ALUBAF Arab International Bank B.S.C. (c)

REPORT OF THE BOARD OF DIRECTORS, INDEPENDENT AUDITOR'S REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2022

Board of Directors' Report

On behalf of the Board of Directors, I am delighted to present the audited consolidated financial statements of Alubaf Arab International Bank (the "Bank") and its subsidiary (together the "Group") for the year ended 31 December 2022.

Despite the challenging operating environment during 2022, due to rising inflation, high oil prices and disruption to supply chains, higher interest rates and the on-going fallout from the Russia-Ukraine war, the Group continued to successfully fulfill its clients' financial needs and support them through economic difficulties through resilience, prudence and capturing of opportunities.

The Group's financial performance remained strong and it achieved total operating income for 2022 amounting to US$ 27.9 million, being 4% higher than the total operating income of US$ 26.9 million achieved during 2021. The consolidated net profit of US$ 9.6 million for 2022 was lower as compared to 2021 mostly due to increased provisioning levels for expected credit losses on account of the default of an investment during 2022. Furthermore, the results for 2021 included the impact of a large one-off recovery made against a defaulted credit facility.

Interest income amounted to US$ 34.9 million for the year ended 31 December 2022 whereas the interest expenses for 2022 amounted to US$ 11.2 million. Accordingly, the net interest income for the year 2022 amounted to US$ 23.7 million.

Total non-interest income of US$ 4.1 million in 2022 was primarily driven by fee and commission income of US$ 4.0 million from trade finance activities. The Group's management ensured continuous uninterrupted operations and services to its customers, which resulted in generating considerable fee and commission income from its core business activity of Trade Finance.

On the expenses front, the Group has managed to reduce its operating expenses during 2022 by 3% as compared to 2021 despite rising inflation.

The Group's financial position remained strong with total assets standing at US$ 1,158.7 million at 31 December 2022.

The Group's capital adequacy and liquidity (liquid assets to total assets) ratios remained strong at 52.9% and 63.6% respectively.

Furthermore, the Group continued to invest in its information technology infrastructure and related information security to ensure seamless and continuous uninterrupted operations. This facilitated access to information, communication and services to customers, alongside meeting regulatory requirements.

Besides the above, the Group has evolved and inculcated a strong risk management culture and strengthened its governance framework, thus, continually aligning itself with changes in regulatory practices.

In recognition of the importance and support of its valued shareholders, the Board of directors are pleased to propose a dividend of US$1.6 per share, amounting to US$ 8.0 million, representing 3.2% of paid up share capital for the year ended 2022, after due appropriation of US$ 960 thousand from net profit for the year 2022, towards transfer to statutory reserve. This Proposed dividend is subject to regulatory and shareholders' approval in Annual general meeting.

The Group's strong capital position and dynamic Board of Directors and management efforts enables it to address market challenges and changing regulatory requirements in an effective manner in order for it to better position itself and sustain a year on year growth for the Group's shareholders. The Group will continue to manage risks, capital and liquidity effectively due to the faced uncertain economic environment.

Remuneration of the Board members and the top six remunerated management executives for the fiscal year ended 31 December 2022 is as follows:

Name	Fixed remunerations				Variable remunerations*				End-of-service award	Aggregate amount (Does not include expense allowance)	Expenses Allowance
	Remunerations of the chairman and BOD	Total allowance for attending Board and committee meetings	Others	Total	Remunerations of the chairman and BOD	Incentive plans	Others	Total			
First: Independent Directors (*Amounts are stated in Bahraini Dinars ('000)*):											
1- Mr. Moraja Gaith Solaiman Buhlaiga	-	18	16	34	33	-	-	33	-	67	-
2- Mr. Anthony Constantine Mallis	-	18	-	18	33	-	-	33	-	51	-
3- Mr. Abdulkarim Bucheery	-	18	3	21	33	-	-	33	-	54	-
4- Mr. Basel El Hini	-	18	16	34	33	-	-	33	-	67	-
5- Mr. Abdulrazag Tarhuni	-	13	6	19	28	-	-	28	-	47	-

** Variable remuneration is subject to approval by the Group's shareholders in the upcoming Annual General Meeting*

Name	Fixed remunerations				Variable remunerations*				End-of-service award	Aggregate amount (Does not include expense allowance)	Expenses Allowance
	Remunerations of the chairman and BOD	Total allowance for attending Board and committee meetings	Others	Total	Remunerations of the chairman and BOD	Incentive plans	Others	Total			
Second: Non-Executive Directors (*Amounts are stated in Bahraini Dinars ('000)*):											
1- Mr. Guima Masaud Salem Kordi	-	16	16	32	33	-	-	33	-	65	-
2- Mr. Khaled Taher	-	16	13	29	33	-	-	33	-	62	-
Total	**-**	**117**	**70**	**187**	**226**	**-**	**-**	**226**	**-**	**413**	**-**

** Variable remuneration is subject to approval by the Group's shareholders in the upcoming Annual General Meeting*

Executive management	Total paid salaries and allowances	Total paid remuneration (Bonus) for 2022	Any other cash/ in kind remuneration for 2022	Aggregate Amount
Amounts stated in Bahraini Dinars ('000)				
Remunerations of top six executives, including the CEO and the Head of Financial Control	790	180	206	1,176

Finally, I would like to thank all the Board members, the Shareholders, the Ministry of Industry and Commerce of the Kingdom of Bahrain, Central Bank of Bahrain, all Correspondent Banks and our customers for their continued support, cooperation and guidance.

I also take this opportunity to extend my special appreciation and gratitude to the Chief Executive Officer and all of the Bank's employees for their determination, professionalism and commitment to the Group's continued growth and progress.

Chairman
Moraja G. Solaiman

EY
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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF ALUBAF ARAB INTERNATIONAL BANK B.S.C. (c)

Report on the Audit of the Consolidated Financial Statements

Opinion
We have audited the accompanying consolidated financial statements of ALUBAF Arab International Bank B.S.C. (c) ("the Bank") and its subsidiary (together "the Group"), which comprise the consolidated statement of financial position as at 31 December 2022, and the consolidated statements of profit or loss, comprehensive income, cash flows and changes in equity for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section* of our report. We are independent of the Group in accordance with the *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in the Kingdom of Bahrain, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information
Other information consists of the Board of Directors' report, set out on pages 1 to 3 that was obtained at the date of this auditor's report. The Board of Directors is responsible for the other information.

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 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, 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.

Report on the Audit of the Consolidated Financial Statements (continued)

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 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.

The Board of directors is responsible for overseeing the Group's financial reporting process.

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

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

As part of an audit in accordance with ISAs, we exercise professional judgment 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.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF ALUBAF ARAB INTERNATIONAL BANK B.S.C. (c) (continued)

Report on the Audit of the Consolidated Financial Statements (continued)

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

- 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.

We communicate with the Board of Directors 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.

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 Report of the Board of Directors 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 or the terms of the Bank's memorandum and articles of association during the year ended 31 December 2022 that might have had a material adverse effect on the business of the Bank or on its consolidated financial position; and

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF ALUBAF ARAB INTERNATIONAL BANK B.S.C. (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.

Ernst + Young

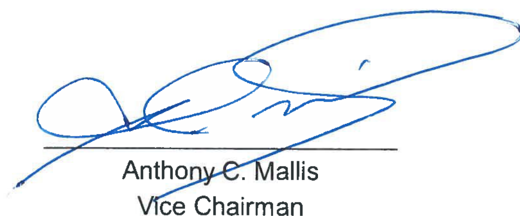
Partner's registration number: 45
20 February 2023
Manama, Kingdom of Bahrain

ALUBAF Arab International Bank B.S.C. (c)

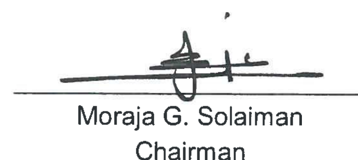
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2022

	Notes	**2022 US$ '000**	2021 US$ '000
ASSETS			
Cash and balances with central bank and other banks	4	**310,754**	345,307
Deposits with banks and other financial institutions	5	**426,404**	465,361
Investments classified as fair value through profit or loss (FVTPL)	6	**-**	3,661
Investment securities	7	**248,553**	263,511
Loans and advances	8	**142,868**	149,340
Investment property	9	**11,734**	11,734
Property, equipment and software	10	**7,146**	7,674
Interest receivable		**9,828**	5,488
Other assets		**1,426**	1,068
TOTAL ASSETS		**1,158,713**	1,253,144
LIABILITIES AND EQUITY			
Liabilities			
Deposits from banks and other financial institutions	11	**673,394**	761,134
Due to banks and other financial institutions	11	**114,638**	104,854
Due to customers	12	**23,598**	36,821
Interest payable		**3,241**	610
Other liabilities	13	**11,480**	9,824
Total liabilities		**826,351**	913,243
Equity			
Share capital	14	**250,000**	250,000
Statutory reserve	14	**31,075**	30,115
Retained earnings		**53,223**	52,580
Fair value reserve		**(9,936)**	(5,294)
Proposed dividend	15	**8,000**	12,500
Total equity		**332,362**	339,901
TOTAL LIABILITIES AND EQUITY		**1,158,713**	1,253,144



Anthony C. Mallis
Vice Chairman



Moraja G. Solaiman
Chairman

The attached notes 1 to 28 form part of these consolidated financial statements.

ALUBAF Arab International Bank B.S.C. (c)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2022

	Notes	**2022 US$ '000**	*2021 US$ '000*
Interest and similar income	16	**34,972**	26,151
Interest expense	17	**(11,238)**	(3,378)
Net interest and similar income		**23,734**	22,773
Fee and commission income	18	**4,032**	3,397
Gain (loss) on investments classified as FVTPL	19	**51**	(584)
Realised (loss) gain on investment securities - net		**(180)**	980
Foreign exchange gain - net		**98**	173
Other income		**119**	123
OPERATING INCOME		**27,854**	26,862
Provision (charge) reversal for expected credit losses - net	20	**(3,649)**	10,859
NET OPERATING INCOME		**24,205**	37,721
Staff costs		**9,595**	9,333
Depreciation	10	**726**	813
Other operating expenses	21	**4,281**	4,843
OPERATING EXPENSES		**14,602**	14,989
NET PROFIT FOR THE YEAR		**9,603**	22,732

Anthony C. Mallis
Vice Chairman

Moraja G. Solaiman
Chairman

The attached notes 1 to 28 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2022

	2022	*2021*
	US$ '000	*US$ '000*
NET PROFIT FOR THE YEAR	**9,603**	22,732
Other comprehensive loss		
Other comprehensive loss to be reclassified to profit or loss in subsequent periods:		
Unrealised fair value loss on investments classified as fair value through other comprehensive income (FVOCI)	**(8,616)**	(4,485)
Charge (reversal) for expected credit loss on FVOCI investments	**3,974**	(221)
Other comprehensive loss for the year	**(4,642)**	(4,706)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**4,961**	18,026

The attached notes 1 to 28 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2022

	Notes	**2022 US$ '000**	*2021 US$ '000*
OPERATING ACTIVITIES			
Net profit for the year		**9,603**	22,732
Adjustments for:			
Provision charge (reversal) for expected credit losses - net	20	**3,649**	(10,859)
Depreciation	10	**726**	813
Amortisation of investments carried at amortised cost		**1,554**	975
Loss (gain) on investment securities - net		**180**	(980)
Changes in fair value of investments classified as FVTPL	19	**-**	388
Amortisation of loans and advances carried at amortised cost		**(1,200)**	(1,297)
Operating profit before changes in operating assets and liabilities		**14,512**	11,772
Changes in operating assets and liabilities:			
Balances with central bank		**848**	(176,601)
Deposits with banks and other financial institutions		**10,188**	(21,781)
Investments classified as fair value through profit or loss (FVTPL)		**3,661**	(4,049)
Loans and advances		**7,575**	(54,674)
Investment property		**-**	(11,734)
Interest receivable		**(4,340)**	(134)
Other assets		**(358)**	(258)
Deposits from banks and other financial institutions		**(87,740)**	98,880
Due to banks and other financial institutions		**9,784**	39,957
Due to customers		**(13,223)**	(35,931)
Interest payable		**2,631**	166
Other liabilities		**1,706**	(751)
Net cash flows used in operating activities		**(54,756)**	(155,138)
INVESTING ACTIVITIES			
Purchase of investment securities		**(39,833)**	(126,038)
Proceeds from disposal and/or redemption of investment securities		**44,763**	105,581
Purchase of property, equipment and software	10	**(198)**	(161)
Net cash flows from (used in) investing activities		**4,732**	(20,618)
FINANCING ACTIVITY			
Dividends paid		**(12,500)**	(12,500)
Cash flows used in financing activity		**(12,500)**	(12,500)
NET MOVEMENT IN CASH AND CASH EQUIVALENTS		**(62,524)**	(188,256)
Cash and cash equivalents at 1 January		**426,705**	614,961
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	4	**364,181**	426,705

The attached notes 1 to 28 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2022

	Notes	*Share capital US$ '000*	*Statutory reserve US$ '000*	*Retained earnings US$ '000*	*Fair value reserve US$'000*	*Proposed dividend US$'000*	*Total US$ '000*
Balance as of 1 January 2022		250,000	30,115	52,580	(5,294)	12,500	339,901
Net profit for the year		-	-	9,603	-	-	9,603
Other comprehensive loss		-	-	-	(4,642)	-	(4,642)
Total comprehensive income		-	-	9,603	(4,642)	-	4,961
Dividends paid	15	-	-	-	-	(12,500)	(12,500)
Proposed dividend for 2022	15	-	-	(8,000)	-	8,000	-
Transfer to statutory reserve	14	-	960	(960)	-	-	-
Balance as of 31 December 2022		**250,000**	**31,075**	**53,223**	**(9,936)**	**8,000**	**332,362**
Balance as of 1 January 2021		250,000	27,842	44,621	(588)	12,500	334,375
Net profit for the year		-	-	22,732	-	-	22,732
Other comprehensive loss		-	-	-	(4,706)	-	(4,706)
Total comprehensive income		-	-	22,732	(4,706)	-	18,026
Dividends paid	15	-	-	-	-	(12,500)	(12,500)
Proposed dividend for 2021	15	-	-	(12,500)	-	12,500	-
Transfer to statutory reserve	14	-	2,273	(2,273)	-	-	-
Balance as of 31 December 2021		250,000	30,115	52,580	(5,294)	12,500	339,901

The attached notes 1 to 28 form part of these consolidated financial statements.

1 ACTIVITIES

ALUBAF Arab International Bank B.S.C. (c) (the "Bank") is a closed Bahraini joint stock company incorporated in the Kingdom of Bahrain and registered with the Ministry of Industry, Commerce and Tourism under Commercial Registration (CR) number 12819. The Bank operates under a wholesale banking license issued by the Central Bank of Bahrain (the "CBB"). The Bank's registered office is at Building 854, Road 3618, Avenue 436, Alubaf Tower, Al-Seef District, PO Box 11529, Manama, Kingdom of Bahrain.

The Bank is majority owned by Libyan Foreign Bank, a bank registered in Libya (refer to note 14 for more details).

The Bank has incorporated a special purpose vehicle (the "SPV") namely 'Bahrain Real Estate Development Company' in Jordan for the purpose of registration of land on behalf of the Bank. These consolidated financial statements include the operating results of the Bank and its wholly owned SPV (together "the Group").

The consolidated financial statements of the Group for the year ended 31 December 2022 were authorised for issue in accordance with a resolution of the Board of Directors on 20 February 2023.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with IFRS and are in conformity with the Bahrain Commercial Companies Law ("BCCL"), the CBB and Financial Institutions Law, the CBB Rule Book (Volume 1 and applicable provisions of Volume 6) and the relevant CBB directives. The comparative information for the year ended 31 December 2021 included in these consolidated financial statements were reported in accordance with the IFRS modified by CBB. The transition from 'IFRS modified by CBB' to IFRS as issued by IASB has not resulted in any changes to the previously reported numbers in the consolidated statement of financial position as of 1 January 2020, 31 December 2020 and 2021, and the consolidated statement of profit or loss for the year ended 31 December 2021.

Basis of measurement

The consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments, investments classified at fair value through profit or loss ("FVTPL") and investment classified at fair value through other comprehensive income ("FVOCI") that have been remeasured at fair value.

Functional and presentation currency

The consolidated financial statements are presented in United States Dollars (US$), being the Bank's functional currency. All values are rounded to the nearest thousand (US$ '000), except when otherwise indicated.

2.2 Significant accounting policies

Basis of consolidation

The consolidated financial statements include the financial statements of the Bank and its SPV as at 31 December 2022. The reporting dates of the SPV and the Bank are identical and the SPV's accounting policies conform to those used by the Bank for like transactions and events in similar circumstances.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. 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. Specifically, the Group controls an investee if and only if the Group has:

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Significant accounting policies (continued)

Basis of consolidation (continued)

- power over the investee (i.e. existing rights that give it the current 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 affect its 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 financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of Other Comprehensive Income ("OCI") are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into 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 a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

a) derecognises the assets (including goodwill) and liabilities of the subsidiary;
b) derecognises the carrying amount of any non-controlling interest;
c) derecognises the cumulative transaction differences, recorded in equity;
d) recognises the fair value of consideration received;
e) recognises the fair value of any investment retained;
f) recognises any surplus or deficit in the consolidated statement of income; and
g) reclassifies the parent's share of a component previously recognised in OCI to consolidated statement of income or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

Financial instruments

Date of recognition
Financial assets and liabilities, with the exception of loans and advances to customers and balances due to customers, are initially recognised on the trade date, i.e., the date on which the Group becomes a party to the contractual provisions of the instrument. This includes regular way trades, i.e., 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 balances due to customers when funds are transferred to the Group.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Significant accounting policies (continued)

Financial instruments (continued)

Initial measurement
The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments.

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 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.

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.

Financial assets

2.2.1 Debt instruments - Classification and subsequent measurement
The Group classifies its financial assets - debt instruments in the following measurement categories:

- Amortised cost;
- Fair value through other comprehensive income (FVOCI); or
- Fair value through profit or loss (FVTPL).

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 effective interest rate method.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Significant accounting policies (continued)

Financial assets (continued)

2.2.1 Debt instruments - Classification and subsequent measurement (continued)

- 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 impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognised in profit or loss. 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 investments'. Interest income from these financial assets is included in 'Interest and similar income' using the effective interest method.

- Fair value through profit or loss (FVTPL): Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. The Group may also designate a financial asset at FVTPL, if doing so eliminates or significantly reduces measurement or recognition inconsistencies. A gain or loss on a debt investment that is measured at FVTPL and is not part of a hedging relationship is recognised in profit or loss and presented in the consolidated statement of profit or loss within operating income as 'Gain (loss) on investments classified as FVTPL' in the period in which it arises, unless it arises from debt instruments that were neither designated at fair value nor which are not held for trading, in which case they are presented separately within 'operating income' as a 'Gain on investment securities - net'. Interest income from these financial assets is included in 'Interest and similar income' using the effective interest method.

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 a '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;
- 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.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Significant accounting policies (continued)

Financial assets (continued)

2.2.1 Debt instruments - Classification and subsequent measurement (continued)

Business model (continued)
The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Group's original expectations, the Group does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

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.

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

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

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

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

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

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

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

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.

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:

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Significant accounting policies (continued)

Financial assets (continued)

2.2.1 Debt instruments - Classification and subsequent measurement (continued)

Modified or forbearance of loans (continued)

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

If the terms are substantially different, the Group derecognises the original financial asset and recognises a 'new' asset at fair value and recalculates a new effective interest rate (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 ("SICR") 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.

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 profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original EIR (or credit-adjusted EIR for purchased or originated credit-impaired financial assets).

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

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.

Derecognition other than on a modification
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.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Significant accounting policies (continued)

Financial assets (continued)

2.2.1 Debt instruments - Classification and subsequent measurement (continued)

Derecognition other than on a modification (continued)
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. This also applies to certain securitisation transactions in which the Group retains a subordinated residual interest.

2.2.2 Equity 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 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 within operating income as 'Gain (loss) on investments classified as FVTPL' in the consolidated statement of profit or loss.

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

Financial liabilities

Classification and subsequent measurement
All financial liabilities of the Group are classified and subsequently measured at amortised cost, except for:

- Financial liabilities at FVTPL: this classification is applied to derivatives and financial liabilities held for trading (e.g. short positions in the trading booking). 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 issuer's credit risk, which is determined as the amount that is not attributable to changes in the 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 issuer's credit risk are also presented in 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.

Derecognition
Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Significant accounting policies (continued)

Financial liabilities (continued)

Derecognition (continued)
The exchange between the Group and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original EIR, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in covenants are also taken into consideration. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

Impairment
The Group assesses on a forward-looking basis, the 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 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.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Significant accounting policies (continued)

Impairment (continued)

Measurement of ECL (continued)
For the purposes of calculation of ECL, the Group categorises its FVOCI and amortised cost debt securities, loans and receivable and loan commitments and financial guarantee contracts into Stage 1, Stage 2 and Stage 3, based on the applied impairment methodology, as described below:

- Stage 1 – Performing: when financial assets are first recognised, the Group recognises an allowance based up to 12-month ECL.
- Stage 2 – Significant increase in credit risk: when a financial asset shows a significant increase in credit risk, the Group records an allowance for the lifetime ECL.
- Stage 3 – Impaired: the Group recognises the lifetime ECL for these financial assets.

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, the ECL does not reduce the carrying amount of these financial assets in the 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.

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. 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.

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 that takes into account a number of economic scenarios, in order to recognise the probability of higher losses associated with more negative economic outlooks.

Performing exposures restructured will be treated as Stage 2, including loans renegotiated due to deterioration in business condition will be treated as Stage 2 unless the loan Is overdue for 90 days or more, where the exposure will be determined as Stage 3.

It is the Group's policy to evaluate additional available reasonable and supportive forward-looking information as further additional drivers.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Significant accounting policies (continued)

Impairment (continued)

Measurement of ECL (continued)

Stage 3
Financial assets are included in Stage 3 when there is objective evidence that the financial asset is credit impaired. At each reporting date, the Group assesses whether financial assets carried at amortized cost and debt financial assets carried at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:
- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of an impaired loan or advance by the Group will be continue to be classified as Stage 3;
- 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 from out of Stage 3 if they no longer meet the criteria of credit-impaired after a probation period of 12 months.

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.

The Group uses published external information from International Monetary Fund (IMF) website, government and private economic forecasting services. These forward looking assumptions undergo an internal governance process before they are applied for different scenarios.

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 amortized 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

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Significant accounting policies (continued)

Impairment (continued)

Presentation of allowance for ECL in the statement of financial position (continued)

- debt instruments measured at FVOCI: no loss allowance is recognised in the consolidated statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the cumulative changes in fair value reserve.

Limitation of estimation techniques
The models applied by the Group may not always capture all characteristics of the market at a point in time as they cannot be recalibrated at the same pace as changes in market conditions. Interim adjustments are expected to be made until the base models are updated. 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 factors for which the data is updated once it is available and adjustments are made for significant events occurring prior to the reporting date.

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.

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 within operating income on a straight line basis over the life of the guarantee.

Undrawn loan commitments and letters of credit 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. Similar to financial guarantee contracts, these contracts are in the scope of the ECL requirements.

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.

Derivative financial instruments
The Group makes use of derivative instruments, such as forward foreign exchange contracts.

Derivatives are initially recognised, and subsequently measured, at fair value with transaction costs taken directly to the consolidated statement of profit or loss. The fair value of a derivative is the equivalent of the unrealised gain or loss from marking to market the derivative. Derivatives with positive fair values (unrealised gains) are included in other assets and derivatives with negative fair values (unrealised losses) are included in other liabilities in the consolidated statement of financial position.

Cash and cash equivalents
For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash and balances with banks, treasury bills and deposits with banks and other financial institutions with original maturities of 90 days or less.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Significant accounting policies (continued)

Property, equipment and software
Property, equipment and software are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Expenditure incurred to replace a component of an item of property, equipment and software that is accounted for separately is capitalised and the carrying amount of the component that is replaced is written off. When significant parts of property, equipment and software are required to be replaced at intervals, the Group depreciates them separately based on their specific useful lives. Land and capital work in progress are not depreciated. Repairs and maintenance costs are recognised in the consolidated statement of profit or loss as incurred.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets, as follows:

Assets	*Estimated useful life in years*
Building	15
Furniture, equipment and motor vehicles	3 to 5
Software	3 to 5

An item of property and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of profit or loss when the asset is derecognised.

The residual values, useful lives and methods of depreciation of property, equipment and software are reviewed at each financial year end and adjusted prospectively, if appropriate.

Investment property
Investment property is property (land or a building or part of a building or both) held to earn rentals or for capital appreciation or both. Investment property is initially measured at cost, including transaction costs. Such cost should not include start-up costs, abnormal waste, or initial operating losses. Subsequently, investment property is accounted for in accordance with the cost model where its stated at cost less accumulated depreciation and accumulated impairment losses.

Investment property is derecognised when either it is disposed off or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the consolidated statement of profit or loss in the year of derecognition.

Impairment of non-financial assets
The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount, with the difference being recognised as an impairment in the consolidated statement of profit or loss.

Renegotiated loans
In the ordinary course of its business, the Group seeks to restructure loans. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original effective interest rate as calculated before the modification of terms and the loan is no longer considered past due. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Significant accounting policies (continued)

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 a provision is presented in the consolidated statement of profit or loss net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised in the consolidated statement of profit or loss.

Employees' end of service benefits
The Group provides end of service benefits to its non - Bahraini employees. The entitlement to these benefits is based upon the employee's final salary and length of service. The expected costs of these benefits are accrued over the period of employment.

The Group also makes contributions to the Social Insurance Organisation (SIO) Scheme calculated as a percentage of the employees' salaries. The Group's obligations are limited to these contributions, which are expensed when due.

Contingent liabilities
Contingent liabilities are not recognised in the consolidated financial statements, but are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

Share capital, statutory reserve and dividend

Share capital
Ordinary shares issued by the Group are classified as equity. The Group classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. Incremental costs directly attributable to the issue of an equity instrument are deducted from the initial measurement of the equity instruments.

Statutory reserve
The Bahrain Commercial Companies Law requires that 10% of the annual profit be appropriated to a statutory reserve which is normally distributable only on dissolution. Appropriations may cease when the reserve reaches 50% of the paid up share capital.

Dividend
The Group recognises a liability to make cash or non-cash distributions to equity holders when the distribution is authorised and the distribution is no longer at the discretion of the Group. As per the Bahrain Commercial Companies Law, a distribution is authorised when it is approved by the shareholders. A corresponding amount is recognised directly in equity.

Fair value measurement
The Group measures financial instruments, such as investments and derivatives at fair value at the reporting date. Fair value related disclosures for financial instruments and non-financial assets that are measured at fair value or where fair values are disclosed, are detailed in note 24.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Significant accounting policies (continued)

Fair value measurement (continued)
The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are 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 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained earlier.

Revenue recognition
Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment. The following specific recognition criteria must also be met before revenue is recognised:

Interest income
For all financial instruments measured at amortised cost and interest-bearing financial assets classified as fair value through other comprehensive income, interest income is recorded using the effective interest rate (EIR). EIR is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. The recognition of interest income is suspended when the loans become impaired, such as when overdue by more than 90 days.

Fee and commission income
Fee and commission income are recognised when earned.

Foreign exchange gain
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 the Group's 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.

Dividend income
Dividend income is recognised when the Group’s right to receive the payment is established, which is generally when shareholders approve the dividend.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Significant accounting policies (continued)

Share based payments

Cash-settled share based payments
The cost of cash-settled share based payment transactions is measured initially at fair value at the grant date using an appropriate valuation model. This fair value is expensed over the period until the vesting date with recognition of a corresponding liability. The liability is remeasured to fair value at each reporting date up to, and including the settlement date, with changes in fair value recognised in the consolidated statement of profit or loss.

Foreign currencies
The Group's consolidated financial statements are presented in United States Dollars (US$), which is the Bank's functional currency.

Transactions in foreign currencies are initially recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates 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 is 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 other comprehensive income (OCI) or profit or loss are recognised in OCI or profit or loss, respectively).

2.3 Changes in accounting policies and disclosures

i) New and amended standards and interpretations effective as of 1 January 2022
The following new amendments to the accounting standards became effective in 2022 and have been adopted by the Group in preparation of these consolidated financial statements as applicable. Further, the Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities
As part of its 2018-2020 Annual Improvements to IFRS standards process, the IASB issued an amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. These amendments had no impact on the consolidated financial statements of the Group.

Reference to the Conceptual Framework – Amendments to IFRS 3
In May 2020, the IASB issued Amendments to IFRS 3 Business Combinations - Reference to the Conceptual Framework. The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements. The Board also added an exception to the recognition principle of IFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 Levies, if incurred separately. At the same time, the Board decided to clarify existing guidance in IFRS 3 for contingent assets that would not be affected by replacing the reference to the Framework for the Preparation and Presentation of Financial Statements. These amendments had no impact on the consolidated financial statements of the Group.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Changes in accounting policies and disclosures (continued)

i) New and amended standards and interpretations effective as of 1 January 2022 (continued)

Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16
In May 2020, the IASB issued Property, Plant and Equipment — Proceeds before Intended Use, which prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss. The amendment is effective for annual reporting periods beginning on or after 1 January 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment. 'These amendments had no impact on the consolidated financial statements of the Group.

Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37
In May 2020, the IASB issued amendments to IAS 37 to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a “directly related cost approach”. The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The amendments are effective for annual reporting periods beginning on or after 1 January 2022. These amendments had no impact on the consolidated financial statements of the Group.

ii) 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.

Definition of Accounting Estimates - Amendments to IAS 8
In February 2021, the IASB issued amendments to IAS 8, in which it introduces a definition of ‘accounting estimates’. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted as long as this fact is disclosed. The Group is currently assessing the impact of the amendments to determine the impact it will have on the Group’s accounting policy disclosures.

Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2
In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements, in which it provides 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 to IAS 1 are applicable for annual periods beginning on or after 1 January 2023 with earlier application permitted. Since the amendments to the Practice Statement 2 provide non-mandatory guidance on the application of the definition of material to accounting policy information, an effective date for these amendments is not necessary. The Group is currently assessing the impact of the amendments to determine the impact they will have on the Group’s accounting policy disclosures.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Changes in accounting policies and disclosures (continued)

ii) New and amended standards and interpretations issued but not yet effective (continued)

Other standards and interpretations that are issued, but not yet effective, are listed below:

- Amendments to IAS 1: Classification of Liabilities as Current or Non-current (effective for annual reporting periods beginning on or after 1 January 2023).
- IFRS 17 Insurance Contracts (effective for annual reporting periods beginning on or after 1 January 2023).

The Group is currently assessing the impact of the amendments to determine the impact they will have on the Group's accounting policy disclosures.

3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures, as well as the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. In the process of applying the Group's accounting policies, management has made the following judgements and assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Existing circumstances and assumptions about future developments may change due to circumstances beyond the Group's control and are reflected in the assumptions if and when they occur. Items with the most significant effect on the amounts recognised in the consolidated financial statements with substantial management judgement and/or estimates are collated below with respect to judgements or estimates involved.

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;
- Management's evaluation of the performance of the portfolio;
- 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.

3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Going concern

The Group's Board of Directors 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 Board of Directors are 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 a going concern basis.

Impairment losses on financial assets

The measurement of the ECL for financial assets subject to credit risk measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions, credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses), estimation of the amount and timing of the future cash flows and collateral values. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Group's ECL calculation are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Internal credit rating model, which assigns probability of defaults (PDs) to the individual ratings;
- Determining criteria for significant increase in credit risk (SICR);
- Choosing appropriate models and assumptions for the measurement of ECL;
- Determination of associations between macroeconomic scenarios and, economic inputs, such as GDP, oil prices, equity indices, unemployment levels and collateral values, and the effect on PD, exposure at default (EAD) and loss given default (LGD);
- Selection and relative weightings of forward-looking scenarios to derive the economic inputs into the ECL models;
- Establishing groups of similar financial assets for the purposes of measuring ECL; and
- Determining relevant period of exposure with respect to the revolving credit facilities and facilities undergoing restructuring at the time of the reporting date.

4 CASH AND BALANCES WITH CENTRAL BANK AND OTHER BANKS

	2022	*2021*
	US$ '000	*US$ '000*
Cash and balance with bank	**15**	3
Money at call and short notice with other banks	**15,517**	49,481
Treasury bills - balances with Central Bank	**298,721**	299,564
Provision for expected credit losses (note 4.1)	**(3,499)**	(3,741)
Cash and balances with central bank and other banks	**310,754**	345,307
Treasury bills - balances with Central Bank with original maturities of more than 90 days	**(298,721)**	(299,564)
Deposits with banks and other financial institutions with original maturities of 90 days or less (note 5)	**352,148**	380,962
Cash and cash equivalents	**364,181**	426,705

As at 31 December 2022, exposure classified in stage 2 amounted to US$ 157 thousand (31 December 2021: nil) and exposure classified in stage 3 amounted to US$ 3,497 thousand (31 December 2021: US$ 3,735 thousand). The remaining exposures are classified within Stage 1.

4 CASH AND BALANCES WITH CENTRAL BANK AND OTHER BANKS (continued)

Note 4.1
Movement in provision for expected credit losses were as follows:

	31 December 2022			
	Stage 1: 12-month ECL US$ 000	***Stage 2: Lifetime ECL not credit-impaired US$ 000***	***Stage 3: Lifetime ECL credit-impaired US$ 000***	***Total US$ 000***
Balance at 1 January	**6**	**-**	**3,735**	**3,741**
Provided during the year	**-**	**1**	**-**	**1**
Reversals during the year	**(5)**	**-**	**-**	**(5)**
	(5)	**1**	**-**	**(4)**
Exchange differences	**-**	**-**	**(238)**	**(238)**
At 31 December	**1**	**1**	**3,497**	**3,499**

	31 December 2021			
	Stage 1: 12-month ECL US$ 000	*Stage 2: Lifetime ECL not credit-impaired US$ 000*	*Stage 3: Lifetime ECL credit-impaired US$ 000*	*Total US$ 000*
Balance at 1 January	6	-	-	6
Provided during the year	4	-	3,803	3,807
Reversals during the year	(4)	-	-	(4)
	-	-	3,803	3,803
Exchange differences	-	-	(68)	(68)
At 31 December	6	-	3,735	3,741

5 DEPOSITS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

Deposits with banks and other financial institutions represent interest bearing money market deposits held with banks and other financial institutions as at the reporting date and are as follows:

	2022 US$ '000	*2021 US$ '000*
Deposits with original maturities of 90 days or less (note 4)	**352,148**	380,962
Deposits with original maturities of over 90 days	**74,406**	84,594
	426,554	465,556
Provision for expected credit losses (note 5.1)	**(150)**	(195)
	426,404	465,361

As at 31 December 2022 all the above exposures are classified within Stage 1 (31 December 2021: same).

5 DEPOSITS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS (continued)

Note 5.1
Movement in provision for expected credit losses were as follows:

	2022 Stage 1 12-month ECL US$ '000	*2021 Stage 1 12-month ECL US$ '000*
Balance at 1 January	**195**	453
Provided during the year	**107**	174
Reversal during the year	**(152)**	(432)
	(45)	(258)
At 31 December	**150**	195

6 INVESTMENTS CLASSIFIED AS FAIR VALUE THROUGH PROFIT OR LOSS (FVTPL)

As at 31 December 2022, the Group did not have any Investments classified as fair value through profit or loss (FVTPL) (2021: quoted debt security amounting to US$ 3,661 thousand).

7 INVESTMENT SECURITIES

	31 December 2022			*31 December 2021*		
	FVOCI US$'000	***Amortised cost US$'000***	***Total US$'000***	*FVOCI US$'000*	*Amortised cost US$'000*	*Total US$'000*
Quoted investments						
- Sovereign debt securities	**97,612**	**125,371**	**222,983**	97,047	126,986	224,033
- Banks and Corporate debt securities	**24,350**	**2,040**	**26,390**	25,563	15,057	40,620
Total quoted investments	**121,962**	**127,411**	**249,373**	122,610	142,043	264,653
Provision for expected credit losses on investment securities at amortised cost	**-**	**(820)**	**(820)**	-	(1,142)	(1,142)
Total investment securities	**121,962**	**126,591**	**248,553**	122,610	140,901	263,511

Interest in suspense amounted to US$ 223 thousand as of 31 December 2022 (2021: nil).

Note 7.1
A reconciliation of changes in gross carrying amounts of investment securities at FVOCI and investment securities at amortised cost by stage is as follows:

	31 December 2022			
	Stage 1: US$ 000	***Stage 2: US$ 000***	***Stage 3: US$ 000***	***Total US$ 000***
Investment securities at FVOCI				
At 1 January	**85,195**	**37,415**	**-**	**122,610**
Investments purchased	**17,911**	**-**	**-**	**17,911**
Investments sold / matured	**(4,906)**	**(5,037)**	**-**	**(9,943)**
Transfers to Stage 1	**-**	**-**	**-**	**-**
Transfers to Stage 2	**(22,791)**	**22,791**	**-**	**-**
Transfers to Stage 3	**-**	**(2,769)**	**2,769**	**-**
Fair value movement	**(5,235)**	**(2,162)**	**(1,219)**	**(8,616)**
At 31 December	**70,174**	**50,238**	**1,550**	**121,962**

7 INVESTMENT SECURITIES (continued)

Note 7.1 (continued)

	31 December 2021			
	Stage 1:	*Stage 2:*	*Stage 3:*	*Total*
	US$ 000	*US$ 000*	*US$ 000*	*US$ 000*
At 1 January	128,906	25,199	-	154,105
Investments purchased	69,591	-	-	69,591
Investments sold / matured	(94,621)	(1,980)	-	(96,601)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	(15,238)	15,238	-	-
Transfers to Stage 3	-	-	-	-
Fair value movement	(3,443)	(1,042)	-	(4,485)
At 31 December	85,195	37,415	-	122,610

	31 December 2022			
	Stage 1:	***Stage 2:***	***Stage 3:***	***Total***
	US$ 000	***US$ 000***	***US$ 000***	***US$ 000***
Investment securities at amortised cost				
At 1 January	**117,982**	**24,061**	**-**	**142,043**
Investments purchased	**21,922**	**-**	**-**	**21,922**
Investments sold / matured	**(20,000)**	**(15,000)**	**-**	**(35,000)**
Transfers to Stage 1	**-**	**-**	**-**	**-**
Transfers to Stage 2	**(4,798)**	**4,798**	**-**	**-**
Transfers to Stage 3	**-**	**-**	**-**	**-**
Amoritsation of premium / discount	**(1,365)**	**(189)**	**-**	**(1,554)**
At 31 December	**113,741**	**13,670**	**-**	**127,411**

	31 December 2021			
	Stage 1:	*Stage 2:*	*Stage 3:*	*Total*
	US$ 000	*US$ 000*	*US$ 000*	*US$ 000*
At 1 January	67,417	27,154	-	94,571
Investments purchased	56,447	-	-	56,447
Investments sold / matured	(5,000)	(3,000)	-	(8,000)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Amoritsation of premium / discount	(882)	(93)	-	(975)
At 31 December	117,982	24,061	-	142,043

7 INVESTMENT SECURITIES (continued)

Note 7.2
Movements in provision for expected credit losses of FVOCI investments were as follows:

	31 December 2022			
	Stage 1: 12-month ECL US$ 000	***Stage 2: Lifetime ECL not credit-impaired US$ 000***	***Stage 3: Lifetime ECL credit-impaired US$ 000***	***Total US$ 000***
Balance at 1 January	**458**	**774**	**-**	**1,232**
Transfer to stage 2	**(231)**	**231**	**-**	**-**
Transfer to stage 3	**-**	**(411)**	**411**	**-**
Provided during the year	**84**	**1,131**	**2,891**	**4,106**
Reversals during the year	**(16)**	**(116)**	**-**	**(132)**
	(163)	**835**	**3,302**	**3,974**
At 31 December	**295**	**1,609**	**3,302**	**5,206**

	31 December 2021			
	Stage 1: 12-month ECL US$ 000	*Stage 2: Lifetime ECL not credit-impaired US$ 000*	*Stage 3: Lifetime ECL credit-impaired US$ 000*	*Total US$ 000*
Balance at 1 January	568	885	-	1,453
Transfer to stage 2	(17)	17	-	-
Provided during the year	291	61	-	352
Reversals during the year	(384)	(189)	-	(573)
	(110)	(111)	-	(221)
At 31 December	458	774	-	1,232

Movements in provision for expected credit losses of amortised cost investments were as follows:

	31 December 2022			*31 December 2021*		
	Stage 1: 12-month ECL US$ '000	***Stage 2: Lifetime ECL not credit-impaired US$ '000***	***Total ECL US$ '000***	*Stage 1: 12-month ECL US$ '000*	*Stage 2: Lifetime ECL not credit-impaired US$ '000*	*Total ECL US$ '000*
Balance at 1 January	**399**	**743**	**1,142**	406	3,403	3,809
Transfer to stage 2	**(47)**	**47**	**-**	-	-	-
Provided during the year	**279**	**212**	**491**	188	-	188
Reversals during the year	**(70)**	**(743)**	**(813)**	(195)	(2,660)	(2,855)
	162	**(484)**	**(322)**	(7)	(2,660)	(2,667)
At 31 December	**561**	**259**	**820**	399	743	1,142

8 LOANS AND ADVANCES

Loans and advances are stated net of provision for expected credit losses. The table below discloses the gross loans and provision for expected credit losses excluding interest in suspense amounting to US$ 31,737 thousand as of 31 December 2022 (2021: US$ 31,168 thousand).

	31 December 2022			
	Stage 1: 12-month ECL US$ 000	***Stage 2: Lifetime ECL not credit-impaired US$ 000***	***Stage 3: Lifetime ECL credit-impaired US$ 000***	***Total US$ 000***
Letters of credit - financing and discounting	**8,590**	**-**	**41,324**	**49,914**
Sovereign loans	**36,548**	**-**	**-**	**36,548**
Commercial loans	**100,073**	**-**	**-**	**100,073**
	145,211	**-**	**41,324**	**186,535**
Provision for expected credit losses (note 8.1)	**(2,343)**	**-**	**(41,324)**	**(43,667)**
	142,868	**-**	**-**	**142,868**

	31 December 2021			
	Stage 1: 12-month ECL US$ 000	*Stage 2: Lifetime ECL not credit-impaired US$ 000*	*Stage 3: Lifetime ECL credit-impaired US$ 000*	*Total US$ 000*
Letters of credit - financing and discounting	35,418	-	41,303	76,721
Sovereign loans	46,315	-	-	46,315
Commercial loans	69,874	-	-	69,874
	151,607	-	41,303	192,910
Provision for expected credit losses (note 8.1)	(2,267)	-	(41,303)	(43,570)
	149,340	-	-	149,340

Note 8.1

Movements in provision for expected credit losses were as follows:

	31 December 2022			
	Stage 1: 12-month ECL US$ '000	***Stage 2: Lifetime ECL not credit-impaired US$ '000***	***Stage 3: Lifetime ECL credit-impaired US$ '000***	***US$ '000***
Balance at 1 January 2022	**2,267**	**-**	**41,303**	**43,570**
Provided during the year	**1,011**	**-**	**21**	**1,032**
Reversals and writebacks during the year	**(935)**	**-**	**-**	**(935)**
	76	**-**	**21**	**97**
At 31 December 2022	**2,343**	**-**	**41,324**	**43,667**

8 LOANS AND ADVANCES (continued)

Note 8.1 (continued)

	31 December 2021			
	Stage 1: 12-month ECL	*Stage 2: Lifetime ECL not credit-impaired*	*Stage 3: Lifetime ECL credit-impaired*	
	US$ '000	*US$ '000*	*US$ '000*	*US$ '000*
Balance at 1 January 2021	2,124	-	79,761	81,885
Provided during the year	1,539	-	20	1,559
Reversals during the year	(1,396)	-	(11,734)	(13,130)
	143	-	(11,714)	(11,571)
Write-offs	-	-	(26,744)	(26,744)
At 31 December 2021	2,267	-	41,303	43,570

During the year, no facilities were renegotiated (2021: same) or written off by the Group (2021: fully provided facilities amounting to US$ 26,744 thousands were written off by the Group).

The total value of collateral held by the Group against its loans and advances exposure amounted to US$ 1,807 thousand as at 31 December 2022 (31 December 2021: US$ 1,807 thousand).

9 INVESTMENT PROPERTY

In 2021, the Group acquired investment property amounting to US$ 11,734 thousand in lieu of partial settlement of a fully provided financing facility. The Group has determined the cost of such investment property to be equal to the value of the facility settled which is also deemed to be the fair value of the investment property.

10 PROPERTY, EQUIPMENT AND SOFTWARE

	Land	***Building***	***Furniture, equipment and motor vehicles***	***Software***	***Capital work in progress***	***Total***
	US$ '000	***US$ '000***	***US$ '000***	***US$ '000***	***US$ '000***	***US$ '000***
Cost:						
At 1 January 2022	4,243	7,652	4,037	1,562	10	17,504
Additions	-	-	135	47	16	198
At 31 December 2022	**4,243**	**7,652**	**4,172**	**1,609**	**26**	**17,702**
Accumulated depreciation:						
At 1 January 2022	-	4,562	3,834	1,434	-	9,830
Depreciation charge for the year	-	509	138	79	-	726
At 31 December 2022	**-**	**5,071**	**3,972**	**1,513**	**-**	**10,556**
Net book value:						
At 31 December 2022	**4,243**	**2,581**	**200**	**96**	**26**	**7,146**

10 PROPERTY, EQUIPMENT AND SOFTWARE (continued)

	Land US$ '000	*Building US$ '000*	*Furniture, equipment and motor vehicles US$ '000*	*Software US$ '000*	*Capital work in progress US$ '000*	*Total US$ '000*
Cost:						
At 1 January 2021	4,243	7,652	3,940	1,508	-	17,343
Additions	-	-	97	54	10	161
At 31 December 2021	4,243	7,652	4,037	1,562	10	17,504
Accumulated depreciation:						
At 1 January 2021	-	4,053	3,663	1,301	-	9,017
Depreciation charge for the year	-	509	171	133	-	813
At 31 December 2021	-	4,562	3,834	1,434	-	9,830
Net book value:						
At 31 December 2021	4,243	3,090	203	128	10	7,674

The land relates to the building on which the Group's premises is constructed.

11 DEPOSITS FROM AND DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

11.1 Deposits from banks and other financial institutions

Deposits from banks and other financial institutions represent interest bearing money market deposits held with the Group as at the reporting date.

11.2 Due to banks and other financial institutions

Due to banks and other financial institutions comprise the following current account balances and cash collateral held with the Group in relation to the facilities of letters of credit and letters of guarantee as at the reporting date:

	2022 US$ '000	*2021 US$ '000*
Current account balances	**86,199**	75,594
Cash collateral held	**28,439**	29,260
	114,638	104,854

12 DUE TO CUSTOMERS

Due to customers represent current account balances, interest bearing money market deposits and cash collateral of corporate customers held with the Group in relation to the facilities of letters of credit and letters of guarantee as at the reporting date:

	2022 US$ '000	*2021 US$ '000*
Current account balances and deposit	**23,097**	33,887
Cash collateral held	**501**	2,934
	23,598	36,821

13 OTHER LIABILITIES

	2022	*2021*
	US$ '000	*US$ '000*
Accrued expenses and payables	**10,244**	9,213
Due to directors and employees	**505**	254
Provision for expected credit losses for off balance sheet exposures (note 13.1)	**23**	74
Unearned fee income	**696**	272
Others	**12**	11
	11,480	9,824

Accrued expenses include US$ 998 thousand (2021: US$ 810 thousand) of liability relating to cash settled share based payments.

The Group has established an Employee Phantom Share Scheme (EPSS) in compliance with the sound remuneration rules issued by the Central Bank of Bahrain. Under the scheme, certain eligible employees of the Group become entitled to share based compensation. Under the EPSS, each eligible employee is issued with a phantom share award which entitles the holder to receive one phantom share at the delivery date. The share awards will vest over 3 years with one third award vesting at the end of each of the subsequent 3 years. The eligible employee has to retain the shares for a period of 6 months post the award date prior to encashing the vested awards. Phantom units are ultimately cash settled based on the audited net book value of the Group at the vesting dates.

The cost of the phantom units are initially measured at net-book-value per share of the Group at the grant date and expensed in the consolidated statement of profit or loss with a corresponding liability being recognised. The liability is remeasured to its net-book-value per share of the Group at each reporting date up to the date of settlement with changes in fair value recognised in the consolidated statement of profit or loss.

Note 13.1
Movement in provision for expected credit losses for off balance sheet exposures was as follows:

	2022	*2021*
	Stage 1	*Stage 1*
	12-month	*12-month*
	ECL	*ECL*
	US$ '000	*US$ '000*
Balance at 1 January	**74**	19
Provided during the year	**20**	74
Write-backs	**(71)**	(19)
	(51)	55
At 31 December	**23**	74

14 SHARE CAPITAL

	2022	*2021*
	US$ '000	*US$ '000*
Authorised:		
10,000,000 (2021: 10,000,000) ordinary shares of US$ 50 each	**500,000**	500,000

	2022	*2021*
	US$ '000	*US$ '000*
Issued and fully paid up :		
5,000,000 (2021: 5,000,000) ordinary shares of US$ 50 each	**250,000**	250,000

14 SHARE CAPITAL (continued)

Shareholders

	2022		2021	
	Percentage holding (%)	***US$ '000***	*Percentage holding (%)*	*US$ '000*
Libyan Foreign Bank	**99.50**	**248,750**	99.50	248,750
National Bank of Yemen	**0.28**	**689**	0.28	689
Yemen Bank for Reconstruction and Development	**0.22**	**561**	0.22	561
	100.00	**250,000**	100.00	250,000

Statutory reserve

As required by the Bahrain Commercial Companies Law and the Bank's articles of association, a statutory reserve has been created by transfer of 10% of its annual profit. The Group may resolve to discontinue such transfers when the reserve totals 50% of the paid up capital. The reserve is not distributable except in such circumstances as stipulated in the BCCL and following approval of the Central Bank of Bahrain. The Group has transferred US$ 960 thousand (2021: US$ 2,273 thousand) to statutory reserve in the current

15 PROPOSED DIVIDEND

Dividend of US$ 8,000 thousand i.e. US$ 1.6 per share is proposed for the year ended 31 December 2022 subject to regulatory approvals and the approval of the shareholders in the Annual General Meeting. During the year, dividends amounting US$ 12,500 thousand i.e. US$ 2.5 per share has been paid to shareholders relating to the year ended 31 December 2021 after due approval from the shareholders at the Annual General Assembly Meeting held on 29 June 2022.

16 INTEREST AND SIMILAR INCOME

	2022	*2021*
	US$ '000	*US$ '000*
Interest on:		
- Deposits with banks, other financial institutions and balance with central bank	**14,682**	7,339
- Loans and advances	**7,164**	6,391
- Investments classified as fair value through profit or loss	**31**	225
- Investment securities	**13,095**	12,196
	34,972	26,151

17 INTEREST EXPENSE

	2022	*2021*
	US$ '000	*US$ '000*
Interest on:		
- Deposits from and due to banks and other financial institutions	**11,235**	3,336
- Due to customers	**3**	42
	11,238	3,378

18 FEE AND COMMISSION INCOME

	2022 US$ '000	2021 US$ '000
Commission income on letters of credit and guarantee	**4,005**	3,374
Bank charges and other income	**27**	23
	4,032	3,397

19 GAIN (LOSS) ON INVESTMENTS CLASSIFIED AS FVTPL

	2022 US$ '000	2021 US$ '000
Changes in fair value of investments classified as FVTPL	**-**	(388)
Realised gain (loss) during the year - net	**51**	(196)
	51	(584)

20 PROVISION (CHARGE) REVERSAL FOR EXPECTED CREDIT LOSSES

	2022 US$'000	2021 US$'000
Expected credit loss:		
- Reversal (charge) against balances with central bank and other banks (note 4.1)	**4**	(3,803)
- Reversal against deposits with banks and other financial institutions (note 5.1)	**45**	258
- (Charge) reversal against investment securities (note 7.2)	**(3,652)**	2,888
- (Charge) reversal against loans and advances (note 8.1)	**(97)**	11,571
- Reversal (charge) against off balance sheet (note 13)	**51**	(55)
	(3,649)	10,859

21 OTHER OPERATING EXPENSES

	2022 US$ '000	2021 US$ '000
Professional services	**1,177**	1,984
Administration and travelling expenses	**1,786**	1,678
Board of Directors' remuneration and expenses (note 26)	**1,130**	985
Fees and other charges	**188**	196
	4,281	4,843

22 COMMITMENTS AND CONTINGENT LIABILITIES

	2022 US$ '000	2021 US$ '000
Credit related contingencies		
Letters of credit	**72,088**	113,389
Loan commitment	**-**	2,955
	72,088	116,344
	72,088	116,344

As at 31 December 2022 all the above exposures are classified within Stage 1 (31 December 2021: same) and provision against off balance sheet exposures is classified under other liabilities (refer to note 13).

23 RISK MANAGEMENT

23.1 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. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to their responsibilities. The main risks to which the Group is exposed are credit risk, liquidity risk, market risk, interest rate risk and operational risk.

a) Risk management structure

Board of Directors

The Board of Directors is responsible for the overall risk management approach and for approving the risk strategies and policies.

Audit Risk and Compliance Committee

The Audit Risk and Compliance Committee (ARCC) of the Board is responsible for assessing the quality and integrity of financial reporting, effectiveness of systems monitoring financial and disclosure compliance with legal and regulatory requirements, supervision of compliance function and soundness of internal controls. The ARCC also obtains regular updates from management and the Group's compliance officer regarding compliance matters, which may have a material impact on the Group's consolidated financial statements and reviews the findings of any examinations by regulatory agencies. The committee also assists the Board in fulfilling its responsibilities in terms of overseeing management and control of risk and risk frameworks within the Bank. The Risk Management function and Credit Management function are headed by the Chief Risk Officer (CRO) who reports to ARCC, ensuring independence and segregation of duties from the business originating units – a fundamental principle of risk management process.

Management Risk Committee

The Management Risk Committee (MRC) is responsible to support the ARCC in overseeing the Group's risk management framework, reviewing the risk strategy, policies and limits. It is responsible for evaluating the key risk issues and manages and monitors relevant risk decisions.

Asset Liability Management Committee

The Asset Liability Management Committee's (ALCO) objective is to prudently direct and manage asset and liability allocation to achieve the Group's strategic goals. The ALCO monitors the Group's liquidity risks and interest rate risks by ensuring that the Group's activities are in line with the risk appetite guidelines approved by the Board.

Credit and Investment Committee

The Credit and Investment Committee (CIC) assists the Board of Directors in fulfilling its responsibilities by providing oversight of the Bank's credit and investment management activities relating to the identification, assessment, measurement, monitoring, and management of the Bank's credit and investment risk.

Internal Audit

Internal control processes throughout the Group are audited at least annually by the Internal Audit Department, based on the risk-based audit plan approved by the ARCC. Internal audit staff examine both the adequacy of the procedures and the Group's compliance with the procedures. Internal Audit discusses the results of all assessments with management and reports its findings and recommendations to the ARCC.

Risk Management Department

The Risk Management Department is responsible for implementing and maintaining the Bank's risk management frameworks, policies and procedures to ensure an independent control and monitoring process. It also helps the Board and Management in establishing risk appetite, risk strategies, policies and limits, across the Bank. The department is also responsible for the independent control of risks, including monitoring the risk of exposures against limits and the assessment of risks of new products and transactions. The department ensures that the Bank's material risks are identified, assessed, monitored and reported; and performs internal capital adequacy assessment and stress testing.

23 RISK MANAGEMENT (continued)

23.1 Introduction (continued)

b) Risk measurement and reporting systems
Monitoring and controlling risks is primarily performed based on limits approved by the Board. These limits reflect the business strategy and market environment of the Group as well as the level of risk that it is willing to accept. The Group also monitors and measures the overall risk-bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

c) Credit concentration risk
Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location.

In order to manage credit concentration risk, the Group's policies and procedures include guidelines to maintain a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

23.2 Credit risk
Credit risk is the risk that a customer or counterparty will fail to meet a commitment, resulting in financial loss to the Group. Such risk arises from lending, investment, treasury and other activities undertaken by the Group. Credit risk is actively monitored in accordance with the credit policies which clearly define strict guidelines for undertaking credit risk exposures and the same are approved in line with Board-approved delegated authority. The Group manages its credit risk by monitoring concentration of exposures by geographic location and adhering to approved limits. Where appropriate, the Group seeks collateral to mitigate credit risks.

23 RISK MANAGEMENT (continued)

23.2 Credit risk (continued)

a. Maximum exposure to credit risk without taking account of any collateral and other credit enhancements

The table below shows the gross maximum exposure to credit risk for the components of the consolidated statement of financial position. The net maximum exposure is shown after the effect of provision for expected credit losses and mitigation through the use of netting and collateral arrangements.

	Gross maximum exposure 2022 US$ '000	Provision for expected credit losses 2022 US$ '000	Risk mitigants 2022 US$ '000	Net maximum exposure 2022 US$ '000	Gross maximum exposure 2021 US$ '000	Provision for expected credit losses 2021 US$ '000	Risk mitigants 2021 US$ '000	Net maximum exposure 2021 US$ '000
Balances with central bank and other banks	**314,238**	**(3,499)**	**-**	**310,739**	349,045	(3,741)	-	345,304
Deposits with banks and other financial institutions	**426,554**	**(150)**	**-**	**426,404**	465,556	(195)	-	465,361
Investments classified as fair value through profit or los:	**-**	**-**	**-**	**-**	3,661	-	-	3,661
Investment securities	**249,373**	**(820)**	**-**	**248,553**	264,653	(1,142)	-	263,511
Loans and advances	**186,535**	**(43,667)**	**-**	**142,868**	192,910	(43,570)	-	149,340
Interest receivable	**9,828**	**-**	**-**	**9,828**	5,488	-	-	5,488
Other assets	**947**	**-**	**-**	**947**	616	-	-	616
Total funded credit risk exposure	**1,187,475**	**(48,136)**	**-**	**1,139,339**	1,281,929	(48,648)	-	1,233,281
Unfunded exposure on credit related contingencies	**72,088**	**(23)**	**(62,277)**	**9,788**	116,344	(74)	(77,048)	39,222
Total funded and unfunded credit risk exposures	**1,259,563**	**(48,159)**	**(62,277)**	**1,149,127**	1,398,273	(48,722)	(77,048)	1,272,503

The amount, type and valuation of collateral are based on guidelines specified in the risk management framework. The main types of collaterals accepted include cash collateral, residential and commercial real estate and securities.

b. Credit quality per class of financial assets

The table below presents an analysis of the financial assets exposed to credit risk and external rating designation at 31 December 2022 and 31 December 2021. The credit quality is graded based on external credit rating agencies - Standard & Poor, Fitch and Moody's are categorised as follows:

(i) High standard - Where external credit rating agency ratings are A and above.
(ii) Standard - Where external credit rating agency ratings are below A and unrated.
(iii) Watch list - Where the facility is not past due but recoverability is being monitored.
(iv) Past due but not impaired - Where interest or principal sum is overdue for less than 90 days.
(v) Past due and impaired - Where interest or principal sum is overdue for more than 90 days.

23 RISK MANAGEMENT (continued)

23.2 Credit risk (continued)

b. Credit quality per class of financial assets (continued)

	Neither past due nor impaired				
	High standard grade US$ '000	***Standard grade US$ '000***	***Past due and individually impaired US$ '000***	***Provision for expected credit losses US$ '000***	***Total US$ '000***
At 31 December 2022					
Balances with central bank and other banks	**9,785**	**300,956**	**3,497**	**(3,499)**	**310,739**
Deposits with banks and other financial institutions	**126,332**	**300,222**	**-**	**(150)**	**426,404**
Investment securities	**13,036**	**234,787**	**1,550**	**(820)**	**248,553**
Loans and advances	**-**	**145,211**	**41,324**	**(43,667)**	**142,868**
Interest receivable	**300**	**9,528**	**-**	**-**	**9,828**
Other assets	**-**	**947**	**-**	**-**	**947**
Funded exposures	**149,453**	**991,651**	**46,371**	**(48,136)**	**1,139,339**
Credit related contingencies	**-**	**72,088**	**-**	**(23)**	**72,065**
Unfunded exposures	**-**	**72,088**	**-**	**(23)**	**72,065**
Funded and unfunded exposures	**149,453**	**1,063,739**	**46,371**	**(48,159)**	**1,211,404**

	Neither past due nor impaired				
	High standard grade US$ '000	*Standard grade US$ '000*	*Past due and individually impaired US$ '000*	*Provision for loan losses US$ '000*	*Total US$ '000*
At 31 December 2021					
Balances with central bank and other banks	36,830	308,480	3,735	(3,741)	345,304
Deposits with banks and other financial institutions	73,097	392,459	-	(195)	465,361
Investments classified as fair value through profit and loss	-	3,661	-	-	3,661
Investment securities	18,531	246,122	-	(1,142)	263,511
Loans and advances	-	151,607	41,303	(43,570)	149,340
Interest receivable	256	5,232	-	-	5,488
Other assets	-	616	-	-	616
Funded exposure	128,714	1,108,177	45,038	(48,648)	1,233,281
Credit related contingencies	-	116,344	-	(74)	116,270
Unfunded exposures	-	116,344	-	(74)	116,270
Funded and unfunded exposures	128,714	1,224,521	45,038	(48,722)	1,349,551

As of 31 December 2022, the Group did not have any financial assets that were classified as watchlist or were past due but not impaired (2021: same).

23 RISK MANAGEMENT (continued)

23.2 Credit risk (continued)

c. Concentration of maximum exposure to credit risk

The geographical distribution of gross credit exposures is presented below:

At 31 December 2022

	Bahrain US$ '000	Other GCC countries US$ '000	Other Middle-East and African countries US$ '000	Europe US$ '000	Rest of the world US$ '000	Provision for expected credit losses US$ '000	Total US$ '000
Balances with central bank and other banks	**299,323**	**472**	**3,626**	**1,595**	**9,222**	**(3,499)**	**310,739**
Deposits with banks and other financial institutions	**134,222**	**169,332**	**25,000**	**98,000**	**-**	**(150)**	**426,404**
Investment securities	**81,565**	**77,506**	**45,352**	**38,732**	**6,218**	**(820)**	**248,553**
Loans and advances	**-**	**-**	**80,302**	**100,384**	**5,849**	**(43,667)**	**142,868**
Interest receivable	**5,176**	**1,243**	**1,803**	**1,215**	**391**	**-**	**9,828**
Other assets	**944**	**-**	**-**	**3**	**-**	**-**	**947**
Gross funded exposures	**521,230**	**248,553**	**156,083**	**239,929**	**21,680**	**(48,136)**	**1,139,339**
Credit related contingencies	**-**	**-**	**71,588**	**500**	**-**	**(23)**	**72,065**
Gross unfunded exposures	**-**	**-**	**71,588**	**500**	**-**	**(23)**	**72,065**
Gross funded and unfunded exposures	**521,230**	**248,553**	**227,671**	**240,429**	**21,680**	**(48,159)**	**1,211,404**

At 31 December 2021

	Bahrain US$ '000	Other GCC countries US$ '000	Other Middle-East and African countries US$ '000	Europe US$ '000	Rest of the world US$ '000	Provision for expected credit losses US$ '000	Total US$ '000
Balances with central bank and other banks	300,772	1,551	3,881	42,788	53	(3,741)	345,304
Deposits with banks and other financial institutions	152,406	180,698	64,811	67,641	-	(195)	465,361
Investments classified as fair value through profit and loss	-	-	-	3,661	-	-	3,661
Investment securities	83,740	80,750	43,435	39,029	17,699	(1,142)	263,511
Loans and advances	-	1,670	85,948	84,040	21,252	(43,570)	149,340
Interest receivable	1,632	969	1,768	745	374	-	5,488
Other assets	616	-	-	-	-	-	616
Gross funded exposures	539,166	265,638	199,843	237,904	39,378	(48,648)	1,233,281
Credit related contingencies	-	1,100	112,475	41	2,728	(74)	116,270
Gross unfunded exposures	-	1,100	112,475	41	2,728	(74)	116,270
Gross funded and unfunded exposures	539,166	266,738	312,318	237,945	42,106	(48,722)	1,349,551

23 RISK MANAGEMENT (continued)

23.2 Credit risk (continued)

c. Concentration of maximum exposure to credit risk (continued)

Industrial classification of gross credit exposures is presented below:

At 31 December 2022	*Sovereign US$ '000*	*Banks and financial institutions US$ '000*	*Commercial, business and others US$ '000*	*Provision for expected credit losses US$ '000*	*Total US$ '000*
Balances with central bank and other banks	**298,721**	**15,517**	**-**	**(3,499)**	**310,739**
Deposits with banks and other financial institutions	**-**	**426,554**	**-**	**(150)**	**426,404**
Investment securities	**222,983**	**13,045**	**13,345**	**(820)**	**248,553**
Loans and advances	**36,548**	**59,891**	**90,096**	**(43,667)**	**142,868**
Interest receivable	**7,516**	**1,652**	**660**	**-**	**9,828**
Other assets	**-**	**-**	**947**	**-**	**947**
Gross funded exposures	**565,768**	**516,659**	**105,048**	**(48,136)**	**1,139,339**
Credit related contingencies	**-**	**71,588**	**500**	**(23)**	**72,065**
Gross unfunded exposures	**-**	**71,588**	**500**	**(23)**	**72,065**
Gross funded and unfunded exposures	**565,768**	**588,247**	**105,548**	**(48,159)**	**1,211,404**

At 31 December 2021	*Sovereign US$ '000*	*Banks and financial institutions US$ '000*	*Commercial, business and others US$ '000*	*Provision for expected credit losses US$ '000*	*Total US$ '000*
Balances with central bank and other banks	299,564	49,481	-	(3,741)	345,304
Deposits with banks and other financial institutions	-	465,556	-	(195)	465,361
Investments classified as fair value through profit and loss	3,661	-	-	-	3,661
Investment securities	224,033	26,404	14,216	(1,142)	263,511
Loans and advances	46,315	88,273	58,322	(43,570)	149,340
Interest receivable	4,480	716	292	-	5,488
Other assets	-	-	616	-	616
Gross funded exposures	578,053	630,430	73,446	(48,648)	1,233,281
Credit related contingencies	2,955	110,414	2,975	(74)	116,270
Gross unfunded exposures	2,955	110,414	2,975	(74)	116,270
Gross of funded and unfunded exposures	581,008	740,844	76,421	(48,722)	1,349,551

23.3 Market risk

Market risk is the risk of potential financial loss that may arise from adverse changes in the value of a financial instrument or portfolio of financial instruments due to movements in interest rates, foreign exchange rates and equity prices. This risk arises from asset - liability mismatches, changes that occur in the yield curve and foreign exchange rates.

23 RISK MANAGEMENT (continued)

23.3 Market risk (continued)

The Group has clearly defined policies for conducting investments and foreign exchange business which stipulates limits for these activities. Investments are made in line with approved investment criteria. The Group does not undertake any commodity trading activities.

23.3.1 Interest rate risk

Interest rate risk arises from the possibility that adverse movement in interest rates will affect the value of financial instruments and its financial position. The Group is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities that mature or reprice in a given period.

The Group has established policies and procedures for managing interest rate risk. The Group endevors to keep its assets and liabilities mismatches at stable and acceptable levels to maintain steady interest income. The Group monitors interest rate risk based on interest rate gap monitoring and by establishing sensitivity limits for impact of interest rate shift on net interest income and economic value of equity of the Group.

The following table provides an analysis of the Bank's interest rate risk exposure on non–trading financial assets and liabilities. The Bank's assets and liabilities are included at carrying amount and categorised by the earlier of contractual repricing or maturity dates.

At 31 December 2022	*Less than 3 months US$ '000*	*3 to 12 months US$ '000*	*1 to 5 years US$ '000*	*Over 5 years US$ '000*	*Non interest bearing* US$ '000*	*Total US$ '000*
Assets						
Cash and Balances with central bank and other banks	**241,262**	**57,460**	**-**	**-**	**12,032**	**310,754**
Deposits with banks and other financial institutions	**426,554**	**-**	**-**	**-**	**(150)**	**426,404**
Investment securities	**18,743**	**12,867**	**166,739**	**49,474**	**730**	**248,553**
Loans and advances	**14,572**	**41,038**	**90,326**	**3,433**	**(6,501)**	**142,868**
Investment property	**-**	**-**	**-**	**-**	**11,734**	**11,734**
Property, equipment and software	**-**	**-**	**-**	**-**	**7,146**	**7,146**
Interest receivable	**8,339**	**1,359**	**-**	**-**	**130**	**9,828**
Other assets	**-**	**-**	**-**	**-**	**1,426**	**1,426**
	709,470	**112,724**	**257,065**	**52,907**	**26,547**	**1,158,713**
Liabilities						
Deposits from banks and other financial institutions	**327,816**	**221,263**	**-**	**-**	**124,315**	**673,394**
Due to banks and other financial institutions	**39,095**	**-**	**-**	**-**	**75,543**	**114,638**
Due to customers	**-**	**-**	**-**	**-**	**23,598**	**23,598**
Interest payable	**1,117**	**2,100**	**-**	**-**	**24**	**3,241**
Other liabilities	**-**	**-**	**-**	**-**	**11,480**	**11,480**
	368,028	**223,363**	**-**	**-**	**234,960**	**826,351**
Total interest sensitivity gap	**341,442**	**(110,639)**	**257,065**	**52,907**	**(208,413)**	**332,362**

23 RISK MANAGEMENT (continued)

23.3 Market risk (continued)

23.3.1 Interest rate risk (continued)

At 31 December 2021	*Less than 3 months US$ '000*	*3 to 12 months US$ '000*	*1 to 5 years US$ '000*	*Over 5 years US$ '000*	*Non interest bearing* US$ '000*	*Total US$ '000*
Assets						
Cash and Balances with central bank and other banks	281,089	18,475	-	-	45,743	345,307
Deposits with banks and other financial institutions	465,556	-	-	-	(195)	465,361
Investments classified as fair value through profit and loss	-	-	-	3,661	-	3,661
Investment securities	10,037	35,216	156,680	62,720	(1,142)	263,511
Loans and advances	26,417	30,235	55,685	44,628	(7,625)	149,340
Investment property	-	-	-	-	11,734	11,734
Property, equipment and software	-	-	-	-	7,674	7,674
Interest receivable	4,385	1,103	-	-	-	5,488
Other assets	-	-	-	-	1,068	1,068
	787,484	85,029	212,365	111,009	57,257	1,253,144
Liabilities						
Deposits from banks and other financial institutions	463,621	170,000	-	-	127,513	761,134
Due to banks and other financial institutions	-	-	-	-	104,854	104,854
Due to customers	-	-	-	-	36,821	36,821
Interest payable	123	463	-	-	24	610
Other liabilities	-	-	-	-	9,824	9,824
	463,744	170,463	-	-	279,036	913,243
Total interest sensitivity gap	323,740	(85,434)	212,365	111,009	(221,779)	339,901

* Non interest bearing includes the provision for expected credit losses

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

Sensitivity analysis - interest rate risk

	Impact on consolidated statement of profit or loss	
	2022 US$ '000	*2021 US$ '000*
25 bps increase in interest rate		
US Dollar	**+ 471**	+ 478
AED	**+ 109**	+ 112
Euro	**-19**	+ 35

An equal decrease in interest rate would have an equal and opposite impact on the consolidated statement of profit or loss for the year.

23 RISK MANAGEMENT (continued)

23.3 Market risk (continued)

23.3.1 Interest rate risk (continued)

IBOR reform - Interest rate risk

The Group does not have any exposure linked to LIBOR or other IBORs which are being phased out. The Group has exposure linked to EURIBOR which will not require to be transitioned as EURIBOR is not being phased out. Nonetheless, the Group has established a committee comprising of senior management members with the objective of ensuring a smooth transition to RFRs. Following the progress made during 2022, the Group has established the necessary procedures for using the new RFRs and is confident that it shall have the operational capability to manage the transition.

23.3.2 Currency risk

Currency risk arises from the movement of the rate of exchange over a period of time. The Group's currency risk is mainly towards assets and liabilities denominated in Euro. The following table demonstrates the sensitivity to a reasonable possible change in foreign exchange rates, with all other variables held constant, on the Group's consolidated statement of profit or loss:

	Increase in exchange rate	*Effect on consolidated statement of profit or loss for the year*	
		2022	*2021*
		US$ '000	*US$ '000*
Euro	5%	**142**	(36)

* An equal decrease in foreign exchange rate would have an equal and opposite impact on the consolidated statement of profit or loss for the year.

As other currency exposures are insignificant and GCC currencies to which the Group is exposed are pegged to the US Dollar, their balances are not considered to represent currency risk.

23.3.3 Equity price risk

Equity price risk is the risk that the fair value of equities decreases as a result of changes in the value of individual companies' shares. For the year ended 31 December 2022, there is no effect on the Group's consolidated profit and equity as the investment portfolio does not contain any equity investments (2021: same).

23.4 Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its funding requirements. Liquidity risk can be caused by market disruptions which may cause certain sources of funding to dry up immediately. To limit this risk, the Group endeavors to diversify its funding sources and maintains a healthy liquidity cushion comprising of cash equivalents and readily marketable securities.

The Group has in place a Board-approved Liquidity Risk Management Policy which provides guidelines for managing the liquidity risk and specifies limits on minimum level of liquid assets to be maintained as well as gap limits for cash flow mismatch. The Group's ALCO regularly oversees the liquidity position of the Bank and ensures adequate liquidity is available at all times. The Group also has in place a contingency funding plan to deal with extra-ordinary conditions if the need arises.

23 RISK MANAGEMENT (continued)

23.4 Liquidity risk (continued)

The maturity profile below reflects the contractual and expected maturities of the assets and liabilities on the basis of the remaining period at the date of the consolidated statement of financial position:

At 31 December 2022	*Up to 1 year*						*Provision for*	
	Up to 1 month US$ '000	*1 to 3 months US$ '000*	*3 to 12 months US$ '000*	*Total US$ '000*	*More than 1 year US$ '000*	*No specific maturity US$ '000*	*expected credit losses US$ '000*	*Total US$ '000*
ASSETS								
Cash and balances with banks and Central Bank	66,000	187,294	57,461	310,755	3,497	-	(3,499)	310,753
Deposits with banks and other financial institutions	345,960	80,594	-	426,554	-	-	(150)	426,404
Investment securities	7,500	11,243	12,867	31,610	217,763	-	(820)	248,553
Loans and advances	12,934	1,637	41,039	55,610	130,925	-	(43,667)	142,868
Investment property	-	-	-	-	11,734	-	-	11,734
Property, equipment and software	-	-	-	-	-	7,146	-	7,146
Interest receivable	4,275	4,064	1,359	9,698	130	-	-	9,828
Other assets	-	-	42	42	1,384	-	-	1,426
Total assets	436,669	284,832	112,768	834,269	365,433	7,146	(48,136)	1,158,712
LIABILITIES								
Deposits from banks and other financial institutions	295,816	32,000	71,263	399,079	274,315	-	-	673,394
Due to banks and other financial institutions	111,061	-	-	111,061	3,577	-	-	114,638
Due to customers	23,598	-	-	23,598	-	-	-	23,598
Interest payable	874	243	2,101	3,218	23	-	-	3,241
Other liabilities	3	-	23	26	11,430	-	23	11,479
Total liabilities	431,352	32,243	73,387	536,982	289,345	-	23	826,350
Net liquidity gap	5,317	252,589	39,381	297,287	76,088	7,146	(48,159)	332,362
Cumulative liquidity gap	5,317	257,906	297,287	-	373,375	380,521	332,362	-

23 RISK MANAGEMENT (continued)

23.4 Liquidity risk (continued)

At 31 December 2021	*Up to 1 year*						*Provision for*	
	Up to 1 month	*1 to 3 months*	*3 to 12 months*	*Total*	*More than 1 year*	*No specific maturity*	*expected credit losses*	*Total*
	US$ '000	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*
ASSETS								
Cash and balances with banks and Central Bank	183,016	143,822	18,475	345,313	3,735	-	(3,741)	345,307
Deposits with banks and other financial institutions	429,744	35,812	-	465,556	-	-	(195)	465,361
Investments classified as fair value through profit or loss	-	-	-	-	3,661	-	-	3,661
Investment securities	5,018	5,019	35,216	45,253	219,400	-	(1,142)	263,511
Loans and advances	19,729	10,121	33,668	63,518	129,392	-	(43,570)	149,340
Investment property	-	-	-	-	11,734	-	-	11,734
Property, equipment and software	-	-	-	-	-	7,674	-	7,674
Interest receivable	2,956	1,428	1,104	5,488	-	-	-	5,488
Other assets	-	3	46	49	1,019	-	-	1,068
Total assets	640,463	196,205	88,509	925,177	368,941	7,674	(48,648)	1,253,144
LIABILITIES								
Deposits from banks and other financial institutions	433,621	30,000	20,001	483,622	277,512	-	-	761,134
Due to banks and other financial institutions	101,328	-	-	101,328	3,526	-	-	104,854
Due to customers	26,021	10,800	-	36,821	-	-	-	36,821
Interest payable	116	8	462	586	24	-	-	610
Other liabilities	-	20	68	88	9,662	-	74	9,824
Total liabilities	561,086	40,828	20,531	622,445	290,724	-	74	913,243
Net liquidity gap	79,377	155,377	67,978	302,732	78,217	7,674	(48,722)	339,901
Cumulative liquidity gap	79,377	234,754	302,732	-	380,949	388,623	339,901	-

23 RISK MANAGEMENT (continued)

23.4 Liquidity risk (continued)

The maturity profile of the financial and contingent liabilities as at reporting date based on contractual undiscounted repayment amounts is as follows:

At 31 December 2022	***Up to 1 year***					
	Up to 1 month US$ '000	***1 to 3 months US$ '000***	***3 to 12 months US$ '000***	***Total US$ '000***	***More than 1 year US$ '000***	***Total US$ '000***
Liabilities						
Deposits from banks and financial institutions	**297,324**	**32,581**	**78,560**	**408,465**	**274,408**	**682,873**
Due to banks and other financial institutions	**111,127**	**-**	**-**	**111,127**	**3,577**	**114,704**
Due to customers	**23,598**	**-**	**-**	**23,598**	**-**	**23,598**
Total undiscounted liabilities	**432,049**	**32,581**	**78,560**	**543,190**	**277,985**	**821,175**
Commitments and contingent liabilities						
Letters of credit	**13,153**	**36,307**	**22,628**	**72,088**	**-**	**72,088**
	13,153	**36,307**	**22,628**	**72,088**	**-**	**72,088**

At 31 December 2021	*Up to 1 year*					
	Up to 1 month US$ '000	*1 to 3 months US$ '000*	*3 to 12 months US$ '000*	*Total US$ '000*	*More than 1 year US$ '000*	*Total US$ '000*
Liabilities						
Deposits from banks and financial institutions	433,774	30,023	21,779	485,576	277,606	763,182
Due to banks and other financial institutions	101,328	-	-	101,328	3,526	104,854
Due to customers	26,021	10,808	-	36,829	-	36,829
Total undiscounted liabilities	561,123	40,831	21,779	623,733	281,132	904,865
Commitments and contingent liabilities						
Letters of credit	12,179	40,173	49,700	102,052	11,337	113,389
Loan commitment	-	-	-	-	2,955	2,955
	12,179	40,173	49,700	102,052	14,292	116,344

24 FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value hierarchy - financial instruments measured at fair value
The following table provides the fair value measurement hierarchy of the Group's financial instruments measured at fair value:

At 31 December 2022

	Level 1 US$ '000	***Total US$ '000***
Investments classified as fair value through other comprehensive income	**121,962**	**121,962**
Derivative financial instruments	**3**	**3**
	121,965	**121,965**

At 31 December 2021

	Level 1 US$ '000	*Total US$ '000*
Investments classified as fair value through profit and loss	3,661	3,661
Investments classified as fair value through other comprehensive income	122,610	122,610
Derivative financial instruments	2	2
	126,273	126,273

Transfers between level 1, level 2 and level 3
During the year ended 31 December 2022, there were no transfers between level 1 and level 2 of fair value hierarchy, and no transfers into or out of level 3 fair value hierarchy (2021: same).

Financial instruments not measured at fair value
The following table provides the fair value measurement hierarchy of the Group's financial instruments not measured at fair value:

At 31 December 2022

	Fair value US$ '000	***Carrying value US$ '000***
Amortised cost investments	**121,095**	**126,591**
Loans and advances	**34,893**	**33,603**
	155,988	**160,194**

At 31 December 2021

	Fair value US$ '000	*Carrying value US$ '000*
Amortised cost investments	148,092	140,901
Loans and advances	42,905	39,269
	190,997	180,170

24 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Management has assessed that the fair values of balances with banks, deposits with banks and other financial institutions, loans and advances (other than those disclosed in the table above), interest receivable, other assets, deposits from banks and other financial institutions, due to banks and other financial institutions, due to customers, interest payable and other liabilities to approximate their carrying values as of 31 December 2022 and 31 December 2021.

25 DERIVATIVE FINANCIAL INSTRUMENTS

In the ordinary course of business, the Bank enters into various types of transactions that involve derivative financial instruments. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instruments, reference rates or indices.

These include forward exchange contracts which create rights and obligation that have the effect of transferring between the parties of the instrument one or more of the financial risks inherent in an underlying primary financial instrument. On inception, a derivative financial instrument gives one party a contractual right to exchange financial assets or financial liabilities with another party under conditions that are potentially favorable, or a contractual obligation to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavorable. However, they generally do not result in a transfer of the underlying primary financial instrument on inception of the contract, nor does such a transfer necessarily take place on maturity of the contract. Some instruments embody both a right and an obligation to make an exchange. Because the terms of the exchange are determined on inception of the derivative instruments, as prices in financial markets change those terms may become either favorable or unfavorable.

The table below shows the net fair values of derivative financial instruments together with the notional amount. These contracts are settled on a net basis. Depending on currency movements, the contracts may result in either a net asset or a net liability. The following table shows the outstanding contracts as at 31 December:

	2022		*2021*	
	Notional amount US$ '000	***Gain / (loss) US$ '000***	*Notional amount US$ '000*	*Gain / (loss) US$ '000*
Forward foreign exchange contracts	**2,552**	**3**	738	2
	2,552	**3**	738	2

26 RELATED PARTY BALANCES AND TRANSACTIONS

Related parties represent shareholders, directors and key management personnel of the Group, and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Group's management.

Transactions with related parties included in the consolidated statement of profit or loss and consolidated statement of financial position are as follows:

	31 December 2022				*31 December 2021*			
	Shareholders US$ '000	***Key management personnel/ Board members US$ '000***	***Other related parties US$ '000***	***Total US$ '000***	*Shareholders US$ '000*	*Key management personnel/ Board members US$ '000*	*Other related parties US$ '000*	*Total US$ '000*
Consolidated statement of profit or loss								
Interest income	**-**	**-**	**174**	**174**	1	-	139	140
Interest expense	**10,219**	**-**	**277**	**10,496**	3,095	-	27	3,122
Fee and commission income	**1**	**-**	**242**	**243**	19	-	511	530
Consolidated statement of financial position								
Assets								
Cash and balances with banks	**18**	**-**	**535**	**553**	37	-	1,518	1,555
Loans and advances	**-**	**-**	**4,389**	**4,389**	-	-	4,605	4,605
Interest receivable	**-**	**-**	**36**	**36**	-	-	20	20
Other assets	**-**	**88**	**-**	**88**	-	42	-	42
Liabilities								
Deposits from banks and other financial institutions	**494,579**	**-**	**30,000**	**524,579**	574,776	-	25,000	599,776
Due to banks and other financial institutions	**39,381**	**-**	**1,329**	**40,710**	23,208	-	2,541	25,749
Interest payable	**2,887**	**-**	**103**	**2,990**	576	-	1	577
Other liabilities	**-**	**501**	**-**	**501**	-	250	-	250
Contingent liabilities								
Letters of credit and letters of guarantee	**417**	**-**	**2,592**	**3,009**	2,206	-	5,504	7,710
Forward foreign exchange contracts	**-**	**-**	**-**	**-**	-	-	738	738

26 TRANSACTIONS WITH RELATED PARTIES (continued)

Compensation paid to the Board of Directors and key management personnel:

	2022	*2021*
	US$ 000	*US$ 000*
Short term benefits	**3,762**	4,876
End of term benefits	**261**	227
Total compensation	**4,023**	5,103

Short term benefits include Board of Directors' sitting fees and provision for bonus accrual of US$ 905 thousand (2021: US$ 893 thousand) and reimbursement of travel, accommodation and other expenses amounting to US$ 225 thousand (2021: US$ 92 thousand). The accrual is subject to approval by the Bank's shareholders in the next Annual General Meeting.

Short term benefits also include compensation paid to key management personnel as salary, allowances and provision for bonus accrual.

27 CAPITAL ADEQUACY RATIO

The primary objectives of the Group's capital management are to ensure that the Group complies with externally imposed capital requirements and the Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value.

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.

The risk asset ratio, calculated in accordance with the capital adequacy guidelines, under Basel III, approved by the Central Bank of Bahrain is as follows:

	2022	*2021*
	US$ 000	*US$ 000*
Capital base:		
Tier 1 capital	**330,147**	336,105
Tier 2 capital	**3,943**	5,917
Total capital base (a)	**334,090**	342,022
Risk weighted assets (b)	**631,641**	789,215
Capital adequacy (a/b * 100)	**52.89%**	43.34%
Minimum requirement	**12.50%**	12.50%

28 LIQUIDITY RATIOS

Liquidity Coverage Ratio

The Group is subject to the Basel III liquidity ratios requirement, as stipulated by the regulator Central Bank of Bahrain, whereby the Bank is required to maintain a minimum of 100% Liquidity Coverage ratio (LCR) and Net Stable Funding ratio (NSFR).

The main objective of the Liquidity Coverage Ratio (LCR) is to promote the short-term resilience of the liquidity risk profile of banks by ensuring that they have sufficient level of high-quality liquid assets (HQLA) to survive a significant stress scenario lasting for a period of up to 30 days.

28 LIQUIDITY RATIOS (continued)

Liquidity Coverage Ratio (continued)

At 31 December 2022, the Group's LCR was well above the regulatory requirement and stood at 416% (2021: 362%). The Group's simple average of daily LCR computed on working days of the quarter was 536% (30 September 2022: 534%).

Net Stable Funding Ratio

The objective of the NSFR is to promote the resilience of the banking system by improving the funding profile of banks by ensuring they have a sufficient level of stable funding from stable sources and long term borrowing in relation to their assets and commitments, in order to reduce the risks of disruptions which might impact the bank’s liquidity position.

The Group's NSFR was well above the regulatory requirement and stood at 136% as at 31 December 2022 (31 December 2021: 136%). The main drivers for robust Available Stable Funding (ASF) is its sizeable capital base, which contributes about 76% of total ASF and the remaining 24% of ASF constituted funding from non-financial corporate customers and deposits from financial institutions. Required Stable Funding (RSF), primarily comprised of short term deposit placements with Banks and other performing loans, which constituted about 52% of total RSF. High quality liquid assets (that comprised mainly of Bahrain government securities and other highly rated debt issuances) accounted for about 8% of the total RSF, while non-HQLA securities accounted for 29% of the total RSF.

The NSFR (as a percentage) is calculated as follows:

	Unweighted Values (i.e. before applying relevant factors)				**2022 USD 000s**	*2021 USD 000s*
Item	***No specified maturity***	***Less than 6 months***	***More than 6 months and less than one year***	***Over one year***	***Total weighted value***	*Total weighted value*
Available Stable Funding (ASF):						
Capital:						
Regulatory Capital	334,090	-	-	-	334,090	342,022
Wholesale funding:						
Other wholesale funding	-	623,715	187,915	-	105,757	118,942
Other liabilities:						
All other liabilities not included in the above categories	-	14,675	24	-	-	-
Total ASF					**439,847**	460,964
Required Stable Funding (RSF):						
Total NSFR high-quality liquid assets (HQLA)					26,675	29,382
Performing loans and securities:						
Performing loans to financial institutions secured by non-level 1 HQLA and unsecured performing loans to financial institutions	-	445,694	21,731	-	77,720	106,306
Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and public sector entities	-	18,891	-	96,466	91,442	76,742
Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	-	6,242	3,865	104,815	94,146	95,303
Other assets:						
All other assets not included in the above categories	28,774	-	-	-	28,774	25,964
Off balance sheet items	-	72,088	-	-	3,604	5,816
Total RSF					**322,361**	339,513
NSFR (%)					**136%**	136%