk rating system. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of credit risk. All internal ratings are tailored to the various categories and are derived in accordance with the Group's credit policy. The attributable risk ratings are assessed and updated regularly. Each risk rating class has grades equivalent to Moody's, S&P, Fitch and CI rating agencies.

**25.4.5 Carrying amount per class of financial assets whose terms have been renegotiated as at year-end**

	2023	2022
Loans and advances	<b>406</b>	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):

	<i>Maximum exposure to credit risk</i>	
	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

**25.5 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 RISK MANAGEMENT (continued)**

**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 minimized as the Group's rate sensitive assets and liabilities are mostly floating rate, where the duration risk is lower. The Group has set risk limits for both earnings at risk (EAR) and economic value of equity (EVE) for interest rate risk in the banking book (IRRBB). In general, the Group uses matched currency funding and translates fixed rate instruments to floating rate to better manage the duration in the asset book.

The sensitivity of the consolidated statement of profit or loss is the effect of the assumed changes in interest rates on the net interest income for one year, based on financial assets and financial liabilities held at 31 December, including the effect of hedging instruments. The sensitivity of equity is calculated by revaluing fixed rate FVOCI financial assets, including the effect of any associated hedges and swaps. Substantially all the FVOCI non-trading securities held by the Group are floating rate assets. Hence, the sensitivity to changes in equity due to interest rate changes is minimal.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's consolidated statement of profit or loss.

	2023			
	<i>Increase in basis points</i>	<i>Sensitivity consolidated statement of profit or loss</i>	<i>Decrease in basis points</i>	<i>Sensitivity consolidated statement of profit or loss</i>
<b>US Dollar</b>	25	1	25	(1)
<b>Euro</b>	25	1	25	(1)
<b>Pound Sterling</b>	25	1	25	(1)
<b>Brazilian Real</b>	25	2	25	(2)
<b>Others</b>	25	1	25	(1)

**25 RISK MANAGEMENT (continued)**

**25.7 Interest rate risk in the banking book (continued)**

	2022			
	<i>Increase in basis points</i>	<i>Sensitivity consolidated statement of profit or loss</i>	<i>Decrease in basis points</i>	<i>Sensitivity consolidated statement of profit or loss</i>
US Dollar	25	-	25	-
Euro	25	1	25	(1)
Pound Sterling	25	-	25	-
Brazilian Real	25	2	25	(2)
Others	25	1	25	(1)

*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 of 31 December 2023, majority of the Group's exposures have transitioned to ARRs.

**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		
	<i>Change in currency rate in %</i>	<i>Effect on profit before tax</i>	<i>Effect on equity</i>	<i>Change in currency rate in %</i>	<i>Effect on profit before tax</i>	<i>Effect on equity</i>
<b>Currency</b>						
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.

**25 RISK MANAGEMENT (continued)****25.9 Equity price risk (continued)**

The effect on equity (as a result of a change in the fair value of trading equity instruments and equity instruments held at FVOCI) due to a reasonably possible change in equity indices or the net asset values, with all other variables held constant, is as follows:

	2023		2022	
	<i>Change in</i>	<i>Effect on</i>	<i>Change in</i>	<i>Effect on</i>
		<i>consolidated</i>		<i>consolidated</i>
		<i>statement</i>		<i>statement</i>
	<i>% Change in</i>	<i>of profit or loss/</i>	<i>% Change in</i>	<i>of profit or loss/</i>
	<i>equity price</i>	<i>equity</i>	<i>equity price</i>	<i>equity</i>
<b>Trading equities</b>	+/- 5%	+/-1	+/- 5%	+/-1
<b>Equity securities at FVOCI</b>	+/- 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 Cumulative Gross and Net Operational Risk Losses and Single Operational Loss Events. In addition a set of Early Warning Indicators are used to monitor different sub risk categories related to operational risk.

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

**25.10.1 Operational resilience**

Operational resilience is the ability of the Bank to 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 RISK MANAGEMENT (continued)****25.11 Liquidity risk**

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress conditions. To mitigate this risk, the Group seeks to fund its assets from diversified funding sources. In order to mitigate the liquidity risk, in addition to its core deposit base, maintains an adequate pool of high-quality liquid assets (HQLA) that can be monetized within a short timeframe to meet potential outflows arising from stress. The Group monitors its future cash flows and liquidity daily. This incorporates an assessment of expected cash flows and the availability of high-grade collateral which could be used to secure additional funding if required.

The Group maintains a highly liquid balance sheet with positive asset-liability mismatches. As such, the Group is generally in a position of surplus liquidity, its principal sources of liquidity being its deposit base, liquidity derived from its operations and interbank borrowings. The Liquidity Survival Horizon (LSH) represents the number of days the Group can survive the combined contractual outflow of deposits and loan drawdowns, under severe but plausible stress scenarios.

The Group is required to comply with the liquidity requirements as stipulated by its regulator, the CBB. These requirements relate to maintaining a minimum of 100% for liquidity coverage ratio (LCR) and net stable funding ratio (NSFR). LCR is calculated as a ratio of its stock of high quality liquid assets (HQLA) and net outflows over the next 30 calendar days. NSFR is calculated as a ratio of 'available stable funding' to 'required stable funding'. As at 31 December 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
<b>Available Stable Funding (ASF):</b>										
Capital:										
Regulatory Capital	4,249	-	-	-	4,249	3,995	-	-	-	3,995
Other Capital Instruments	464	-	-	325	789	470	-	-	290	760
<b>Retail deposits and deposits from small business customers:</b>										
Stable deposits	-	-	63	-	60	-	-	91	-	86
Less stable deposits	-	2,072	362	580	2,772	-	1,526	241	280	1,871
<b>Wholesale funding:</b>										
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	-	-	-
<b>Total ASF (A)</b>					<b>22,140</b>					<b>19,575</b>

**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
<b>Required Stable Funding (RSF):</b>										
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
<b>Total RSF (B)</b>					<b>17,311</b>					<b>15,742</b>
<b>NSFR (A/B)</b>					<b>128%</b>					<b>124%</b>



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### 25 RISK MANAGEMENT (continued)

#### 25.11 Liquidity risk (continued)

In addition, the internal liquidity/maturity profile is generated to summarize the actual liquidity gaps versus the revised gaps based on internal assumptions.

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 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

	<i>Within 1 month</i>	<i>1 - 3 months</i>	<i>3 - 6 months</i>	<i>6 - 12 months</i>	<i>1 - 5 years</i>	<i>5-10 years</i>	<i>Over 10 years and undated</i>	<i>Total</i>
<b>Financial liabilities</b>								
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
<b>Total non-derivative undiscounted financial liabilities on statement of financial position</b>	<b>11,137</b>	<b>11,939</b>	<b>3,951</b>	<b>3,440</b>	<b>8,786</b>	<b>282</b>	<b>2,002</b>	<b>41,536</b>
<b>ITEMS OFF STATEMENT OF FINANCIAL POSITION</b>								
Gross settled foreign currency derivatives	4,803	4,626	1,658	5,889	4,909	70	-	21,955
Guarantees	2,782	-	-	-	-	-	-	2,782

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**25 RISK MANAGEMENT (continued)**

**25.11 Liquidity risk (continued)**

At 31 December 2022

	<i>Within 1 month</i>	<i>1 - 3 months</i>	<i>3 - 6 months</i>	<i>6 - 12 months</i>	<i>1 - 5 years</i>	<i>5-10 years</i>	<i>Over 10 years and undated</i>	<i>Total</i>
Financial liabilities								
Deposits from customers	7,416	4,534	1,766	3,349	5,310	239	168	22,782
Deposits from banks	1,809	983	548	361	114	2	-	3,817
Certificates of deposits	92	104	16	54	177	-	-	443
Securities sold under repurchase agreements	1,320	379	262	181	882	-	-	3,024
Interest payable and other liabilities	693	-	-	-	-	-	1,571	2,264
Borrowings	-	-	43	84	879	478	100	1,584
Total non-derivative undiscounted financial liabilities on statement of financial position	11,330	6,000	2,635	4,029	7,362	719	1,839	33,914
ITEMS OFF STATEMENT OF FINANCIAL POSITION								
Gross settled foreign currency derivatives	4,239	3,808	1,670	5,651	1,847	1,520	30	18,765
Guarantees	2,738	-	-	-	-	-	-	2,738

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### 25 RISK MANAGEMENT (continued)

#### 25.11 Liquidity risk (continued)

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

At 31 December 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
<b>ASSETS</b>												
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
<b>Total assets</b>	<b>14,138</b>	<b>7,728</b>	<b>3,703</b>	<b>4,549</b>	<b>30,118</b>	<b>6,876</b>	<b>2,964</b>	<b>428</b>	<b>5</b>	<b>3,501</b>	<b>13,774</b>	<b>43,892</b>
<b>LIABILITIES, SHAREHOLDERS' EQUITY AND NON-CONTROLLING INTERESTS</b>												
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
<b>Total liabilities, shareholders' equity and non-controlling interests</b>	<b>8,834</b>	<b>5,053</b>	<b>3,021</b>	<b>5,396</b>	<b>22,304</b>	<b>13,490</b>	<b>175</b>	<b>151</b>	<b>-</b>	<b>7,772</b>	<b>21,588</b>	<b>43,892</b>
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.

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### 25 RISK MANAGEMENT (continued)

#### 25.11 Liquidity risk (continued)

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
<b>ASSETS</b>												
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
<b>Total assets</b>	<b>11,741</b>	<b>4,938</b>	<b>3,254</b>	<b>3,669</b>	<b>23,602</b>	<b>7,132</b>	<b>2,227</b>	<b>349</b>	<b>19</b>	<b>3,310</b>	<b>13,037</b>	<b>36,639</b>
<b>LIABILITIES, SHAREHOLDERS' EQUITY AND NON-CONTROLLING INTERESTS</b>												
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	-	-	9*	1,294	1,297
Others	-	-	-	-	-	-	-	-	-	2,348	2,348	2,348
Shareholders' equity and non-controlling interests	-	-	-	-	-	-	-	-	-	4,521	4,521	4,521
<b>Total liabilities, shareholders' equity and non-controlling interests</b>	<b>8,715</b>	<b>4,209</b>	<b>1,956</b>	<b>5,692</b>	<b>20,572</b>	<b>8,397</b>	<b>621</b>	<b>24</b>	<b>65</b>	<b>6,960</b>	<b>16,067</b>	<b>36,639</b>
<b>Net liquidity gap</b>	<b>3,026</b>	<b>729</b>	<b>1,298</b>	<b>(2,023)</b>	<b>3,030</b>	<b>(1,265)</b>	<b>1,606</b>	<b>325</b>	<b>(46)</b>	<b>(3,650)</b>	<b>(3,030)</b>	<b>-</b>
<b>Cumulative net liquidity gap</b>	<b>3,026</b>	<b>3,755</b>	<b>5,053</b>	<b>3,030</b>		<b>1,765</b>	<b>3,371</b>	<b>3,696</b>	<b>3,650</b>	<b>-</b>		

\* These represent perpetual instruments, refer note 14 for details.

**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.

	<i>2023</i>					<i>Total</i>
	<i>MENA subsidiaries</i>	<i>International wholesale banking</i>	<i>Group treasury</i>	<i>ABC Brasil</i>	<i>Other</i>	
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

**26 OPERATING SEGMENTS (continued)**

	2022					Total
	<i>MENA subsidiaries</i>	<i>International wholesale banking</i>	<i>Group treasury</i>	<i>ABC Brasil</i>	<i>Other</i>	
Net interest income	218	172	59	287	50	786
Other operating income	47	77	41	113	37	315
<b>Total operating income</b>	<b>265</b>	<b>249</b>	<b>100</b>	<b>400</b>	<b>87</b>	<b>1,101</b>
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)
<b>Loss for the year</b>						<b>209</b>
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:

2023	<i>Bahrain</i>	<i>Europe</i>	<i>Brasil</i>	<i>Other</i>	<i>Total</i>
<b>Total operating income</b>	<b>341</b>	<b>167</b>	<b>441</b>	<b>330</b>	<b>1,279</b>
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).

**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:

	<i>Ultimate parent</i>	<i>Major shareholder</i>	<i>Directors</i>	<b>2023</b>	<b>2022</b>
Deposits from customers	<b>2,949</b>	-	<b>37</b>	<b>2,986</b>	3,179
Borrowings	<b>1,115</b>	-	-	<b>1,115</b>	1,115
Additional / perpetual tier-1 capital*	<b>390</b>	-	-	<b>390</b>	390
Short-term self-liquidating trade and transaction-related contingent items	<b>966</b>	-	-	<b>966</b>	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:

	<b>2023</b>	<b>2022</b>
Commission income	<b>18</b>	8
Interest expense	<b>257</b>	119

Compensation of the key management personnel is as follows:

	<b>2023</b>	<b>2022</b>
Short term employee benefits	<b>21</b>	20
Post employment benefits	<b>4</b>	8
	<b>25</b>	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.

**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.

<b>CAPITAL BASE</b>		2023	2022
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



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**33 CAPITAL ADEQUACY (continued)**

**RISK WEIGHTED EXPOSURES**

		2023	2022
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]	<u>30,226</u>	<u>27,546</u>
CET 1 ratio	[a/d*100]	<u>13.5%</u>	<u>14.0%</u>
Tier 1 ratio	[b/d*100]	<u>15.0%</u>	<u>15.7%</u>
Risk asset ratio	[c/d*100]	<u>16.1%</u>	<u>16.8%</u>
Minimum requirement for Risk asset ratio		<u>12.5%</u>	<u>12.5%</u>

The Group's capital base primarily comprises:

(a) Tier 1 capital: share capital, treasury shares, reserves, retained earnings, non controlling interests, profit for the year and cumulative changes in fair value;

(b) Additional Tier 1 Capital: eligible portion of a perpetual financial instrument issued by the Bank's subsidiary; and

(c) Tier 2 capital: eligible non controlling interests and expected credit losses.

The Group has complied with all the capital adequacy requirements as set by the Central Bank of Bahrain.

**34 CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES**

	<i>1</i> <i>January</i> <i>2023</i>	<i>Cash flow,</i> <i>net</i>	<i>Foreign</i> <i>exchange</i> <i>movement</i>	<i>31</i> <i>December</i> <i>2023</i>
Certificates of deposit	435	(299)	6	142
Borrowings	1,297	2	4	1,303
<b>Total liabilities from financing activities</b>	<u>1,732</u>	<u>(297)</u>	<u>10</u>	<u>1,445</u>
	<i>1</i> <i>January</i> <i>2022</i>	<i>Cash flow,</i> <i>net</i>	<i>Foreign</i> <i>exchange</i> <i>movement</i>	<i>31</i> <i>December</i> <i>2022</i>
Certificates of deposit	725	(187)	(103)	435
Borrowings	1,211	75	11	1,297
<b>Total liabilities from financing activities</b>	<u>1,936</u>	<u>(112)</u>	<u>(92)</u>	<u>1,732</u>

**35 GOODWILL ON BUSINESS ACQUISITION**

**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	<u>41</u>	<u>51</u>

**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.

**35 GOODWILL ON BUSINESS ACQUISITION (continued)**

**35.2 Impairment testing of Goodwill and CDI acquired (continued)**

*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.