

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

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

31 DECEMBER 2023

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 2023.

Global economies in 2023 continued to witness the effects of rising inflation (due to high energy costs) and rising interest rates. In addition, early 2023, witnessed turmoil in world markets in terms of dropping bank stock prices and liquidity concerns that have re-ignited fears of an impending recession and increased regulation of the financial services industry as a whole. Further, the ongoing Russia-Ukraine war and Israel-Palestine conflict, along with natural calamities in the MENA region, potentially pose new and as yet unquantifiable challenges in terms of key commodities such as oil.

In the midst of the above stated challenges, the Group adopted a conservative approach to risk management and sustained transacting for its trade finance and credit business. Furthermore, the Group also continued to remain competitive in terms of rates offered to customers which positively contributed to the overall earnings.

The Group's financial performance remained strong due to management's effective allocation of available funding towards higher earning asset in line with the interest rate hikes observed in the global market since Q3 2022 and it achieved total operating income for 2023 amounting to US\$ 36.9 million, being 32% higher than the total operating income of US\$ 27.9 million achieved during 2022. Consequently, the Group's consolidated net profit amounted to US\$ 14.7 million for 2023, being 53% higher than the net profit of US\$ 9.6 million achieved during 2022.

Interest income amounted to US\$ 66.0 million for the year ended 31 December 2023 whereas the interest expense for 2023 amounted to US\$ 31.2 million. Accordingly, the net interest income for the year 2023 amounted to US\$ 34.8 million.

Total non-interest income of US\$ 2.1 million in 2023 was primarily driven by fee and commission income of US\$ 2.0 million from trade finance activities. Even though heightened competition was witnessed in the market, the Group provided effective and high quality services to its customers, which resulted in generating reasonable fee and commission income from its core business activity of Trade Finance.

On the expenses front, despite inflation, the Group has managed its operating expenses well and managed to maintain them at similar levels during 2023 as compared to 2022.

The Group's financial position remained strong with total assets standing at US\$ 1,143.7 million at 31 December 2023.

The Group's capital adequacy and liquidity (liquid assets to total assets) ratios remained strong at 53.5% and 57.9% 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\$2.5 per share, amounting to US\$ 12.5 million, representing 5% of paid up share capital for the year ended 2023, after due appropriation of US\$ 1,474 thousand from net profit for the year 2023, 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 shall 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 2023 is as follows:

S. No.	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 **	12	7	6	25	-	-	-	-	-	25	-
2	Mr. Anthony Constantine Mallis	39	19	-	58	-	-	-	-	-	58	-
3	Mr. Abdulkarim Bucheery	39	19	2	60	-	-	-	-	-	60	-
4	Mr. Basel El Hini **	12	7	6	25	-	-	-	-	-	25	-
5	Mr. Abdulrazag Tarhuni	39	17	11	67	-	-	-	-	-	67	-
6	Mr. Tarek Amer **	26	10	11	47	-	-	-	-	-	47	-

S. No	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: Executive / Non-Executive Directors (Amounts are stated in Bahraini Dinars ('000)):											
1	Mr. Khalid AlGonsel **	18	9	6	33	-	-	-	-	-	33	-
2	Mr. Guima Masaud Salem Kordi	39	19	16	74	-	-	-	-	-	74	-
3	Mr. Khaled Taher	39	19	16	74	-	-	-	-	-	74	-
	Total	263	126	74	463	-	-	-	-	-	463	-

* The Chairman and Board's remuneration is subject to approval by the Group's shareholders in the upcoming Annual General Meeting


** During the year ended 31 December 2023, Mr. Moraja was replaced by Mr. Khalid as Chairman and Mr. Basel was replaced with Mr. Tarek as board member.

*** Travel and accommodation costs.

Executive management	Total paid salaries and allowances	Total paid remuneration (Bonus)	Any other cash/in-kind remuneration 2023	Aggregate Amount
Amounts stated in Bahraini Dinars ('000)				
Remunerations of top six executives, including the CEO and the Head of Financial Control	844	183	206	1,233

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.


Mr. Khaled AlGonsel
Chairman

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 2023, 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 material accounting policy information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2023, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *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.

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 (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)

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 Group's Audit, Risk and Compliance Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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;

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

Report on Other Legal and Regulatory Requirements (continued)

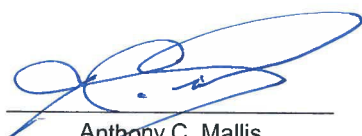
- c) we are not aware of any violations of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 1 and applicable provisions of Volume 6) and CBB directives, regulations and associated resolutions or the terms of the Bank's memorandum and articles of association during the year ended 31 December 2023 that might have had a material adverse effect on the business of the Bank or on its consolidated financial position; and
- d) satisfactory explanations and information have been provided to us by Management in response to all our requests.

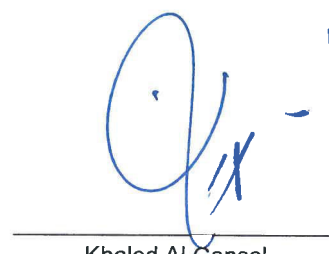


Partner's registration number: 45
20 February 2024
Manama, Kingdom of Bahrain

ALUBAF Arab International Bank B.S.C. (c)
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2023

	Notes	2023 US\$ '000	2022 US\$ '000
ASSETS			
Cash and balances with central bank and other banks	4	378,278	310,754
Deposits with banks and other financial institutions	5	280,640	426,404
Investments classified as fair value through profit or loss (FVTPL)	6	2,989	-
Investment securities	7	265,079	248,553
Loans and advances	8	179,635	142,868
Investment property	9	11,734	11,734
Property, equipment and software	10	6,619	7,146
Interest receivable		17,359	9,828
Other assets		1,333	1,426
TOTAL ASSETS		1,143,666	1,158,713
LIABILITIES AND EQUITY			
Liabilities			
Deposits from banks and other financial institutions	11	657,541	673,394
Due to banks and other financial institutions	11	106,234	114,638
Due to customers	12	21,299	23,598
Interest payable		4,111	3,241
Other liabilities	13	11,587	11,480
Total liabilities		800,772	826,351
Equity			
Share capital	14	250,000	250,000
Statutory reserve	14	32,549	31,075
Retained earnings		53,984	53,223
Fair value reserve		(6,139)	(9,936)
Proposed dividend	15	12,500	8,000
Total equity		342,894	332,362
TOTAL LIABILITIES AND EQUITY		1,143,666	1,158,713


Anthony C. Mallis
Vice Chairman

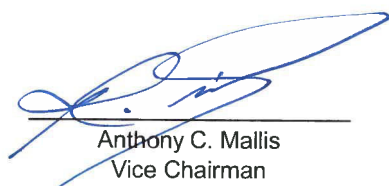

Khaled Al Gonsel
Chairman

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

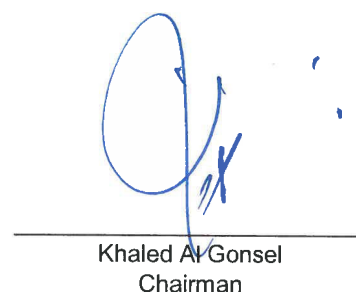
ALUBAF Arab International Bank B.S.C. (c)
CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2023

	Notes	2023 US\$ '000	2022 US\$ '000
Interest and similar income	16	66,020	34,972
Interest expense	17	(31,219)	(11,238)
Net interest and similar income		34,801	23,734
Fee and commission income	18	2,206	4,032
Gain on investments classified as FVTPL	19	26	51
Realised loss on investment securities - net		(334)	(180)
Foreign exchange gain - net		76	98
Other income		119	119
OPERATING INCOME		36,894	27,854
Provision charge for expected credit losses - net	20	(7,492)	(3,649)
NET OPERATING INCOME		29,402	24,205
Staff costs		9,673	9,595
Depreciation	10	697	726
Other operating expenses	21	4,297	4,281
OPERATING EXPENSES		14,667	14,602
NET PROFIT FOR THE YEAR		14,735	9,603



Anthony C. Mallis
Vice Chairman



Khaled Al Gonsel
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 COMPREHENSIVE INCOME

For the year ended 31 December 2023

	2023 US\$ '000	2022 US\$ '000
NET PROFIT FOR THE YEAR	14,735	9,603
Other comprehensive gain (loss)		
<i>Other comprehensive gain (loss) to be reclassified to profit or loss in subsequent periods:</i>		
Unrealised fair value gain (loss) on investments classified as fair value through other comprehensive income (FVOCI)	4,342	(8,616)
(Reversal) charge for expected credit loss on FVOCI investments	(545)	3,974
Other comprehensive gain (loss) for the year	3,797	(4,642)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	18,532	4,961

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

ALUBAF Arab International Bank B.S.C. (c)
CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2023

	Notes	2023 US\$ '000	2022 US\$ '000
OPERATING ACTIVITIES			
Net profit for the year		14,735	9,603
Adjustments for:			
Provision charge for expected credit losses - net	20	727	3,649
Depreciation	10	697	726
Amortisation of investments carried at amortised cost	7	1,503	1,554
Loss on investment securities - net		334	180
Gain on investments classified as FVTPL	19	(26)	(51)
Amortisation of loans and advances carried at amortised cost		(1,094)	(1,200)
Operating profit before changes in operating assets and liabilities		16,876	14,461
Changes in operating assets and liabilities:			
Balances with central bank		(75,768)	848
Deposits with banks and other financial institutions		(42,050)	10,188
Loans and advances		(37,036)	7,575
Interest receivable		(7,531)	(4,340)
Other assets		93	(358)
Deposits from banks and other financial institutions		(15,853)	(87,740)
Due to banks and other financial institutions		(8,404)	9,784
Due to customers		(2,299)	(13,223)
Interest payable		870	2,631
Other liabilities		32	1,706
Net cash flows used in operating activities		(171,070)	(58,468)
INVESTING ACTIVITIES			
Purchase of investments classified as FVTPL		(5,002)	(63)
Purchase of investment securities		(45,739)	(39,833)
Proceeds from disposal / maturity of investments classified as FVTPL		2,039	3,775
Proceeds from disposal / maturity of investment securities		31,800	44,763
Purchase of property, equipment and software	10	(170)	(198)
Net cash flows (used in) from investing activities		(17,072)	8,444
FINANCING ACTIVITY			
Dividends paid	15	(8,000)	(12,500)
Cash flows used in financing activity		(8,000)	(12,500)
NET MOVEMENT IN CASH AND CASH EQUIVALENTS		(196,142)	(62,524)
Cash and cash equivalents at 1 January		364,181	426,705
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	4	168,039	364,181

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

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2023

	<i>Notes</i>	<i>Share capital US\$ '000</i>	<i>Statutory reserve US\$ '000</i>	<i>Retained earnings US\$ '000</i>	<i>Fair value reserve US\$'000</i>	<i>Proposed dividend US\$'000</i>	<i>Total US\$ '000</i>
Balance as of 1 January 2023		250,000	31,075	53,223	(9,936)	8,000	332,362
Net profit for the year		-	-	14,735	-	-	14,735
Other comprehensive gain		-	-	-	3,797	-	3,797
Total comprehensive income		-	-	14,735	3,797	-	18,532
Dividends paid	15	-	-	-	-	(8,000)	(8,000)
Proposed dividend for 2023	15	-	-	(12,500)	-	12,500	-
Statutory reserve movement	14	-	1,474	(1,474)	-	-	-
Balance as of 31 December 2023		250,000	32,549	53,984	(6,139)	12,500	342,894
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

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 2023 were authorised for issue in accordance with a resolution of the Board of Directors on 20 February 2024.

2 BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICY INFORMATION

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.

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 Material accounting policy information

Basis of consolidation

The consolidated financial statements include the financial statements of the Bank and its SPV as at 31 December 2023. 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 reassesses 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:

- 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.

2 BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICY INFORMATION (continued)**2.2 Material accounting policy information (continued)****Basis of consolidation (continued)**

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.

Initial measurement

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

2 BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICY INFORMATION (continued)**2.2 Material accounting policy information (continued)****Financial instruments (continued)***Initial measurement (continued)*

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 MATERIAL ACCOUNTING POLICY INFORMATION (continued)**2.2 Material accounting policy information (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 MATERIAL ACCOUNTING POLICY INFORMATION (continued)

2.2 Material accounting policy information (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 MATERIAL ACCOUNTING POLICY INFORMATION (continued)**2.2 Material accounting policy information (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 forbore loans to help ensure that future payments continue to be likely to occur. Derecognition decisions and classification between Stage 2 and Stage 3 are determined on a case-by-case basis or based on 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 forbore 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 MATERIAL ACCOUNTING POLICY INFORMATION (continued)

2.2 Material accounting policy information (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 MATERIAL ACCOUNTING POLICY INFORMATION (continued)**2.2 Material accounting policy information (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 MATERIAL ACCOUNTING POLICY INFORMATION (continued)**2.2 Material accounting policy information (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 MATERIAL ACCOUNTING POLICY INFORMATION (continued)

2.2 Material accounting policy information (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 MATERIAL ACCOUNTING POLICY INFORMATION (continued)

2.2 Material accounting policy information (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 MATERIAL ACCOUNTING POLICY INFORMATION (continued)**2.2 Material accounting policy information (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	<i>Estimated useful life in years</i>
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 MATERIAL ACCOUNTING POLICY INFORMATION (continued)

2.2 Material accounting policy information (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 MATERIAL ACCOUNTING POLICY INFORMATION (continued)

2.2 Material accounting policy information (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 MATERIAL ACCOUNTING POLICY INFORMATION (continued)

2.2 Material accounting policy information (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 2023

The following new amendments to the accounting standards became effective in 2023 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 17 Insurance Contracts

IFRS 17 Insurance Contracts is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. IFRS 17 replaces IFRS 4 Insurance Contracts. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them as well as to certain guarantees and financial instruments with discretionary participation features; a few scope exceptions will apply. IFRS 17 is based on a general model, supplemented by a specific adaptation approach for contracts with direct participation features (the variable fee approach) and a simplified approach (the premium allocation approach) which mainly applies to short duration contracts. The new standard had no impact on the Group's consolidated financial statements as the Group did not have any Insurance Contracts during or as at the year ended 31 December 2023, falling under the criteria of IFRS 17.

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

The amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements provide guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures. The amendments have had an impact on the Group's disclosures of accounting policies, but not on the measurement, recognition or presentation of any items in the Group's consolidated financial statements.

2 BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICY INFORMATION (continued)**2.3 Changes in accounting policies and disclosures (continued)****i) New and amended standards and interpretations effective as of 1 January 2023 (continued)***Definition of Accounting Estimates - Amendments to IAS 8*

The amendments to IAS 8 clarify the distinction between changes in accounting estimates, changes in accounting policies and the correction of errors. They also clarify how entities use measurement techniques and inputs to develop accounting estimates. The amendments had no impact on the Group's consolidated financial statements as there were no instances of changes in accounting estimates, changes in accounting policies or the correction of errors during the year ended 31 December 2023.

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

The amendments to IAS 12 Income Tax narrow the scope of the initial recognition exception, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences such as leases and decommissioning liabilities. The amendments had no impact on the Group's consolidated financial statements as the Group does not have any taxable or deductible temporary differences recognised in accordance with IAS 12, as at 31 December 2023.

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

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

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

The mandatory temporary exception – the use of which is required to be disclosed – applies immediately. The remaining disclosure requirements apply for annual reporting periods beginning on or after 1 January 2023, but not for any interim periods ending on or before 31 December 2023. The amendments had no impact on the Group's consolidated financial statements as the Group is not in scope of the Pillar Two model rules as its revenue is less than EUR 750 million/year.

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.

Amendments to IFRS 16: Lease Liability in a Sale and Leaseback

In September 2022, the IASB issued amendments to IFRS 16 to specify the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction, to ensure the seller-lessee does not recognise any amount of the gain or loss that relates to the right of use it retains.

The amendments are effective for annual reporting periods beginning on or after 1 January 2024 and must be applied retrospectively to sale and leaseback transactions entered into after the date of initial application of IFRS 16. Earlier application is permitted and that fact must be disclosed. 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 MATERIAL ACCOUNTING POLICY INFORMATION (continued)

2.3 Changes in accounting policies and disclosures (continued)

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

Amendments to IAS 1: Classification of Liabilities as Current or Non-current

In January 2020 and October 2022, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement;
- That a right to defer must exist at the end of the reporting period;
- That classification is unaffected by the likelihood that an entity will exercise its deferral right; and
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification.

In addition, a requirement has been introduced to require disclosure when a liability arising from a loan agreement is classified as non-current and the entity's right to defer settlement is contingent on compliance with future covenants within twelve months.

The amendments are effective for annual reporting periods beginning on or after 1 January 2024 and must be applied retrospectively. The Group is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

Supplier Finance Arrangements - Amendments to IAS 7 and IFRS 7

In May 2023, the IASB issued amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments:

Disclosures to clarify the characteristics of supplier finance arrangements and require additional disclosure of such arrangements. The disclosure requirements in the amendments are intended to assist users of financial statements in understanding the effects of supplier finance arrangements on an entity's liabilities, cash flows and exposure to liquidity risk.

The amendments will be effective for annual reporting periods beginning on or after 1 January 2024. The Group is currently assessing the impact of the amendments to determine the impact they will have on the Group's consolidated financial statements.

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.

3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)*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.

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.

Allowance for expected credit 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2023

4 CASH AND BALANCES WITH CENTRAL BANK AND OTHER BANKS

	2023	2022
	US\$ '000	US\$ '000
Cash and balance with bank	29	15
Money at call and short notice with other banks	7,407	15,517
Treasury bills issued by Central Bank of Bahrain	374,489	298,721
Provision for expected credit losses (note 4.1)	(3,647)	(3,499)
Cash and balances with central bank and other banks	378,278	310,754
Treasury bills - balances with Central Bank with original maturities of more than 90 days	(374,489)	(298,721)
Deposits with banks and other financial institutions with original maturities of 90 days or less (note 5)	164,250	352,148
Cash and cash equivalents	168,039	364,181

As at 31 December 2023, exposure classified in stage 2 amounted to US\$ 31 thousand (31 December 2022: US\$ 157 thousand) and exposure classified in stage 3 amounted to US\$ 3,644 thousand (31 December 2022: US\$ 3,497 thousand). The remaining exposures are classified within Stage 1.

Note 4.1

Movement in provision for expected credit losses were as follows:

	31 December 2023			
	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	1	1	3,497	3,499
Provided during the year	1	-	-	1
Reversals during the year	-	-	-	-
	1	-	-	1
Exchange differences	-	-	147	147
At 31 December	2	1	3,644	3,647

	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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2023

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:

	2023	2022
	US\$ '000	US\$ '000
Deposits with original maturities of 90 days or less (note 4)	164,250	352,148
Deposits with original maturities of over 90 days	116,455	74,406
	280,705	426,554
Provision for expected credit losses (note 5.1)	(65)	(150)
	280,640	426,404

As at 31 December 2023 all the above exposures are classified within Stage 1 (31 December 2022: same).

Note 5.1

Movement in provision for expected credit losses were as follows:

	2023	2022
	Stage 1	Stage 1
	12-month	12-month
	ECL	ECL
	US\$ '000	US\$ '000
Balance at 1 January	150	195
Provided during the year	38	107
Reversals during the year	(123)	(152)
	(85)	(45)
At 31 December	65	150

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

Investments classified as fair value through profit or loss (FVTPL) represent quoted debt security amounting to US\$ 2,989 thousand as at 31 December 2023 (2022: Nil).

7 INVESTMENT SECURITIES

	31 December 2023			31 December 2022		
	<i>FVOCI</i>	<i>Amortised</i>	<i>Total</i>	<i>FVOCI</i>	<i>Amortised</i>	<i>Total</i>
	<i>US\$'000</i>	<i>cost</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>cost</i>	<i>US\$'000</i>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Quoted investments						
- Sovereign debt securities	127,052	109,202	236,254	97,612	125,371	222,983
- Banks and Corporate debt securities	23,483	6,080	29,563	24,350	2,040	26,390
Total quoted investments	150,535	115,282	265,817	121,962	127,411	249,373
Provision for expected credit losses on investment securities at amortised cost	-	(738)	(738)	-	(820)	(820)
Total investment securities	150,535	114,544	265,079	121,962	126,591	248,553

Interest in suspense amounted to US\$ 537 thousand as of 31 December 2023 (2022: US\$ 223 thousand).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2023

7 INVESTMENT SECURITIES (continued)**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 2023			
	Stage 1: US\$ 000	Stage 2: US\$ 000	Stage 3: US\$ 000	Total US\$ 000
Investment securities at FVOCI				
At 1 January	70,174	50,238	1,550	121,962
Investments purchased	34,865	-	-	34,865
Investments sold / matured	(5,425)	(5,128)	-	(10,553)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	(11,724)	11,724	-	-
Transfers to Stage 3	-	-	-	-
Fair value movement	1,882	1,360	1,100	4,342
Other movements	-	-	(81)	(81)
At 31 December	89,772	58,194	2,569	150,535
31 December 2022				
	Stage 1: US\$ 000	Stage 2: US\$ 000	Stage 3: US\$ 000	Total US\$ 000
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
31 December 2023				
	Stage 1: US\$ 000	Stage 2: US\$ 000	Stage 3: US\$ 000	Total US\$ 000
Investment securities at amortised cost				
At 1 January	113,741	13,670	-	127,411
Investments purchased	10,874	-	-	10,874
Investments sold / matured	(12,500)	(9,000)	-	(21,500)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	(20,139)	20,139	-	-
Transfers to Stage 3	-	-	-	-
Amortisation of premium / discount	(1,281)	(222)	-	(1,503)
At 31 December	90,695	24,587	-	115,282
31 December 2022				
	Stage 1: US\$ 000	Stage 2: US\$ 000	Stage 3: US\$ 000	Total US\$ 000
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	-	-	-	-
Amortisation of premium / discount	(1,365)	(189)	-	(1,554)
At 31 December	113,741	13,670	-	127,411

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2023

7 INVESTMENT SECURITIES (continued)

Note 7.2

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

	31 December 2023			
	Stage 1:	Stage 2:	Stage 3:	Total
	12-month	Lifetime ECL	Lifetime ECL	
	ECL	not credit-	credit-	
	US\$ '000	impaired	impaired	US\$ '000
Balance at 1 January	295	1,609	3,302	5,206
Transfer to stage 2	(82)	82	-	-
Provided during the year	8	619	-	627
Reversals during the year	(130)	(557)	(485)	(1,172)
	(204)	144	(485)	(545)
At 31 December	91	1,753	2,817	4,661

	31 December 2022			
	Stage 1:	Stage 2:	Stage 3:	Total
	12-month	Lifetime ECL	Lifetime ECL	
	ECL	not credit-	credit-	
	US\$ '000	impaired	impaired	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

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

	31 December 2023			31 December 2022		
	Stage 1:	Stage 2:	Total ECL	Stage 1:	Stage 2:	Total ECL
	12-month	Lifetime		12-month	Lifetime	
	ECL	ECL not		ECL	ECL not	
	US\$ '000	credit-	US\$ '000	US\$ '000	credit-	US\$ '000
		impaired			impaired	
Balance at 1 January	561	259	820	399	743	1,142
Transfer to stage 2	(108)	108	-	(47)	47	-
Provided during the year	14	146	160	279	212	491
Reversals during the year	(60)	(182)	(242)	(70)	(743)	(813)
	(154)	72	(82)	162	(484)	(322)
At 31 December	407	331	738	561	259	820

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2023

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\$ 32,304 thousand as of 31 December 2023 (2022: US\$ 31,737 thousand).

	31 December 2023			
	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	19,478	40,738	41,324	101,540
Sovereign loan	27,832	-	-	27,832
Commercial loans	58,768	43,290	-	102,058
	106,078	84,028	41,324	231,430
Provision for expected credit losses (note 8.1)	(1,909)	(8,562)	(41,324)	(51,795)
	104,169	75,466	-	179,635
	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 loan	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

Note 8.1

Movements in provision for expected credit losses were as follows:

	31 December 2023			
	Stage 1: 12-month ECL US\$ '000	Lifetime ECL not credit- impaired US\$ '000	Stage 3: Lifetime ECL credit- impaired US\$ '000	US\$ '000
Balance at 1 January 2023	2,343	-	41,324	43,667
Transfer to lifetime ECL not credit-impaired	(783)	783	-	-
Provided during the year	1,066	8,038	-	9,104
Reversals during the year	(717)	(259)	-	(976)
	(434)	8,562	-	8,128
At 31 December 2023	1,909	8,562	41,324	51,795

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2023

8 LOANS AND ADVANCES (continued)**Note 8.1 (continued)**

	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 during the year	(935)	-	-	(935)
	76	-	21	97
At 31 December 2022	2,343	-	41,324	43,667

As of the year end, an exposure amounting to US\$ 33,431 thousand (2022: nil) was in the process of being renegotiated by the Group. During the year, no exposures were written off by the Group (2022: same).

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 2023 (31 December 2022: 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 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 2023	4,243	7,652	4,172	1,609	26	17,702
Transfers	-	-	-	16	(16)	-
Additions	-	-	145	25	-	170
At 31 December 2023	4,243	7,652	4,317	1,650	10	17,872
Accumulated depreciation:						
At 1 January 2023	-	5,071	3,972	1,513	-	10,556
Depreciation charge for the year	-	507	126	64	-	697
At 31 December 2023	-	5,578	4,098	1,577	-	11,253
Net book value:						
At 31 December 2023	4,243	2,074	219	73	10	6,619

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2023

10 PROPERTY, EQUIPMENT AND SOFTWARE (continued)

	<i>Land</i> <i>US\$ '000</i>	<i>Building</i> <i>US\$ '000</i>	<i>Furniture, equipment and motor vehicles</i> <i>US\$ '000</i>	<i>Software</i> <i>US\$ '000</i>	<i>Capital work in progress</i> <i>US\$ '000</i>	<i>Total</i> <i>US\$ '000</i>
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

The land relates to the building on which the Group's premises was 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 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:

	2023 US\$ '000	2022 US\$ '000
Current account balances	77,259	86,199
Cash collateral held	28,975	28,439
	106,234	114,638

12 DUE TO CUSTOMERS

Due to customers represent current account balances 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:

	2023 US\$ '000	2022 US\$ '000
Current account balances and deposit	21,298	23,097
Cash collateral held	1	501
	21,299	23,598

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2023

13 OTHER LIABILITIES

	2023 US\$ '000	2022 US\$ '000
Accrued expenses and payables	10,146	10,244
Due to directors and employees	847	505
Unearned fee income	477	696
Provision for expected credit losses for off balance sheet exposures (note 13.1)	98	23
Others	19	12
	11,587	11,480

Accrued expenses include US\$ 943 thousand (2022: US\$ 998 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:

	2023 Stage 1 12-month ECL US\$ '000	2022 Stage 1 12-month ECL US\$ '000
Balance at 1 January	23	74
Provided during the year	98	20
Reversals during the year	(23)	(71)
	75	(51)
At 31 December	98	23

14 SHARE CAPITAL

	2023 US\$ '000	2022 US\$ '000
Authorised:		
10,000,000 (2022: 10,000,000) ordinary shares of US\$ 50 each	500,000	500,000
Issued and fully paid up :		
5,000,000 (2022: 5,000,000) ordinary shares of US\$ 50 each	250,000	250,000

14 SHARE CAPITAL (continued)**Shareholders**

	2023		2022	
	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\$ 1,474 thousand (2022: US\$ 960 thousand) to statutory reserve in the current year.

15 PROPOSED DIVIDEND

Dividend of US\$ 12,500 thousand i.e. US\$ 2.5 per share is proposed for the year ended 31 December 2023 subject to regulatory approvals and the approval of the shareholders in the Annual General Meeting. During the year, dividends amounting to US\$ 8,000 thousand i.e. US\$ 1.6 per share has been paid to shareholders relating to the year ended 31 December 2022 after due approval from the shareholders at the Annual General Assembly Meeting held on 29 March 2023.

16 INTEREST AND SIMILAR INCOME

	2023	2022
	US\$ '000	US\$ '000
Interest on:		
- Deposits with banks, other financial institutions and balance with central bank	37,023	14,682
- Loans and advances	14,756	7,164
- Investments classified as fair value through profit or loss	53	31
- Investment securities	14,188	13,095
	66,020	34,972

17 INTEREST EXPENSE

	2023	2022
	US\$ '000	US\$ '000
Interest on:		
- Deposits from and due to banks and other financial institutions	31,219	11,235
- Due to customers	-	3
	31,219	11,238

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18 FEE AND COMMISSION INCOME

	2023 US\$ '000	2022 US\$ '000
Commission income on letters of credit and guarantee	2,046	4,005
Bank charges and other income	160	27
	2,206	4,032

19 GAIN ON INVESTMENTS CLASSIFIED AS FVTPL

	2023 US\$ '000	2022 US\$ '000
Changes in fair value of investments classified as FVTPL	(2)	-
Realised gain during the year - net	28	51
	26	51

20 PROVISION CHARGE FOR EXPECTED CREDIT LOSSES

	2023 US\$'000	2022 US\$'000
Expected credit loss:		
- (Charge) reversal against balances with central bank and other banks (note 4.1)	(1)	4
- Reversal against deposits with banks and other financial institutions (note 5.1)	85	45
- Reversal (charge) against investment securities (note 7.2)	627	(3,652)
- Charge against loans and advances (note 8.1)	(8,128)	(97)
- (Charge) reversal against off balance sheet (note 13)	(75)	51
	(7,492)	(3,649)

21 OTHER OPERATING EXPENSES

	2023 US\$ '000	2022 US\$ '000
Professional services	646	1,177
Administration and travelling expenses	1,835	1,786
Board of Directors' remuneration and expenses (note 26)	1,117	1,130
Fees and other charges	399	188
Charitable contributions	300	-
	4,297	4,281

22 COMMITMENTS AND CONTINGENT LIABILITIES

	2023 US\$ '000	2022 US\$ '000
Credit related contingencies		
Letters of credit	21,211	72,088
Loan commitment	20,000	-
	41,211	72,088

As at 31 December 2023 all the above exposures are classified within Stage 1 (31 December 2022: 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 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.

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.

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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 the use of eligible risk mitigants.

	<i>Gross maximum exposure</i>	<i>Provision for expected credit losses</i>	<i>Risk mitigants</i>	<i>Net maximum exposure</i>	<i>Gross maximum exposure</i>	<i>Provision for expected credit losses</i>	<i>Risk mitigants</i>	<i>Net maximum exposure</i>
	<i>2023</i>	<i>2023</i>	<i>2023</i>	<i>2023</i>	<i>2022</i>	<i>2022</i>	<i>2022</i>	<i>2022</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
Balances with central bank and other banks	381,896	(3,647)	-	378,249	314,238	(3,499)	-	310,739
Deposits with banks and other financial institutions	280,705	(65)	-	280,640	426,554	(150)	-	426,404
Investments classified as FVTPL	2,989	-	-	2,989	-	-	-	-
Investment securities	265,817	(738)	-	265,079	249,373	(820)	-	248,553
Loans and advances	231,430	(51,795)	-	179,635	186,535	(43,667)	-	142,868
Interest receivable	17,359	-	-	17,359	9,828	-	-	9,828
Other assets	876	-	-	876	947	-	-	947
Total funded credit risk exposure	1,181,072	(56,245)	-	1,124,827	1,187,475	(48,136)	-	1,139,339
Unfunded exposure on credit related contingencies	41,211	(98)	(11,669)	29,444	72,088	(23)	(62,277)	9,788
Total funded and unfunded credit risk exposures	1,222,283	(56,343)	(11,669)	1,154,271	1,259,563	(48,159)	(62,277)	1,149,127

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 2023 and 31 December 2022. 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.

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As at 31 December 2023

23 RISK MANAGEMENT (continued)**23.2 Credit risk (continued)****b. Credit quality per class of financial assets (continued)**

	<i>Neither past due nor impaired</i>		<i>Past due and individually impaired</i>	<i>Provision for expected credit losses</i>	<i>Total</i>
	<i>High standard grade</i>	<i>Standard grade</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>			
At 31 December 2023					
Balances with central bank and other banks	1,240	377,012	3,644	(3,647)	378,249
Deposits with banks and other financial institutions	122,186	158,519	-	(65)	280,640
Investments classified as FVTPL	-	2,989	-	-	2,989
Investment securities	16,066	247,182	2,569	(738)	265,079
Loans and advances		190,106	41,324	(51,795)	179,635
Interest receivable	845	16,514	-	-	17,359
Other assets	-	876	-	-	876
Funded exposures	140,337	993,198	47,537	(56,245)	1,124,827
Credit related contingencies	-	41,211	-	(98)	41,113
Unfunded exposures	-	41,211	-	(98)	41,113
Funded and unfunded exposures	140,337	1,034,409	47,537	(56,343)	1,165,940
	<i>Neither past due nor impaired</i>		<i>Past due and individually impaired</i>	<i>Provision for loan losses</i>	<i>Total</i>
	<i>High standard grade</i>	<i>Standard grade</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>			
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 exposure	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

As of 31 December 2023, the Group did not have any financial assets that were classified as watchlist or were past due but not impaired (2022: same).

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As at 31 December 2023

23 RISK MANAGEMENT (continued)**23.2 Credit risk (continued)****c. Concentration of maximum exposure to credit 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.

The geographical distribution of gross credit exposures is presented below:

At 31 December 2023

	<i>Bahrain</i>	<i>Other</i>	<i>Other</i>		<i>Rest of the</i>	<i>Provision</i>	
	<i>US\$ '000</i>	<i>GCC</i>	<i>Middle-</i>	<i>Europe</i>	<i>world</i>	<i>for</i>	<i>Total</i>
	<i>US\$ '000</i>	<i>countries</i>	<i>East and</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>expected</i>	<i>US\$ '000</i>
			<i>African</i>			<i>credit</i>	
			<i>countries</i>			<i>losses</i>	
			<i>US\$ '000</i>			<i>US\$ '000</i>	<i>US\$ '000</i>
Balances with central bank and other banks	375,044	395	3,773	2,005	679	(3,647)	378,249
Deposits with banks and other financial institutions	78,594	139,293	-	42,818	20,000	(65)	280,640
Investments classified as FVTPL	2,989	-	-	-	-	-	2,989
Investment securities	95,307	72,640	50,959	39,804	7,107	(738)	265,079
Loans and advances	-	-	104,990	111,132	15,308	(51,795)	179,635
Interest receivable	8,918	1,415	4,227	1,875	924	-	17,359
Other assets	868	8	-	-	-	-	876
Gross funded exposures	561,720	213,751	163,949	197,634	44,018	(56,245)	1,124,827
Credit related contingencies	-	20,000	21,211	-	-	(98)	41,113
Gross unfunded exposures	-	20,000	21,211	-	-	(98)	41,113
Gross funded and unfunded exposures	561,720	233,751	185,160	197,634	44,018	(56,343)	1,165,940

At 31 December 2022

	<i>Bahrain</i>	<i>Other</i>	<i>Other</i>		<i>Rest of the</i>	<i>Provision</i>	
	<i>US\$ '000</i>	<i>GCC</i>	<i>Middle-</i>	<i>Europe</i>	<i>world</i>	<i>for</i>	<i>Total</i>
	<i>US\$ '000</i>	<i>countries</i>	<i>East and</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>expected</i>	<i>US\$ '000</i>
			<i>African</i>			<i>credit</i>	
			<i>countries</i>			<i>losses</i>	
			<i>US\$ '000</i>			<i>US\$ '000</i>	<i>US\$ '000</i>
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

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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:

		<i>Banks and financial institutions</i>	<i>Commercial, business and others</i>	<i>Provision for expected credit losses</i>	<i>Total</i>
	<i>Sovereign</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
At 31 December 2023					
Balances with central bank and other banks	374,489	7,407	-	(3,647)	378,249
Deposits with banks and other financial institutions	-	280,705	-	(65)	280,640
Investments classified as FVTPL	2,989	-	-	-	2,989
Investment securities	231,317	14,973	19,527	(738)	265,079
Loans and advances	27,832	136,728	66,870	(51,795)	179,635
Interest receivable	11,111	5,236	1,012	-	17,359
Other assets	-	8	868	-	876
Gross funded exposures	647,738	445,057	88,277	(56,245)	1,124,827
Credit related contingencies	-	41,211	-	(98)	41,113
Gross unfunded exposures	-	41,211	-	(98)	41,113
Gross funded and unfunded exposures	647,738	486,268	88,277	(56,343)	1,165,940

		<i>Banks and financial institutions</i>	<i>Commercial, business and others</i>	<i>Provision for expected credit losses</i>	<i>Total</i>
	<i>Sovereign</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
At 31 December 2022					
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 of funded and unfunded exposures	565,768	588,247	105,548	(48,159)	1,211,404

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 endeavors 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.

	<i>Less than 3 months US\$ '000</i>	<i>3 to 12 months US\$ '000</i>	<i>1 to 5 years US\$ '000</i>	<i>Over 5 years US\$ '000</i>	<i>Non interest bearing* US\$ '000</i>	<i>Total US\$ '000</i>
At 31 December 2023						
Assets						
Cash and Balances with central bank and other banks	207,883	166,605	-	-	3,790	378,278
Deposits with banks and other financial institutions	271,844	8,861	-	-	(65)	280,640
Investments classified as FVTPL	2,989	-	-	-	-	2,989
Investment securities	8,018	54,753	150,983	49,494	1,831	265,079
Loans and advances	153,623	15,518	20,965	-	(10,471)	179,635
Investment property	-	-	-	-	11,734	11,734
Property, equipment and software	-	-	-	-	6,619	6,619
Interest receivable	13,922	3,307	-	-	130	17,359
Other assets	-	-	-	-	1,333	1,333
	658,279	249,044	171,948	49,494	14,901	1,143,666
Liabilities						
Deposits from banks and other financial institutions	309,096	222,153	-	-	126,292	657,541
Due to banks and other financial institutions	65,447	-	-	-	40,787	106,234
Due to customers	-	-	-	-	21,299	21,299
Interest payable	1,770	2,316	-	-	25	4,111
Other liabilities	-	-	-	-	11,587	11,587
	376,313	224,469	-	-	199,990	800,772
Total interest sensitivity gap	281,966	24,575	171,948	49,494	(185,089)	342,894

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23 RISK MANAGEMENT (continued)**23.3 Market risk (continued)****23.3.1 Interest rate risk (continued)**

	<i>Less than 3 months</i>	<i>3 to 12 months</i>	<i>1 to 5 years</i>	<i>Over 5 years</i>	<i>Non interest bearing*</i>	<i>Total</i>
<i>At 31 December 2022</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
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	86,168	3,433	(2,343)	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	252,907	52,907	30,705	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)	252,907	52,907	(204,255)	332,362

* 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 by currency

	<i>Impact on consolidated statement of profit or loss</i>	
	2023	2022
	US\$ '000	US\$ '000
<i>25 bps increase in interest rate</i>		
US Dollar	+ 375	+ 471
AED	+ 113	+ 109
Euro	+ 114	-19

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)****23.3.2 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:

	<i>Increase in exchange rate</i>	<i>Effect on consolidated statement of profit or loss for the year</i>	
		2023	2022
		US\$ '000	US\$ '000
Euro	5%	5	142

* 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 2023, there is no effect on the Group's consolidated profit and equity as the investment portfolio does not contain any equity investments (2022: 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.

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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:

<i>At 31 December 2023</i>	<i>Up to 1 year</i>				<i>More than 1 year</i>	<i>Provision for</i>		<i>Total</i>
	<i>Up to 1 month</i>	<i>1 to 3 months</i>	<i>3 to 12 months</i>	<i>Total</i>		<i>No specific maturity credit losses</i>	<i>expected credit losses</i>	
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
ASSETS								
Cash and balances with banks and Central Bank	93,119	118,557	166,605	378,281	3,644	-	(3,647)	378,278
Deposits with banks and other financial institutions	216,250	55,594	8,861	280,705	-	-	(65)	280,640
Investments classified as FVTPL	-	2,989	-	2,989	-	-	-	2,989
Investment securities	-	8,018	54,753	62,771	203,046	-	(738)	265,079
Loans and advances	56,793	10,371	37,671	104,835	126,595	-	(51,795)	179,635
Investment property	-	-	-	-	11,734	-	-	11,734
Property, equipment and software	-	-	-	-	-	6,619	-	6,619
Interest receivable	8,365	5,556	3,308	17,229	130	-	-	17,359
Other assets	-	9	18	27	1,306	-	-	1,333
Total assets	374,527	201,094	271,216	846,837	346,455	6,619	(56,245)	1,143,666
LIABILITIES								
Deposits from banks and other financial institutions	165,096	144,000	72,153	381,249	276,292	-	-	657,541
Due to banks and other financial institutions	102,537	-	-	102,537	3,697	-	-	106,234
Due to customers	21,299	-	-	21,299	-	-	-	21,299
Interest payable	782	989	2,317	4,088	23	-	-	4,111
Other liabilities	-	29	43	72	11,417	-	98	11,587
Total liabilities	289,714	145,018	74,513	509,245	291,429	-	98	800,772
Net liquidity gap	84,813	56,076	196,703	337,592	55,026	6,619	(56,343)	342,894
Cumulative liquidity gap	84,813	140,889	337,592	-	392,618	399,237	342,894	-

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23 RISK MANAGEMENT (continued)**23.4 Liquidity risk (continued)**

<i>At 31 December 2022</i>	<i>Up to 1 year</i>				<i>More than 1 year</i>	<i>No specific maturity</i>	<i>Provision for expected credit losses</i>	<i>Total</i>
	<i>Up to 1 month</i>	<i>1 to 3 months</i>	<i>3 to 12 months</i>	<i>Total</i>				
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
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	-

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23 RISK MANAGEMENT (continued)**23.4 Liquidity risk (continued)**

The maturity profile of the financial liabilities (including interest payable) and contingent liabilities, as at the reporting date, based on contractual undiscounted repayment amounts is as follows:

<i>At 31 December 2023</i>	<i>Up to 1 year</i>				<i>More than 1 year</i>	<i>Total</i>
	<i>Up to 1 month</i>	<i>1 to 3 months</i>	<i>3 to 12 months</i>	<i>Total</i>		
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
Liabilities						
Deposits from banks and financial institutions	166,346	146,396	80,758	393,500	276,386	669,886
Due to banks and other financial institutions	102,681	-	-	102,681	3,697	106,378
Due to customers	21,299	-	-	21,299	-	21,299
Total undiscounted liabilities	290,326	146,396	80,758	517,480	280,083	797,563
Commitments and contingent liabilities						
Letters of credit	2,551	7,545	10,810	20,906	305	21,211
Loan commitment	-	-	-	-	20,000	20,000
	2,551	7,545	10,810	20,906	20,305	41,211
<i>At 31 December 2022</i>	<i>Up to 1 year</i>				<i>More than 1 year</i>	<i>Total</i>
	<i>Up to 1 month</i>	<i>1 to 3 months</i>	<i>3 to 12 months</i>	<i>Total</i>		
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
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

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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 2023

	Level 1	Total
	US\$ '000	US\$ '000
Investments classified as fair value through profit and loss	2,989	2,989
Investments classified as fair value through other comprehensive income	150,535	150,535
	153,524	153,524

At 31 December 2022

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

Transfers between level 1, level 2 and level 3

During the year ended 31 December 2023, 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 (2022: 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 2023

	Fair value	Carrying value
	US\$ '000	US\$ '000
Amortised cost investments	113,346	114,544
Loans and advances	28,888	27,832
	142,234	142,376

At 31 December 2022

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

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 2023 and 31 December 2022.

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:

	2023		2022	
	Notional amount US\$ '000	Gain / (loss) US\$ '000	Notional amount US\$ '000	Gain / (loss) US\$ '000
Forward foreign exchange contracts	186	-	2,552	3
	186	-	2,552	3

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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 2023				31 December 2022			
	<i>Key management personnel/ Board</i>				<i>Key management personnel/ Board</i>			
	<i>Shareholders</i>	<i>members</i>	<i>Other related parties</i>	<i>Total</i>	<i>Shareholders</i>	<i>members</i>	<i>Other related parties</i>	<i>Total</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
Consolidated statement of profit or loss								
Interest income	-	-	283	283	-	-	174	174
Interest expense	25,364	-	2,376	27,740	10,219	-	277	10,496
Fee and commission income	13	-	231	244	1	-	242	243
Consolidated statement of financial position								
Assets								
Cash and balances with banks	20	-	1,027	1,047	18	-	535	553
Deposit with banks and financial institutions	-	-	4,431	4,431	-	-	-	-
Loans and advances	-	-	4,523	4,523	-	-	4,389	4,389
Interest receivable	-	-	39	39	-	-	36	36
Other assets	-	110	-	110	-	88	-	88
Liabilities								
Deposits from banks and other financial institutions*	473,249	-	45,000	518,249	494,579	-	30,000	524,579
Due to banks and other financial institutions	37,211	-	771	37,982	39,381	-	1,329	40,710
Interest payable	3,586	-	452	4,038	2,887	-	103	2,990
Other liabilities	-	847	-	847	-	501	-	501
Contingent liabilities								
Letters of credit and letters of guarantee	355	-	5,988	6,343	417	-	2,592	3,009

* Deposits from banks and other financial institutions include pledged cash collateral deposits amounting to USD 150 million from the major shareholder of the Group for foreign trade business that the Group will receive from certain banking entities.

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26 TRANSACTIONS WITH RELATED PARTIES (continued)**Compensation paid to the Board of Directors and key management personnel:**

	2023	2022
	US\$ 000	US\$ 000
Short term benefits	3,742	3,762
End of term benefits	276	261
Total compensation	4,018	4,023

Short term benefits include Board of Directors' sitting fees and provision for bonus accrual of US\$ 877 thousand (2022: US\$ 905 thousand) and reimbursement of travel, accommodation and other expenses amounting to US\$ 240 thousand (2022: US\$ 225 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:

	2023	2022
	US\$ 000	US\$ 000
Capital base:		
Tier 1 capital	340,050	330,147
Tier 2 capital	7,423	3,943
Total capital base (a)	347,473	334,090
Risk weighted assets (b)	648,945	631,641
Capital adequacy (a/b * 100)	53.54%	52.89%
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.

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28 LIQUIDITY RATIOS (continued)

Liquidity Coverage Ratio (continued)

At 31 December 2023, the Group's LCR was well above the regulatory requirement and stood at 783% (2022: 416%). The Group's simple average of daily LCR computed on working days of the quarter was 574% (30 September 2023: 658%).

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 149% as at 31 December 2023 (31 December 2022: 136%). The main drivers for robust Available Stable Funding (ASF) is its sizeable capital base, which contributes about 76% (31 December 2022: 76%) of total ASF and the remaining 24% (31 December 2022: 24%) of ASF constituted funding from deposits from financial institutions and non-financial corporate customers. Required Stable Funding (RSF), primarily comprised of short term deposit placements with Banks and other performing loans, which constituted about 50% (31 December 2022: 52%) of total RSF. High quality liquid assets (that comprised mainly of Bahrain government securities and other highly rated debt issuances) accounted for about 9% (31 December 2022: 8%) of the total RSF, while non-HQLA securities accounted for 29% (31 December 2022: 29%) of the total RSF.

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

Item	Unweighted Values (i.e. before applying relevant factor:				2023 USD 000s	2022 USD 000s
	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	347,473	-	-	-	347,473	334,090
Wholesale funding:						
Other wholesale funding	-	590,062	195,012	-	108,156	105,757
Other liabilities:						
All other liabilities not included in the above categories	-	14,247	1,354	-	-	-
Total ASF					455,629	439,847
Required Stable Funding (RSF):						
Total NSFR high-quality liquid assets (HQLA)					27,359	26,675
Performing loans and securities:						
Performing loans to financial institutions secured by non-level 1 HQLA and unsecured performing loans to financial institutions	-	351,794	2,750	36,616	90,760	77,720
Performing loans to non- financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and public sector entities	-	-	22,153	61,262	63,149	91,442
Securities that are not in default and do not qualify as HQLA, including exchange- traded equities	-	19,538	14,787	84,551	89,031	94,146
Other assets:						
All other assets not included in the above categories	33,153	-	-	-	33,153	28,774
Off balance sheet items	41,211	-	-	-	2,061	3,604
Total RSF					305,513	322,361
NSFR (%)					149%	136%