Annual report 2023

ALUBAF Arab International Bank B.S.C. (c)
Alubaf Tower-Al Seef District-Kingdom of Bahrain
P. O Box 11529- Tel: 17517722- Fax: 17540094
www.alubafbank.com

CONTENTS

Vision & Mission

ALUBAF Arab International Bank B.S.C. (c) is a wholesale bank registered in the Kingdom of Bahrain. The Bank's operations include Treasury, Trade finance and Lending.

Vision

Visualizes to be a premier wholesale bank in providing competitive and effective banking solutions to its clients

Mission

To augment shareholder value by maximizing profitability with prudent financial management and to entrench a disciplined risk and cost management culture.

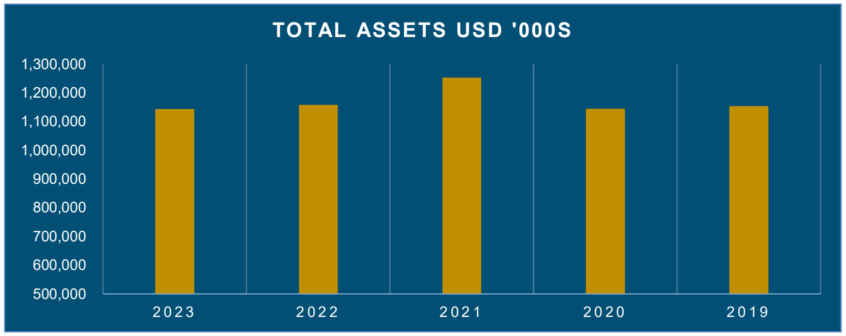
Financial Highlights

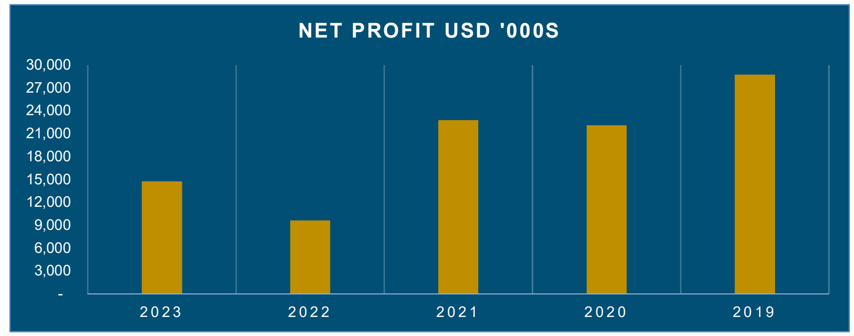
	2023	2022	2021	2020	2019
FINANCIAL POSITION (USD 000s)					
Net Profit before appropriation	14,735	9,603	22,732	22,113	28,741
Total Assets	1,143,666	1,158,713	1,253,144	1,145,242	1,153,997
Investment Securities	265,079	248,553	263,511	244,867	234,930
Total Loans	179,635	142,868	149,340	81,798	92,740
Total Liabilities	800,772	826,351	913,243	810,867	822,973
Total Equity	342,894	332,362	339,901	334,375	331,024

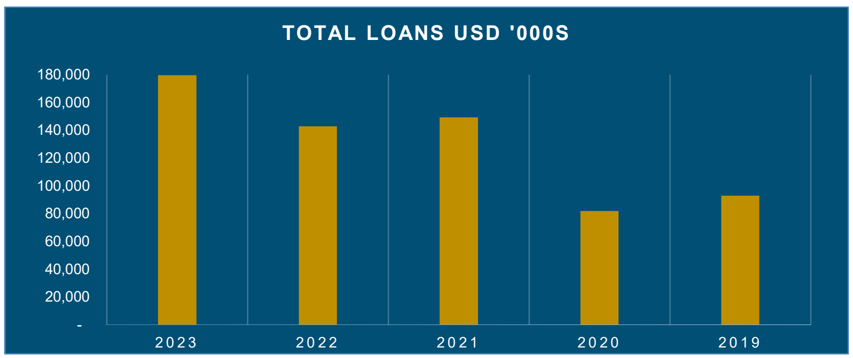
PERFORMANCE RATIOS

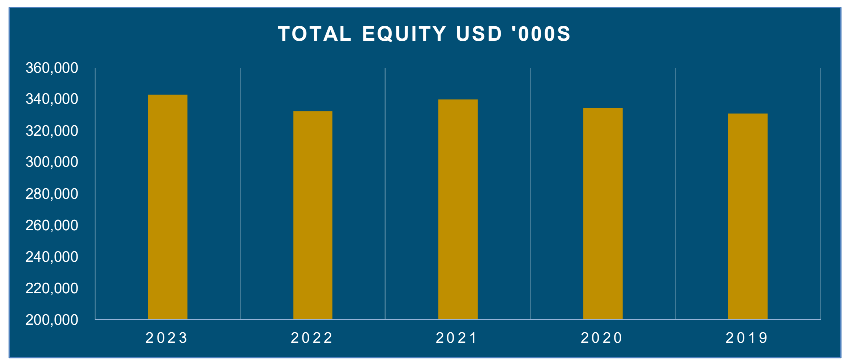
	2023	2022	2021	2020	2019
Profitability					
Return on Average Assets	1%	1%	2%	2%	3%
Return on Average Equity	4%	3%	7%	7%	9%
Cost to Gross Income*	40%	52%	56%	40%	39%
*This ratio excludes the impact of any one-off recoveries					
Capital					
Capital Adequacy Ratio	54%	53%	43%	56%	51%
Equity Assets Ratio	30%	29%	27%	29%	29%
Asset Quality					
Loans to Total Assets	16%	12%	12%	7%	8%
Investment Securities/Total assets	23%	21%	21%	21%	20%
NPL/Gross loans	18%	22%	21%	49%	50%
Liquidity					
Liquid assets to Total Assets	58%	64%	65%	70%	70%
Liquid assets to Liabilities	83%	89%	89%	99%	98%

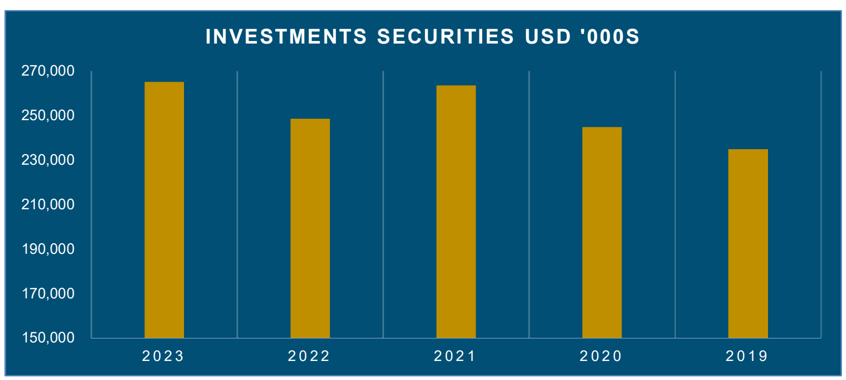
Financial Highlights











Board of Directors

Mr. Khaled AlGonsel
Chairman

(Executive Director since June 2023)

Chairman of Nomination, Remuneration and corporate Governance Committee

Qualification and Experience

Bachelor's Degree in Financial Accounting from University of Gharyan, Libya

Master's Degree in Financial Accounting from Graduate Studies Academy, Libya

Master's Degree in Banking and Corporate Finance from the European University

Over 30 years' experience in the banking and investment industry. He is also a Director at the Libyan Foreign Bank, Libya and Arab International Bank, Cairo.

Mr. Anthony Constantine Mallis
Vice Chairman

(Independent Director since June 2017)

Member of Audit, Risk and Compliance Committee

Qualification and Experience

Bachelors of Business Administration from the American University of Beirut, Lebanon. Over 40 years' experience in the banking sector. Mr. Anthony was the Chief Executive Officer of Securities & Investment Company (SICO) for thirteen years.

Mr. Abdulkarim Ahmed Bucheery
Board Member

(Independent Director since Nov 2019)

Chairman of Audit, Risk and Compliance Committee

Qualification and Experience

Bachelor's degree in Economic Sciences from Aleppo University, Syria

High Certificate in Credit Programme (CAD) from Citi Bank Athens, Greece

Management Diploma from Darden Business School Virginia, USA

Over 40 years' experience in the banking sector. He is currently the Chairman of the Bahrain Bourse and Bahrain Clear Company.

Mr. Tarek Amer
Board Member

(Independent Director since June 2023)

Member of Nomination, Remuneration and Corporate Governance Committee

Qualification and Experience

Kennedy School of Government Diploma from Harvard Business School, UA

Bachelor of Arts in Economics and Management from The American University in Cairo, Egypt

Over 40 years' experience in the banking sector. He was the Governor of the Central Bank of Egypt for 7 years. He was also the Chairman and CEO of National bank of Egypt for five years and head of corporate finance & investment banking Citibank gulf region.

Mr. Abdulrazag Belaid Mohamed Tarhuni
Board Member

(Independent Director since Jan 2020)

Member of Nomination, Remuneration and Corporate Governance Committee

Qualification and Experience

Master's degree in Economic and Financial Engineering from Tunisia Tech University, Tunisia

Bachelor's degree in Business Administration from United Africa University, Libya

Over 30 years' experience in the banking sector. He is also the Chairman of the United Insurance Company and Director at Bonia Company in Libya. Currently, he is the General Manager of Jumhouria Bank, Libya

Mr. Guima Masaud Salem Kordi
Board Member

(Executive Director since June 2015)

Member of Audit, Risk and Compliance Committee

Qualification and Experience

Bachelor of Computer Science from Tripoli University, Libya.

Over 30 years' experience in the banking sector.

Mr. Khaled Tahir
Board Member

(Non-Executive Director since Feb 2022)

Member of Audit, Risk and Compliance Committee

Qualification and Experience

Bachelor's degree in Business Administration from Africa University, Libya

Worked with various financial institutions more than a decade. He is also a Director at the Libyan Foreign Bank and Economics and Social Development Fund in Libya.

Executive Management

Mr. Hassan Khalifa Abulhasan
Chief Executive Officer

Qualification and Experience

Holds a Bachelor Degree in Statistics and Mathematical Sciences from University of Tripoli, Libya

Over 35 years of experience in the Banking sector. He joined Alubaf in October 2012 and before joining Alubaf, he has held several senior top management positions with Libyan Foreign Bank group and the last position held was Assistant General Manager at Libyan Foreign Bank, headquarters.

Dr. Nasreen Al Qaseer
Chief Risk Officer

Qualification and Experience

Holds a Doctorate in Business Administration – Risk Management, University of Liverpool John Moores University - UK.

Over 35 years of experience in the banking sector approved by CBB in Bahrain and CBK in Kuwait. She joined Alubaf in January 2019 and before joining Alubaf, she previously worked at Bank Al Khair.

Mr. Abbas Al-Shamma
Head of Internal Audit

Qualification and Experience

Holds a Bachelor in Accounting from University of Bahrain, A Certified Internal Auditor and a Certified Information System Auditor.

Over 18 years of experience in the Banking sector. He joined Alubaf in December 2009 and before joining Alubaf, he previously worked at Ernst and Young and BDO Bahrain.

Mrs. Najla Qambar
Head of Compliance, MLRO and Board Secretary

Qualification and Experience

Holds a Master degree in Business Administration from University College Bahrain and ICA International Diploma in Compliance.

Over 16 years of experience in Banking sector. She joined Alubaf in September 2010 and before joining Alubaf, she previously worked at United Gulf Bank.

Ms. Fatima Bu Ali
Head of Operations

Qualification and Experience

Holds a Master degree in Business Administration from University College Bahrain, affiliated with McMaster University-Canada with Intermediate Diploma in Banking and Finance.

Over 15 years of experience in the Banking sector. She joined Alubaf in September 2012 and before joining Alubaf, she previously worked at Tadhamon Capital.

Mr. Kemal El Abyad
Head of Business Development

Qualification and Experience

Holds a Bachelor in Business Administration from Anatolian University, Turkey.
Over 25 years of experience in the Banking sector. He joined Alubaf in July 2014 and before joining Alubaf, he previously worked at A&T BANK.

Mr. Anas Zawia
Head of Information Technology

Qualification and Experience

Holds a Diploma in Computer Science from Higher Institute of Computer Technology, Libya.
Over 15 years of experience in Information Technology and Security. He joined Alubaf in January 2017 and before joining Alubaf, he previously worked at Libyan Foreign Bank.

Mr. Amer AlSheaibani
Acting Head of Head of Human Resources & Administration

Qualification and Experience

Holds a Master Degree in Finance from Coventry University, United Kingdom.
Over 14 years of experience in the Financial Services sector. He joined Alubaf in March 2018 and before joining Alubaf, he previously worked at Arab Financial Services.

Mr. Othman Shwaimat
Head of Treasury & Investments

Qualification and Experience

Holds a Master degree in Banking and Finance from Arab academy for Banking and financial sciences, and Bachelor in Business administration, Managerial finance and accounting from Yarmouk University - Jordan.
Over 34 years of experience in the Banking sector. He joined Alubaf in October 2018 and before joining Alubaf, he previously worked at Arab Banking Corporation (Jordan).

Mr. Hussain Haidar
Head of Trade Finance

Qualification and Experience

Holds a Diploma in Commercial Studies from University of Bahrain.
Over 20 years of experience in the Banking sector. He joined Alubaf in February 2021 and before joining Alubaf, he previously worked at Habib Bank Limited and HSBC.

Mrs. Juhaina Albahrani
Head of Financial Control

Qualification and Experience

Holds a Certified Public Accountant (CPA) certification and a Bachelor's degree in Accounting from University of Bahrain.

Over 18 years of experience in Accounting and Finance. She joined Alubaf in June 2021 and before joining Alubaf, she previously worked at Ernst and Young.

CORPORATE GOVERNANCE DISCLOSURES
At 31 DECEMBER 2023

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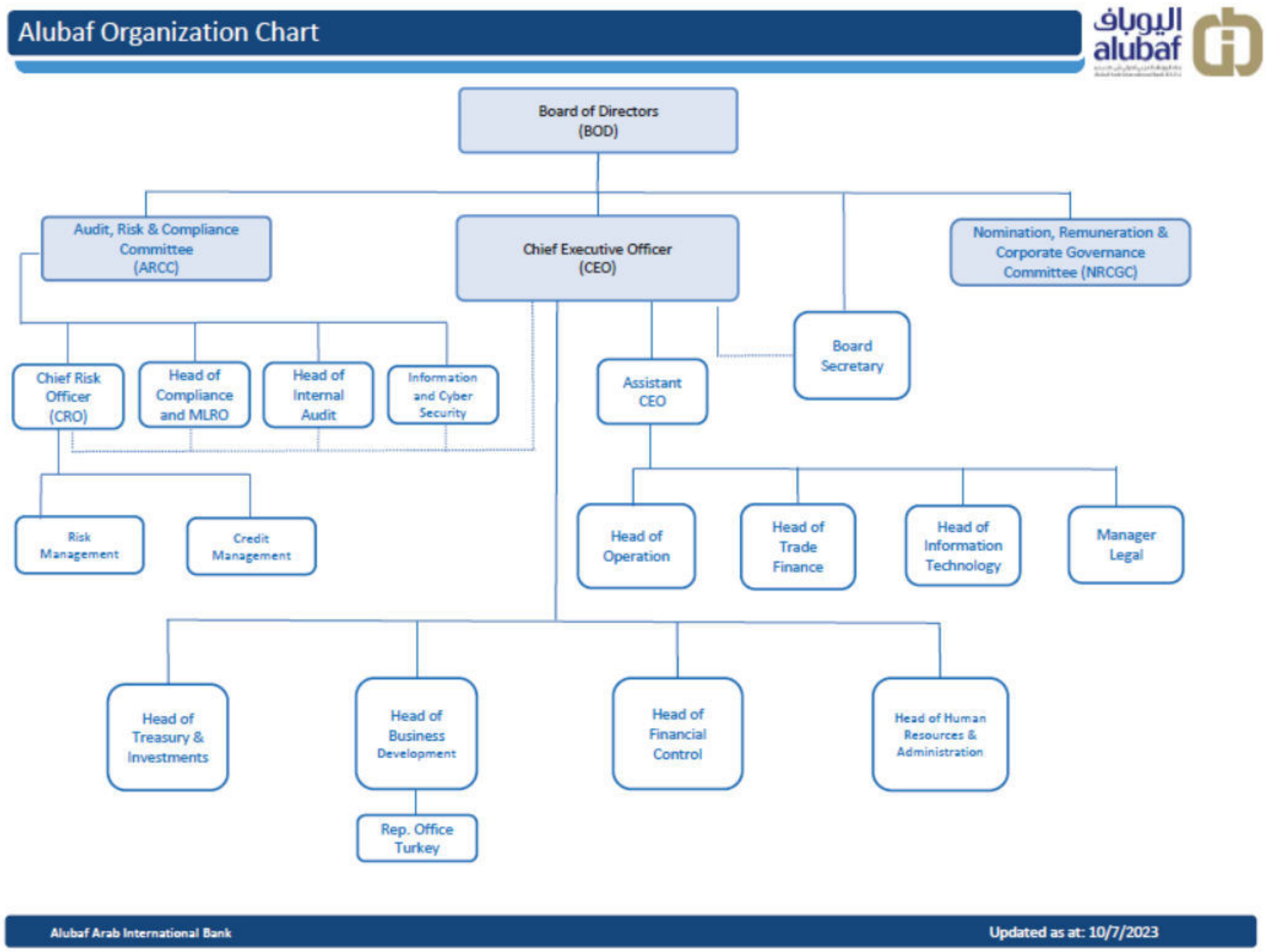
1. ORGANIZATION STRUCTURE OF THE BANK



2. ALUBAF'S CORPORATE GOVERNANCE PHILOSOPHY

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 ("MOICT") under Commercial Registration (CR) number 12819. The Bank operates under a wholesale banking license issued by the Central Bank of Bahrain (the "CBB").

As a Wholesale commercial bank, Alubaf's corporate governance framework is based on the guidelines of the Corporate Governance Code as introduced by the Ministry of Industry, Commerce and Tourism, the Commercial Companies Law and its Implementation Regulations ("CCL") and the regulations of the Central Bank of Bahrain ("CBB") as specified in Volume 1 of its Rulebook - High Level Controls (Module HC).

ALUBAF Arab International Bank B.S.C.(C) ("Bank") is fully committed to meeting its strategic objectives and achieving solid growth while upholding the highest standards of corporate governance. Such commitment is deeply rooted in its dedication to enhancing its compliance with all the applicable laws, regulations and best industry practices to the ultimate benefit of its shareholders, clients, employees and other stakeholders.

3. FRAMEWORK

ALUBAF Arab international Bank has an effective, disciplined and transparent management framework developed on strict adherence to corporate governance principles and statutes of its regulator Central Bank of Bahrain. The Board of Directors is responsible for strategic plans, policies and supervision of business performance/operations, overseeing the functions of executive management and ensures to conduct meetings at least four times annually. At the next level, is the executive management team, which is committed in the daily execution of business in compliance with approved policies, plans and regulatory requirements. The bank's external auditors Ernst & Young, conduct final audit and other statutory reviews and quarterly on financials, prudential information reporting, public disclosure and the review on AML/CFT to ensure compliance with regulatory requirements.

4. PROFILE AND OWNERSHIP STRUCTURE OF THE BANK

As part of disclosure requirements indicated in HC module issued by the CBB, the Bank presents the following facts:

The Bank's authorized share capital is USD 500,000,000 (United States Dollars five hundred million) divided into 10,000,000 (ten million) shares of USD 50 (United States Dollars fifty) nominal value per share. The Bank's issued and paid up capital is USD 250,000,000 (United States Dollars two hundred and fifty million) divided into 5,000,000 (five million) shares of USD 50 (United States Dollars fifty) nominal value per share.

Name	Nationality	No. of Shares	Nominal Value (USD)	%
Libyan Foreign Bank	Libyan	4,975,008	248,750,400	99.50
National Bank of Yemen	Yemeni	13,768	688,400	0.28
Yemen Bank for Reconstructions and Development	Yemeni	11,224	561,200	0.22

Shareholders Distribution of Shareholding according to Nationality:

Nationality	No. of Shares	Nominal Value (USD)	%
Libyan	4,975,008	248,750,400	99.50
Yemeni	24,992	1,249,600	0.50

As of 31 December 2023, Libyan Foreign Bank (LFB) owns more than 5% or above of Alubaf's total outstanding shares.

As of 31 December 2023, the Bank's Directors and the Senior Management do not own any shares in the Bank on an individual basis.

5. BOARD OF DIRECTORS

BOARD COMPOSITION

The Bank shall be administered by a Board of Directors comprising of at least five (5) directors and not more than nine (9) directors ("Directors"). As of 31 December 2023, the total number of Directors is seven (7). The Board of Directors also elects by secret ballot from its Directors a chairman ("Chairman"), and a deputy chairman ("Deputy Chairman") for its tenure.

In accordance with HC 2.1.2 of the CBB Rulebook, in conventional bank licensees with a controller, at least one third of the Board of Directors must be independent.

The CBB Rulebook HC 3.2.1 and Corporate Governance Code require that the Chairman of the Board of Directors must be an independent Director. The bank has obtained CBB's exemption letter dated 7th June 2023 to appoint Mr. Khalid AlGonsel, Executive Director as the Chairman of the Bank.

As of 31 December 2023, the Bank is in compliance with the aforementioned independence requirements with the following being its composition:

STATUS/CATEGORY	NO. OF DIRECTORS	%
Executive Director	2	28.57%
Non-Executive Director	1	14.29%
Independent / Non-Executive Director	4	57.14%
TOTAL	**7**	**100**

For the financial year ending 31 December 2023, the bank's board of directors was as follows:

NAME	POSITION	CLASSIFICATION	NATIONALITY	DATE OF AGM APPROVAL	TERM
Mr. Khalid AlGonsel	Chairman	Executive Director	Libyan	27-MAR-24	First
Mr. Anthony Constantine Mallis	Vice Chairman	Independent	Australian	18-JUN-17	Third
Mr. Abdulkarim Bucheery	Director	Independent	Bahraini	15-MAR-20	Second
Mr. Guima Masaud Salem Kordi	Director	Executive Director	Libyan	19-APR-16	Fourth
Mr. Tarek Amer	Director	Independent	Egyptian	27-MAR-24	First
Mr. Abdulrazag Tarhuni	Director	Independent	Libyan	15-MAR-20	Second
Mr. Khaled Taher	Director	Non-executive	Libyan	26-JUN-22	Second

The full profiles and the bank's directors, information on other posts that they hold and their biographies are available in the annual report and the website www.alubafbank.com.

The Board of Directors is supported by its Board Secretary, who provides it with professional and administrative support. The Board Secretary also acts as secretary at the General Assemblies. The Audit, Risk and Compliance Committee secretary is the Head of Internal Audit and the Nomination, Remuneration and Corporate Governance Secretary is the Head of Human Resources and Administration. As per HC 3.7.3, the appointment of the Board Secretary is subject to approval of the Board of Directors.

INDEPENDENCY OF THE BOARD MEMBERS

The majority of the Board's members are independent. To ensure the independency of the members, as per HC-1.1.1 and HC1.2.5, every director must bring independent judgment to bear in decision-making. No individual or group of directors must dominate the board's decision-making and no one individual should have unfettered powers of decision. The members should also ensure that their membership of the Board of Directors is not in conflict with any of their other interests. Where there is the potential for conflict of interest, or there is a need for impartiality, the Board must assign a sufficient number of independent Board members capable of exercising independent judgment.

APPOINTMENT/TERMINATION OF THE BOARD OF DIRECTORS

The appointment of Directors is subject to obtaining the prior written approval of the CBB and comply at all times with the Company Commercial Law and the CBB regulations. The Board of Directors is appointed for a term of three (3) years by the Annual General Assembly, such term being capable of

renewal. Appointments of Directors are also subject to Article 175 of the Company Commercial Law for shareholders holding 10% of the share capital or more having the right to appoint representatives on the Board in proportion to the number of members on the Board. The current term of the Board of Directors started in June 2022 and will end in – June 2025.

The Directors are generally required to adhere to the Bank's Articles of Association, Company Commercial Law, the Corporate Governance Code, CBB Rulebook, Code of Ethics and Conduct and all applicable laws and regulations. The Bank has written appointment agreements with each Director, which set out the Directors' roles, duties, responsibilities, accountabilities, in addition to other aspects relating to their appointment such as term, the time commitment required, the committee assignments (if any), their remuneration and expense reimbursement entitlement and access to independent professional advice, as and when required.

The Bank's Articles of Association, which incorporates the relevant Company Commercial Law provisions, and the Board of Directors' Charter list all the grounds for termination of membership of the Board of Directors. The General Assembly, via majority vote, has the authority to terminate the membership of some or all of the Board of Directors. This is without prejudice to the rights of shareholders qualifying under Article 175 of the Company Commercial Law to terminate the appointment of any Director they appointed in accordance with the aforementioned Article. Terminations without proper justification or cause may entitle the Director to seek compensation from the Bank.

INDUCTION OF NEW DIRECTOR

The Board ensures that each new appointed Director receives all information to strengthen and support his contribution from the commencement of his term, via meetings with senior management, presentations regarding the Bank's strategic plans, significant financial, accounting frameworks, risk management issues, compliance programs, in addition to access to its internal and external auditors and legal counsel.

RESPONSIBILITIES OF THE BOARD

The Board of Directors' role and responsibilities include but are not limited to, the following:

- Establishing the objectives of the Bank;
- Determining the overall business performance, plans and strategy of the Bank;
- Monitoring approved persons performance and their implementation of strategic decisions;
- Convene and prepare the agenda for the shareholder meetings;
- Monitoring conflict of interest and preventing abusive related party transactions;
- Adoption and annual review of strategy;
- Annual approval of budget and monitoring management performance in relation to the same thereof;
- Adoption and review of management structure and responsibilities;
- Adoption and review of the systems and controls framework;
- Ensure financial results are reported fairly and which accurately disclose Alubaf's financial position.
- Setting the 'tone at the top' of the Bank and overseeing compliance with various laws and regulations, including but not limited to, CBB laws and regulations, Company Commercial Law, Corporate Governance Code, Labor Law and other applicable laws and regulations; and
- Approve term borrowings bond

Further details of the roles and responsibilities of the Board of Directors are set out in the Board Charter and Articles of Association. These roles and responsibilities are in line with the regulatory requirements contained in the High-Level Control ("HC") of the CBB Rulebook Volume 1 and the Corporate Governance Code.

MEETINGS OF THE BOARD OF DIRECTORS DURING THE YEAR 2023

In accordance with HC-3.1 of Volume 1 of the CBB Rulebook, the Board must meet frequently but in no event less than four (4) times a year. The Bank's Board of Directors has exceeded this requirement by meeting six (6) times in the financial year ending 31 December 2023. All Directors have complied with the requirement to attend at least 75% of all Board meetings convened in a given financial year. During 2023, six Board meetings were held as follows:

DIRECTOR	DATE OF FIRST APPOINTMENT (AGM APPROVAL)	FIRST BOARD MEETING	1/2023 Held in Bahrain 19-Feb-23	2/2023 Held in Bahrain 27-Apr-23	3/2023 Held in Bahrain 19-Jun-23	4/2023 Held in Bahrain 25-July-23	5/2023 Held in Bahrain 23-Oct-23	6/2023 Held in Bahrain 11-Dec-23
Moraja Gaith Solaiman	21-Apr-13	29-Jan-13	✓	✓	N/A	N/A	N/A	N/A
Khaled AlGonsel	27-Mar-24	19-Jun-23	N/A	N/A	✓	✓	✓	⦸
Anthony Mallis	18-Jun-17	09-Jul-17	✓	✓	✓	✓	✓	✓
Abdulkarim Bucheery	15-Mar-20	11-Nov-19	✓	✓	✓	✓	✓	✓
Giuma Masaud Salem Kordi	19-Apr-16	21-Aug-15	✓	✓	✓	✓	✓	✓
Basel El Hini	15-Mar-20	10-Feb-20	✓	✓	N/A	N/A	N/A	N/A
Tarek Amer	27-Mar-24	19-Jun-23	N/A	N/A	✓	✓	✓	✓
Abdulrazag Tarhuni	15-Mar-20	8-Jun-20	✓*	✓	✓	✓*	✓	✓
Khaled Taher	26-June-22	23-Feb-22	✓	✓	✓	✓	✓	✓

**Participated by phone/Video link*

BOARD ASSESSMENT AND EVALUATION

The Board and its Committees conduct annual assessments and evaluations on an annual basis. Each Director completes an overall Board assessment form, in addition to each Committee member completing a Committee assessment form. The NRCGC is responsible for reporting the results of the assessments to the Board for appropriate action, where and if required.

MATERIALITY AND AUTHORITY LEVELS

The materiality level for transactions that require board approval varies for different activities and is governed by pre-approved exposure levels delegated by the board which are contained in various policy and procedure documents as well as the delegation of authority. Transactions exceeding the approval authorities granted to the CEO or CIC must be approved by the board.

BOARD COMMITTEES

In accordance with the bank's constitutional documents, charters and the requirements set forth by the corporate governance code and CBB regulations, the board of directors has delegated specific responsibilities to a number of board committees (each a "**committee**" and collectively, the **"committees**"). Each committee has its own formal written charter that sets out the roles and responsibilities of its members. The main committees are as follows:

- *Audit, risk and compliance committee ("**ARCC**"); and*
- *Nomination, remuneration and corporate governance committee ("**NRCGC**")*

As of 31 December 2023, the composition of the committees are as follows:

Board committee	Members	Position
Audit, Risk and Compliance (ARCC)	**Abdulkarim Bucheery** **Anthony Mallis** **Khalid Taher** **Giuma Masaud Salem Kordi**	**Chairman** **Member** **Member** **Member**
Nomination, Remuneration and Corporate Governance (NRCGC)	**Khaled AlGonsel** **Tarek Amer** **Abdulrazag Tarhuni**	**Chairman** **Member** **Member**

During the year 2023, Mr. Moraja Gaith Solaiman Buhlaiga was replaced by Mr. Khaled AlGonsel with CBB approval letter dated 7th June,2023. Also, Mr. Basel El Hini was replaced by Mr. Tarek Amer with CBB approval letter dated 1st June, 2023.

ARCC MEETINGS AND ATTENDANCE

The minimum number of meetings required is four.

MEMBERS	1/2023 16-Feb-23	2/2023 26-Apr-23	3/2023 24-Jul-23	4/2023 19-Oct-23	5/2023 10-Dec-23
Abdulkarim Bucheery	✓	✓*	✓	✓	✓
Anthony Mallis	✓	✓	✓	✓	✓
Basel El Hini	✓*	✓	N/A	N/A	N/A
Guima Kordi	N/A	N/A	✓	✓*	✓
Khalid Taher	✓*	✓	✓	✓*	✓*

*Participated by phone/Video link

The CBB Rulebook HC 3.4.1 & 3.5.1 requires that the ARCC must have at least three directors of which the majority must be independent. The bank has obtained CBB's exemption letter dated 6th July, 2023 to appoint Mr. Guima Kordi as a non-executive director who replaced Mr. Basel El Hini.

NRCGC MEETINGS AND ATTENDANCE

The minimum number of meetings required is two.

MEMBERS	1/2023 15-Feb-23	2/2023 27-Apr-23	3/2023 25-Jul-23	4/2023 23-Oct-23
Moraja Gaith Solaiman Buhlaiga	✓*	✓	N/A	N/A
Khaled AlGonsel	N/A	N/A	✓	✓
Giuma Masaud Salem Kordi	✓*	✓	N/A	N/A
Tarek Amer	N/A	N/A	✓	✓
Abdulrazag Tarhuni	✓*	✓*	✓*	✓

*Participated by phone/Video link

BOARD COMMITTEES RESPONSIBILITIES

BOARD OF DIRECTORS COMMITTEES RESPONSIBILITIES	
ARCC RESPONSIBILITIES	
SUMMARY OF TERMS OF REFERENCE	**SUMMARY OF RESPONSIBILITIES**
➢ The members of the Committee shall be appointed by the Board. The Committee will comprise of at least three independent members. All members must be non-executive directors and the majority of the members of the committee including the Chairman shall be independent directors. ➢ Members must have no conflict of interest with any other duties they have for the bank. ➢ Appointments to the Committee shall be for a period of up to three years, which may be renewable for similar periods, and shall coincide with the appointment of the board of directors. ➢ A meeting of the Committee will not be valid unless attended by not less than two or half of the members (depending on the number of the members of the committee), whichever is greater. ➢ The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed. ➢ The Chairman of the Committee shall attend the shareholder's meeting in order to respond to any shareholders inquiry on the ARCC activities. ➢ The Committee shall conduct an annual self-assessment review and reports conclusions and recommendations to the Board.	➢ The committee's responsibility is to assist the board in discharging its oversight duties mainly relating to the following matters:- ➢ The integrity of the bank's financial statements and financial reporting process and the bank's systems of internal accounting and financial controls; ➢ Recommending appointment, retention of the external auditor, and be directly responsible for the oversight of the external auditor's work. ➢ Review and assess the effectiveness of the bank's internal audit function ➢ Ensure the independence of the internal auditor and external auditor; ➢ Ensure independence of risk and compliance from risk-taking activities and business lines; ➢ Oversee the bank's compliance with laws, regulations and internal policies. Review the implementation of, enforcement of and adherence to the bank's code of conduct and compliance with corporate governance charter. ➢ Overseeing the management of the bank's compliance risk. Assist the board in establishing a permanent and effective compliance function. ➢ Overseeing the bank's activities in managing credit, market, liquidity, operational, legal, reputational and other risks and to ensure that an effective risk management framework is in place and functioning in the bank. ➢ Review all bank's policies and recommend them for board approval. ➢ Monitor the responsiveness of management to the committee's recommendations and findings; ➢ Address and review all concerns arising from the whistle blowing policy ➢ Ensure That the Bank has effective and adequate policies covering cybersecurity

NRCGC RESPONSIBILITIES
The NRCGC is responsible for developing and recommending changes from time to time in the Bank's nomination and remuneration policy, including the variable payment policy. As will responsible of the banks corporate governance practices and recommending any changes from time to time. It is also entrusted to identify and recommend persons occupying senior positions including board members, as will ensure a succession planning for directors and senior management. Succession Planning Succession planning in the Bank is driven by our Business strategy and forward looking approach. The primary objective of the plan is to develop people to meet future demands of the Bank. On an annual basis, the Human Resources Department of the Bank reviews and consults the Board's Nomination & Remuneration Committee to ensure availability of a practical and executable succession plan.

6. MANAGEMENT

SEGREGATION OF DUTIES BETWEEN BOARD OF DIRECTORS AND MANAGEMENT

In accordance with CBB regulations, the positions of the chairman and deputy chairman are segregated from those of the chief executive officer ("**CEO**"). Furthermore, there is a clear delineation of responsibilities between the aforementioned positions as defined in the bank's articles of association and board charters.

MANAGEMENT COMMITTEES

Committee Name	Member Position	Committee Member Position
Asset and Liability Committee (ALCO)	Chief Executive Officer	Head/Chairman
	Chief Risk Officer	Member
	Head of Financial Control	Member
	Head of Business Development	Member
	Head of Treasury & Investments	Member
	Head of Trade Finance	Member
	Head of Operations	Member
	Senior Manager - Risk Management	Member/Secretary
Management Risk Committee (MRC)	Chief Executive Officer	Head/Chairman
	Chief Risk Officer	Member
	Head of Financial Control	Member
	Head of Business Development	Member
	Head of Treasury & Investments	Member
	Head of Trade Finance	Member
	Head of Operations	Member
	Senior Manager - Risk Management	Member/Secretary
Credit and Investment Committee (CIC)	Chief Executive officer	Head/Chairman
	Chief Risk Officer	Non-voting member
	Head of Financial Control	Member
	Senior Manager - Risk Management	Non-voting member
	Head of Treasury &Investments	Member*
	Head of Business Development	Member*
	Senior Manager – Business Development	Secretary
Special Asset Management Committee (SAMC)	Head of Financial Control	Head/Chairman
	Head of Operations	Member
	Chief Risk Officer	Member
	Legal Manager	Member
	Senior Manager – Risk Management	Member
	Manager – Credit Management	Member/Secretary

** Do not vote/approve their submissions*

MANAGEMENT COMMITTEES RESPONSIBILITIES

<table>
<tr><th colspan="2">MANAGEMENT COMMITTEES RESPONSIBILITIES</th></tr>
<tr><th colspan="2">ALCO RESPONSIBILITIES</th></tr>
<tr><th>SUMMARY OF TERMS OF REFERENCE</th><th>SUMMARY OF RESPONSIBILITIES</th></tr>
<tr><td>

The purpose of the ALCO is to prudently direct and manage asset and liability allocations to achieve the Bank’s strategic goals.
The ALCO shall meet once in a quarter or more frequently, if required.
A meeting of the committee will not be valid unless attended by half of the voting members.
The Committee’s decisions shall be considered by a vote of the majority of the attending members. In case of tied votes, the Head of the Committee shall have the casting vote.

</td><td>
ALCO’s key responsibilities are to:

Monitor the Bank’s asset and liability maturity profiles taking into account economic developments, fluctuations in asset values and benchmark reference rates
Develop asset and liability management strategies, including liquidity strategies, and short and long-term funding and leverage strategies, within board approved parameters
Review the Bank’s capital adequacy position and address capital management strategies from an ICAAP perspective
Review the Bank’s liquidity risk profile, including monitoring liquidity risk metrics, early warning indicators, contingency plans, adequacy of liquidity cushion etc., and ensure that the Bank maintains adequate liquidity to cover stress scenarios
Review the interest rate risk and forex risks of the Bank and devise strategies (including hedging) to minimize the impact of such risks on the Bank’s net worth and earnings
Reviewing the portfolio performance, treasury reports, risk management reports and provide guidance to management
Review risk limits and approve or reject breaches of limits within its authority

</td></tr>
<tr><th colspan="2">MRC RESPONSIBILITIES</th></tr>
<tr><th>SUMMARY OF TERMS OF REFERENCE</th><th>SUMMARY OF RESPONSIBILITIES</th></tr>
<tr><td>

The purpose of the MRC is to assist the Board Audit, Risk and Compliance Committee (ARCC) in overseeing the Bank’s risk management framework and manage all areas of risks within the Bank.
The MRC shall meet once in a quarter or more frequently, if required.
A meeting of the committee will not be valid unless attended by half of the voting members.
The Committee’s decisions shall be considered by a vote of the majority of the attending members. In case of tied votes, the Head of the Committee shall have the casting vote.

</td><td>
MRC’s key responsibilities are to:

Determine key risk areas and adopt risk management practices that contribute to the Bank’s objective
Increase the awareness level of management and staff on business risks in the Bank
Review and recommend for approval the Bank’s risk management framework
Evaluate the level and trend of material risks and their impact on capital levels
Review and assess various internal limits and make specific recommendations with respect to economic risk capital, market risk limits, ALM limits, etc.
Approve Operational Risk Framework and monitor the operational risk on ongoing basis
Review and approve the stress test scenarios of the Bank and ensure that they cover all material risks faced by the Bank, review stress testing results and recommend action plan to ARCC and Board to manage stress events
Review the reputational risk and ensure adequate measures are taken to monitor and manage reputational risks, including management of Step-in risks
Review other major risk concentration as deemed appropriate

</td></tr>
</table>

CIC RESPONSIBILITIES	
SUMMARY OF TERMS OF REFERENCE	**SUMMARY OF RESPONSIBILITIES**
➢ The purpose of the Credit and Investment Committee is to assist the Board of Directors in fulfilling its responsibilities by providing oversight of bank's credit and investment operations and management activities relating to the identification, assessment, measurement, monitoring, and management of the bank's credit risk. The committee fulfils the following responsibilities with respect to financing/lending activities, investment activities and trade finance activities. ➢ The Committee shall meet at least once every quarter or more frequently if required. However, the committee shall review monthly reports circulated via email by various departments and may approve actions if required over email. ➢ A meeting of the committee will not be valid unless attended by half of the voting members. ➢ The Committee's decisions shall be considered by a vote of the majority of the attending members. In case of equality of votes, the Head of the Committee shall have the casting vote.	CIC'S KEY RESPONSIBILITIES INCLUDE: ➢ To review the details of all facilities structure either prior to or following the approval of counterparty/ facility limits by delegated authority; ➢ To serve as the delegated approval authority for certain credit facilities and investments of the Bank; ➢ Consider approved risk appetite of the Bank, strategic objectives with regards to servicing certain customers and geographies, desirable pricing, country, product, sector and concentration limits, provisioning policy, adequacy of collateral, customer relationships and repayment history; ➢ Review information presented by both the credit proposal initiator, Credit Management Department ("CMD") and Risk Management Department ("RMD") prior to deciding; ➢ Ensure that any credit proposal initiator who is a member of the CIC is excluded from voting on credit or investment proposals instigated or proposed by that member for the avoidance of a conflict of interest; ➢ Meet to discuss issues highlighted by the CMD and RMD regarding on-going performance of problem credits and assess adequacy of provisions; ➢ Monitor on-going risk profile of the Bank in aggregate and by individual business/economic sectors and geographic concentrations and concentration to a single borrowing entity; ➢ Review of all applications rejected by any delegated authority within the Bank (list of such facilities to be presented by business lines) in order to review enhancements in the Policy suggested by business lines, if required; ➢ Review counterparty limit breaches in line with its authority under Delegation of Authority Matrix ("DOA"); ➢ Evaluate all new loan proposals; ➢ Assess all guarantee facilities; ➢ Review problematic credit exposure expeditiously to minimize credit loss and maximize recoveries; ➢ Review actions proposed by Special Assets Management Committee ("SAMC") pertaining to non-performing exposures (initiating legal actions, write-offs, etc.) and endorse such actions for approval in line with the DOA; ➢ The CIC is assigned responsibility by the board of directors for the management and oversight of the bank's credit and investment operations and management activities relating to the identification, assessment, measurement, monitoring, and management of the bank's credit risk and to make appropriate decision while adhering to the bank's risk appetite and procedures for credit and investment selection; ➢ Responsible for reviewing all proposals for addition of new products; ➢ Reviewing and approving on the renewal and /or amendment of current credit facility agreements as per the DOA; ➢ Review and approve the investment deal proposals on Amortized Cost and FVOCI portfolios; within its authority; ➢ Approving all types of exposures, as per the guidelines and authority provided in the DOA;

	➢ Recommending action to be taken on customer covenant breaches, restructuring of loans; ➢ Approving the cancellation of credit facilities (Loan, Treasury and Trade Finance) as per the guidelines and authority provided in the DOA; ➢ Approving the execution of all types of Trade Finance products either funded or unfunded exposure and their amendments as per DOA; ➢ Approving the closure of Nostro accounts; ➢ Reviewing the opening of new Nostro accounts; and Reviewing all write off of facilities/loans/exposures prior to Audit Risk and Compliance Committee and Board of Directors review and approval.
SAMC RESPONSIBILITIES	
SUMMARY OF TERMS OF REFERENCE	**SUMMARY OF RESPONSIBILITIES**
➢ The purpose of the SAMC is to assess and monitor credit defaults, develop recovery strategy customized to each portfolio and implement suitable strategy to recover the maximum possible amount from the delinquent borrower. ➢ The committee shall meet once in three months or as and when required. ➢ A meeting of the committee will not be valid unless attended by half of the voting members. ➢ The Committee's decisions shall be considered by a vote of the majority of the attending members. In case of tied votes, the Head of the Committee shall have the casting vote.	SAMC's key responsibilities are: ➢ Taking over the responsibility for handling customer accounts which is over 90 days past due. ➢ Initiating suspension of credit facilities to accounts transferred from Credit Administration Unit (CAU). ➢ Exploring all possible avenues including engagement of external debt collection agencies to enhance collection. ➢ Initiating and following-up on collateral realization procedures where approved. ➢ Responsible for developing strategies for handling the classified assets in order to prevent losses and maximize recovery, and to ensure their implantation. ➢ Liaising with other departments in gathering the required data for formulating remedial strategy for Non-Performing Asset (NPA) cases. ➢ Based on metrics which include account's history, call logs and visit reports or if the account crosses 180 days past due, decide on whether the account should be restructured/payments rescheduled or whether legal action should be pursued. ➢ Reporting to the CEO and ARCC periodically on any legal action to be taken. ➢ Monitoring restructured accounts over twelve months cooling off period and transfer of account ownership to CAU following cooling off period. ➢ ➢ Providing recommendations to the CIC on provisioning for NPAs. ➢ Reviewing the list of NPAs which are eligible for moving off-balance sheet (off-loading). ➢ Reviewing the list of facilities which are being proposed for write-off. ➢ Monitoring and following up on the list of written off facilities. ➢ Reviewing the NPA strategy and Operation plan and NPA Write-off policy.

7. RELATED PARTY TRANSACTIONS

In general, the bank has proper credit due diligence procedure for all type of facilities or exposures. Related party transactions relating to directors are approved by the shareholders. Details of related party transactions are set out in note 26 of the Consolidated Financial Statements.

The Bank's major related party transactions are generally with its majority shareholder/controller and/or its affiliate companies. The Board of Directors ensures that the pricing policies and terms of these transactions are approved by the Bank's management and are to further the interests of the Bank

8. CODE OF CONDUCT AND CONFLICT OF INTEREST

The Bank has adopted a code of conduct and ethics ("**Code of Ethics and Conduct**"), in addition to other internal policies and guidelines, which are applicable to directors, management and other staff. These documents are designed to establish best practices and incorporate all regulatory and legal requirements governing the Bank's operations for the aforementioned parties to follow in the fulfillment of their responsibilities and obligations towards the bank's stakeholders.

The code of conduct and ethics contains rules on conduct, ethics and on avoiding conflicts of interest, and is applicable to all employees and directors of the bank. The board approved code of conduct and ethics is published on the bank's website.

The Bank requires its directors and approved persons to issue an annual declaration of conflict of interest statement. Additionally, as per the board appointment agreements, each director has the responsibility to disclose any material interests relating to business transactions and agreements and the privilege of accessing to independent professional advice in this regard if required.

During 2023 there were no materially significant transactions entered into that may have potential conflict of interest with the interest of the Bank and no disclosures in this regard were accordingly made.

9. WHISTLEBLOWING POLICY

The Bank has a whistle-blowing policy with designated officials that employees can approach. The policy provides protection to employees for any reports made in good faith. The Board's Audit, Risk and Compliance Committee oversees this policy. The whistle- blowing policy is published on the Bank's share drive.

10. COMMUNICATIONS AND DISCLOSURE POLICY

In compliance with CBB regulations under PD Module of Volume 1 of CBB Rulebook, the Bank has a Board approved Public Disclosure Policy ("**Disclosure Policy**") that governs the disclosure of material information relating to its activities to various stakeholders of the Bank.

The Disclosure Policy applies to all modes of communication to the public including written, oral and electronic communication. These disclosures are made on a timely basis and subject always to the requirements stipulated in the applicable laws and regulations. Disclosures include, but are not limited to, the following:

- Annual and quarterly results;
- Annual Report publication and filing;
- Basel II (Pillar 3) related disclosures;
- Chairman and/or Board of Director reports;
- Corporate governance disclosures;
- Communication with regulatory authorities;
- Press releases, announcements and presentations; and
- Matters included on the Bank's website.

The Bank maintains a website at www.alubafbank.com, which includes information of interest to various stakeholders, such as the annual reports and reviewed quarterly financials of the Bank, covering the minimum periods prescribed by the applicable regulations.

11. RELATIVES RECRUITMENT POLICY

The bank has in place policies that govern the recruitment of relatives in the bank and to prevent the potential conflict of interest, the policies are:

1- As a matter of policy, employment of relatives is not allowed however, in case of any exception, the approval of the Board's Nomination & Remuneration Committee is sought.
2- As part of annual reporting requirements, the CEO must confirm to the Board of Directors that no such cases occurred during the year.

12. ANTI-MONEY LAUNDERING

The Bank's anti-money laundering policy ("**AML Policy**") intends to ensure that the Bank has a comprehensive framework of policies and procedures including best practice standards for combating money laundering and terrorist financing. The policies and procedures are established to prevent the Bank's operational activities from being utilized by others for unlawful purposes.

The Bank's AML Policy prohibits and actively prevents money laundering, in addition to any activities that facilitate money laundering or funding of terrorist or criminal activities. This is accomplished by ensuring compliance with the AML laws and regulations of the jurisdiction in which it undertakes business activities and in accordance with its internal compliance framework.

The bank is committed to providing periodic training and information to ensure that all employees are aware of their responsibilities under the CBB and AML laws and regulations in the Kingdom of Bahrain. The Bank provides annual up to date AML training for its staff designed to cater to the Bank's activities and its differing types of customers and jurisdictions.

13. REMUNERATION OF EXTERNAL AUDITORS

For the year 2023, the Bank has appointed Messers Ernst & Young as their external auditors to provide audit and various other non-audit services. These services include year-end audit, prudential information return reviews, quarterly reviews, sound remuneration reviews and public disclosures reviews. Messers Ernst & Young have expressed their willingness to continue as the auditors of the bank for the financial year ending 31 December 2023. The ARCC has recommended the appointment of Ernst & Young and a resolution proposing their re-appointment will be presented at the annual general assembly meeting, which will be held on 27 March 2024

The breakdown of the external auditor's fee in relation to audit and non-audit related services is as follows:

TYPE OF SERVICE	2023	2022
	USD'000	USD'000
Audit and other audit related service fees	67	65
Non-audit service fees	91	81
	158	**146**

SOUND REMUNERATION DISCLOURES

At 31 December 2023

Table of Contents

1. INTRODUCTION

This document has been prepared in accordance with Central Bank of Bahrain ("**CBB**") remuneration disclosure requirements for Wholesale Banks under CBB Rulebook (Volume 1 – Conventional Banks).

2. BANK'S REMUNERATION PHILOSOPHY

In 2014, the Bank adopted regulations concerning sound remuneration practices issued by the Central Bank of Bahrain and a "**Remuneration Policy**" was drafted for the Bank's variable remuneration framework which was approved by shareholders at the Annual General Meeting held on 12 April 2015. Subsequently, in 2017, the Remuneration policy was enhanced and revised to align them with market and best practices. This revised and updated "Remuneration Policy" was reviewed and approved by the Bank's Nomination, Remuneration and Corporate Governance Committee (NRCGC), as well as the Central Bank of Bahrain and shareholders in Annual general meeting held on 8th April, 2018.

The Bank's approach to "Pay and Benefits" incorporates a number of important objectives designed to support the Bank's policy to attract, motivate and retain qualified employees needed to meet its overall long-term business plans. These include rewarding each employee based on individual overall contribution and performance, ensuring the Base Salary, discretionary Bonus and benefits are competitive within the market place, but with costs that are sustainable by the Bank and ensuring that internal equity is always maintained.

The Bank maintains a salary structure which reflects the relationship of job positions to each other and their place in the appropriate financial and business market place. It is the Bank's intention to reward employees in a manner reflecting merit. Merit is defined as how well an individual employee performs in relation to the objectives and requirement of the job. It is a policy of better pay for better performance.

3. NOMINATION, REMUNERATION AND CORPORATE GOVERNANCE COMMITTEE (NRCGC)

In addition to its other duties as specified in its mandate, the NRCGC is responsible for the design, implementation and supervision of the Remuneration Policy. In particular, the NRCGC:

- Designs all the elements of remuneration including fixed salary, allowances, benefits and variable pay scheme for all levels of employees in the Bank. In designing the Remuneration Policy, the NRCGC shall consider the Remuneration Policy document of the Bank, its business strategy, the regulatory pronouncements of the CBB and the labor laws of the Kingdom of Bahrain;
- Obtains approval of the Board of Directors and subsequently the Shareholders on the Remuneration Policy adopted by the Bank;
- Approves the Remuneration Policy and remuneration for each Approved Person and Material Risk-taker;
- Approves targets and associated risk parameters, and variable pay for achieving the set target for each performance period;
- Approves total variable remuneration to be distributed, considering the total remuneration including salaries, fees, expenses, bonuses and other employee benefits at the end of the performance period based on the evaluation of actual performance as against the target for the performance period;
- Monitors and review the remuneration system on a regular basis to ensure the system operates as intended;

- Undertakes stress testing of the variable pay on a periodic basis to ensure that the variable pay scheme does not affect the Bank's solvency and risk profile, and its long-term objectives and business goals;
- Undertakes back testing to adjust for ex-post risk adjustments to the variable pay paid in earlier years and if required invoke claw back or malus; and
- Recommends Board Member remuneration based on their attendance and performance and in compliance with Article 188 of the Commercial Companies Law No. 21/2001 and its amendments ("**CCL**").

3.1 Composition

As of 31 December 2023, the composition of the NRCGC is as follows:

Member Name	Position	Status
Mr. Khaled AlGonsel	Chairman	Executive
Mr. Tarek Amer	Member	Independent
Mr. Abdulrazaq Tarhoni	Member	Independent

4. CORE REMUNERATION POLICY

4.1 Overall Approach to Remuneration

The major components of this overall approach are:

- *Base compensation for the individual employee's overall contribution and performance*

  This merit-based approach is particularly applied to the base salary and discretionary bonus elements of total compensation. The level of overall contribution and performance is assessed through setting objectives, performance appraisals and performance ranking processes. Emphasis is on performance evaluations that reflect individual performance, including adherence to the Bank's risk and compliance policies in determining the total remuneration for a position.

- *Market environment*

  The financial service sector in which the Bank operates in is reviewed periodically to ensure that the Bank's salaries and benefits remain competitive.

- *Operating Costs*

  Market competitiveness must always be balanced by the cost that the Bank can support to ensure that it meets its short and long-term business objectives.

- *Internal Equity*

  Internal equity is maintained through consistent job matching. The objective is to ensure that jobs with similar dimensions, knowledge, complexity and accountability are graded at consistent levels across the Bank.

- *Salary Ranges*

  The Bank uses a structure of salary ranges against which salaries are administrated. Each grade is assigned a salary range within which salaries should be administered. These ranges allow room for different salaries to be paid to employees in the same grade based on experience in the job, and on overall contribution and performance and they also provide a basis for managing within costs limits.

4.2 Variable Pay Scheme

The Bank has a well-defined variable pay scheme in place, to support the NRCGC, should it decide to pay variable pay or bonus in any performance period. Variable pay will be determined based on achievement of targets at the Bank level, unit level and individual level. The variable pay scheme is designed in a manner that supports sound risk and compliance management. In order to achieve that goal, performance metrics for applicable business units are risk-adjusted where appropriate and individual award determinations include consideration of adherence to compliance-related goals.

The remuneration package of employees in Control and Support functions are designed in such a way that their function is independent of the business units they support. Remuneration decisions are based on their respective functions and not on the business units they support; Performance measures and targets are aligned to the Bank and individual objectives that are specific to the function; Respective function's performance as opposed to other business unit's performance is a key component for calculating individual incentive payments.

The variable remuneration of the Business units is primarily determined by key performance objectives set through performance management system of the Bank, which contain both financial and non-financial targets.

Both qualitative and quantitative measures will be used to evaluate an individual's performance across the Bank.

4.3 Salary and Benefit Review

The Bank will review the salaries and benefits once every two (2) years, with an objective of maintaining competitive advantage in the market, based on salary surveys and market information gathered through secondary sources.

4.4 Severance Pay

The Bank does not provide for any form of severance pay, other than as required by the Labor Law for the Private Sector Law No. 36/2012 of the Kingdom of Bahrain, to its employees. Under exceptional circumstances and subject to NRCGC approval, the Bank might offer sign-on bonus or minimum variable pay for any new recruit limited to first year of employment only.

4.5 Prohibition of Approved Person Benefits

The Bank does not allow any of its employees, who are identified as Approved Persons as per CBB regulations, to take any benefits from any projects or investments which are managed by the Bank or promoted to its customers or potential customers. This excludes Board related remuneration linked to the fiduciary duties owed to the investors of the project/investment, which includes those appointed as members of the board of special purpose vehicles or other operating companies set up by the Bank for projects or investments.

5. REGULATORY ALIGNMENT

The Bank has reviewed and revised the Bank's Remuneration Policy and especially its variable pay policy to meet the requirements of the CBB Guidelines on remuneration with the help of external consultants, which was approved by the NRCGC, Central Bank of Bahrain and shareholders on 8th April 2018.

5.1 Governance

The composition of the NRCGC as of 31 December 2023, required to be aligned as per the CBB remuneration guidelines and approved NRCGC charter. During the year 2023, Mr. Moraja Gaith Solaiman Buhlaiga was replaced by Mr. Khaled AlGonsel with CBB approval letter dated 7th June,2023. Also, Mr. Guima Kordi was replaced with Mr. Tarek Amer as NRCGC member with CBB approval letter dated 1st June, 2023. Please refer table of composition in 3.1.

5.2 CBB Remuneration Guidelines

The Bank's variable pay policy includes the following CBB guidelines:

- The pay mix for the CEO, Senior Management in business units and the Material Risk takers has been revised in such a way that their variable pay component is higher than the fixed pay component, subject to achieving the risk adjusted targets both at the business unit and the Bank level.

- For staff in Control and Support functions, the pay mix is structured to consist of a higher fixed pay component than the variable pays. Furthermore, the variable pay for staff in Control and Support functions, is based on their units target and individual performance and not linked directly to the Bank's overall performance.

6. VARIABLE PAY

6.1 CEO, Senior Management and Business Units

The variable pays of the CEO, members of the Senior Management team and the employees in business units is directly linked to the Bank, business unit and individual's performance. The performance measures include both financial and qualitative targets aligned to short term and long-term business strategy of the bank and is set at both the bank and the individual level.

The variable pay pool is determined primarily based on a hybrid approach (i.e. both top down and bottom up approach). The total bonus pool is set at a maximum percentage of the risk-adjusted net profit for the financial year. This is supplemented by bottom up computation i.e. by setting base multiples of monthly salary per level and aggregating the multiples per unit and then on to the Bank level. Additionally, the target setting process considers the variable pay pool as self-funding (i.e. targets are set net of variable pay pool for achieving that target).

An ex ante risk assessment framework has been introduced as part of the target setting process. The risk assessment framework considers all types of risks, including impact on capital adequacy, liquidity and qualitative risk elements such as reputation, compliance, quality of earnings, etc. with each element assigned appropriate weights as deemed necessary by the NRCGC.

In determining the variable pay pool at the performance period end, the NRCGC would consider post risk assessment outcomes and has a well-defined mechanism to re-adjust the target achieved and thereby the total variable pay pool. The design of the variable pay pool computation aligns the interest of the employees to that of the shareholders and it increases or decreases as per the target achieved (i.e. the variable pay pool will be nil or considerably less if the Bank makes a loss or achieves less than the expected target).

The NRCGC, in order to mitigate the risk involved in rewarding for potential revenues, considers the following in the variable pay distribution:

- Target setting process considers the realized versus unrealized profit mix;
- Deferral of variable pay over three (3) years;
- The bonuses for the CEO, his deputies and Material Risk Takers and Approved persons as per CBB, relating to business units and whose total remuneration exceeds the regulatory threshold of BD 100,000 per annum, have a deferral element and share linked payment, i.e., Phantom or shadow shares are being offered to such staff.

The deferral arrangements for CEO, his deputies and approved persons of business units and other material risk takers are as follows:

- 40% of the variable pay will be paid in cash at the end of the performance period; and

- the balance 60% will be deferred over a period of three (3) years with 10% being cash deferral and 50% being phantom or shadow shares and the entire deferred variable pay will vest equally over a three (3) year period and the phantom or shadow shares can be encashed after six (6) months from the vesting date.

Elements of Variable Remuneration	Pay-out percentages	Vesting period	Retention
Upfront cash	**40%**	**Immediate**	**Not applicable**
Deferred cash	**10%**	**3 years**	**Up to each Vesting**
Deferred share awards	**50%**	**3 years**	**6 months from each Vesting**

The variable pay is subject to claw back and the unvested portion of deferred pay is subject to malus as explained in 6.3 below.

6.2 Control and Support Units

The variable pay for Control and support functions are designed in such a way that it is independent of the performance of the business units. The unit targets as set out and agreed with the NRCGC in the beginning of each evaluation period will be the base, with their individual performance score for variable pay to be paid except in the case of the Bank making a loss. In years when the Bank achieves exceptional profits, at the discretion of NRCGC, the base multiples for Control and Support units may be increased as deemed fit by the NRCGC.

Bonuses will be deferred for employees of Control and support units, whose total remuneration exceeds the regulatory threshold currently set at BD 100,000 per annum, are subject to deferral, in the following manner:

- 50% of the variable pay will be paid in cash at the end of the performance period; and 10% will be paid in the form of phantom or shadow shares at the end of the performance period, which can be encashed by the employee after six (6) months.
- The balance 40% will be deferred over a period of three (3) years and paid in the form of phantom or shadow shares and vests equally over the three (3) year period.

Elements of Variable Remuneration	Pay-out percentages	Vesting period	Retention
Upfront cash	**50%**	**Immediate**	**Not applicable**
Upfront share awards	**10%**	**Immediate**	**6 months from performance period.**
Deferred share awards	**40%**	**3 years**	**6 months from each Vesting**

The variable pay is subject to claw back and the unvested portion of deferred pay is subject to malus as explained in 6.3 below.

6.3 Malus and Claw Back Framework

The Bank's claw back and malus clauses can be invoked by the NRC under certain pre-defined circumstances, wherein the Bank can claw back the vested as well as the unvested bonus paid or payable to an employee. The main pre-defined circumstances are:

- Where there is reasonable evidence of material error or culpability for a breach of Bank policy by the employee(s);
- The Bank or the business unit suffers material losses or significant loss of business which could be attributed to the actions of the employee(s);
- Where the employee(s) could be held responsible for material failure of risk management; and
- Where there is evidence of fraud or collusion amongst employees or by employee(s) with third parties and which is prosecutable in a court of law.

Based on ex-post risk assessment, if the Bank and/or a relevant line of business or an employee is found to have been paid a bonus for a result which was much higher than actually realized, the NRCGC may invoke the malus clause by which any unvested portion payable during that year will be reduced in proportion to the reduction in the actual results versus expected results.

6.4 Summary of Variable Pay

- The NRCGC has the overall responsibility for computation and approval of the variable pay across the Bank;
- Links reward to Bank, business unit and individual performance;
- Target setting process considers risk parameters which are both quantitative and qualitative;
- Aligned to time horizon of risk, the bonus has a deferral element and a share linkage to align the employees' interest with that of the shareholders;
- Bonus can be reduced or nil if the Bank or business units do not achieve the risk adjusted targets or make losses; and
- Post risk assessment is carried out to ensure that, in case of material losses or realization of less than expected income which can be attributed to employees' actions, the claw back or malus as appropriate is invoked.

7. BOARD REMUNERATION

The Bank determines the Board of Directors' remuneration in line with the provisions of Article 188 of the Commercial Companies Law No. 21/2001 and its amendments. The Board of Directors' remuneration will be capped so that it does not exceed 10% of the Bank's net profit after all required deductions in any given financial year and is subject to the approval of the shareholders in the Annual General Assembly. The aforementioned remuneration does not include the sitting fees and allowances paid to the Directors for attending Board meetings.

8. DETAILS OF REMUNERATION PAID

The NRCGC meeting held on 18th February, 2024, approved the variable pay for the year ended 2023, in line with approved "Remuneration policy". This provisional variable pays for the year 2023, which is computed and recorded, will be disbursed in the year 2024.

The deferred element of variable remuneration relating to earlier years for certain eligible employees has, however, been paid during the year.

8.1 Board Remuneration

Elements of Remuneration	2023	2022
	USD '000	USD '000
Sitting fee and other allowance	517	487
Remuneration Recommendation*	700	600
	1,217	**1,087**

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

For 2023, the Board was composed of seven members.

Note: Remuneration to the members of the Board includes Sitting fee, other allowances and provision for bonus, which is subject to shareholders and regulatory approval.

8.2 Employee Remuneration

All deferred and long-term awards are subject to malus provisions. All share awards are released to the benefit of the employee after a six-month retention period from the date of vesting. The number of equities share awards is linked to the Bank's share price as per the rules of the Bank's share incentive scheme.

Remuneration

31 December 2023 (TOC) USD '000	Number of Employees	Fixed Remuneration	Variable Remuneration	Total
Approved persons in business lines	3	1,562	519	**2,081**
Approved persons in control functions	14	2,117	708	**2,825**
Other material risk takers	10	1,002	233	**1,235**
Other staff not covered above	28	1,804	414	**2,218**
	55	**6,485**	**1,874**	**8,359**

* Control functions include Risk management, internal audit, operations, financial control, AML and compliance, information technology and human resource and admiration functions.

	Variable Remuneration Details *				
31 December 2023 USD'000	**Up-front Cash**	**Deferred Cash**	**Up-front Share linked instrument**	**Deferred Share linked instrument**	**Total**
Approved persons in business lines	208	52	-	259	**519**
Approved persons in control functions	595	-	23	90	**708**
Other material risk takers	202	5	-	27	**233**
Other staff not covered above	414	-	-	-	**414**
	1,419	**57**	**23**	**376**	**1,875**

* No guaranteed bonus or sign on awards were awarded in 2023 neither any severance payments took place.

	Deferred Variable Remuneration Movement		
USD'000	**Deferred Cash**	**Deferred Share linked instrument**	**Total**
Opening balance	262	1,461	**1,723**
Awarded during the year	80	376	**456**
Paid out during the year	86	492	**578**
At 31 December 2023	**256**	**1,345**	**1,601**

Remuneration

31 December 2022 USD '000	Number of Employees	Fixed Remuneration	Variable Remuneration	Total
Approved persons in business lines	3	1,477	855	**2,332**
Approved persons in control functions	12	1,953	665	**2,618**
Other material risk takers	8	971	229	**1,200**
Other staff not covered above	26	2,076	415	**2,491**
	49	**6,477**	**2,164**	**8,641**

* Control functions include Risk management, internal audit, operations, financial control, AML and compliance, information technology and human resource and admiration functions.

	Variable Remuneration Details *				
31 December 2022 USD'000	**Up-front Cash**	**Deferred Cash**	**Up-front Share linked instrument**	**Deferred Share linked instrument**	**Total**
Approved persons in business lines	342	86	-	427	**855**
Approved persons in control functions	631	-	7	27	**665**
Other material risk takers	229	-	-	-	**229**
Other staff not covered above	415	-	-	-	**415**
	1,617	**86**	**7**	**454**	**2,164**

* No guaranteed bonus or sign on awards were awarded in 2022 neither any severance payments took place.

	Deferred Variable Remuneration Movement		
USD'000	**Deferred Cash**	**Deferred Share linked instrument**	**Total**
Opening balance	252	1,477	**1,729**
Awarded during the year	86	461	**547**
Paid out during the year	76	477	**553**
Other adjustments	-	-	**-**
At 31 December 2022	**262**	**1,461**	**1,723**

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

Building a better
working world

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

Report on the Audit of the Consolidated Financial Statements

Opinion
We have audited the accompanying consolidated financial statements of ALUBAF Arab International Bank B.S.C. (c) ("the Bank") and its subsidiary (together "the Group"), which comprise the consolidated statement of financial position as at 31 December 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.

Ernst + Young

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.

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.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2023

	2023	*2022*
	US$ '000	*US$ '000*
NET PROFIT FOR THE YEAR	**14,735**	9,603
Other comprehensive gain (loss)		
Other comprehensive gain (loss) to be reclassified to profit or loss in subsequent periods:		
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

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2023

	Notes	*Share capital US$ '000*	*Statutory reserve US$ '000*	*Retained earnings US$ '000*	*Fair value reserve US$'000*	*Proposed dividend US$'000*	*Total US$ '000*
Balance as of 1 January 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 re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Specifically, the Group controls an investee if and only if the Group has:

- 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 forborne loans to help ensure that future payments continue to be likely to occur. Derecognition decisions and classification between Stage 2 and Stage 3 are determined on a case-by-case basis or based on assessment as to whether SICR or default has occurred. If these procedures identify a loss in relation to a loan, it is disclosed and managed as an impaired Stage 3 forborne asset until it is collected or written off or is transferred back to Stage 2.

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

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

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

2 BASIS OF PREPARATION AND 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	*Estimated useful life in years*
Building	15
Furniture, equipment and motor vehicles	3 to 5
Software	3 to 5

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

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

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

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

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

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

2 BASIS OF PREPARATION AND 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 that 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 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.

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

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 Stage 1 12-month ECL	2022 Stage 1 12-month 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		
	FVOCI	**Amortised cost**	**Total**	FVOCI	Amortised cost	Total
	US$'000	**US$'000**	**US$'000**	US$'000	US$'000	US$'000
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).

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

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

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

	31 December 2023			*31 December 2022*		
	Stage 1: 12-month ECL US$ '000	***Stage 2: Lifetime ECL not credit-impaired US$ '000***	***Total ECL US$ '000***	*Stage 1: 12-month ECL US$ '000*	*Stage 2: Lifetime ECL not credit-impaired US$ '000*	*Total ECL US$ '000*
Balance at 1 January	**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

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	***Stage 2: 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**

8 LOANS AND ADVANCES (continued)

Note 8.1 (continued)

	31 December 2022			
	Stage 1: 12-month ECL	*Stage 2: Lifetime ECL not credit-impaired*	*Stage 3: Lifetime ECL credit-impaired*	
	US$ '000	*US$ '000*	*US$ '000*	*US$ '000*
Balance at 1 January 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	***Building***	***Furniture, equipment and motor vehicles***	***Software***	***Capital work in progress***	***Total***
	US$ '000	***US$ '000***	***US$ '000***	***US$ '000***	***US$ '000***	***US$ '000***
Cost:						
At 1 January 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**

10 PROPERTY, EQUIPMENT AND SOFTWARE (continued)

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

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

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

	2023 US$ '000	2022 US$ '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 US$ '000	2022 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 US$ '000	2022 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

18 FEE AND COMMISSION INCOME

	2023	2022
	US$ '000	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	2022
	US$ '000	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	2022
	US$'000	US$'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	2022
	US$ '000	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	2022
	US$ '000	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.

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.

	Gross maximum exposure 2023 US$ '000	***Provision for expected credit losses 2023 US$ '000***	***Risk mitigants 2023 US$ '000***	***Net maximum exposure 2023 US$ '000***	*Gross maximum exposure 2022 US$ '000*	*Provision for expected credit losses 2022 US$ '000*	*Risk mitigants 2022 US$ '000*	*Net maximum exposure 2022 US$ '000*
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.

23 RISK MANAGEMENT (continued)

23.2 Credit risk (continued)

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

	Neither past due nor impaired				
	High standard grade US$ '000	***Standard grade US$ '000***	***Past due and individually impaired US$ '000***	***Provision for expected credit losses US$ '000***	***Total US$ '000***
At 31 December 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**

	Neither past due nor impaired				
	High standard grade US$ '000	*Standard grade US$ '000*	*Past due and individually impaired US$ '000*	*Provision for loan losses US$ '000*	*Total US$ '000*
At 31 December 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).

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

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

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

23 RISK MANAGEMENT (continued)

23.2 Credit risk (continued)

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

Industrial classification of gross credit exposures is presented below:

At 31 December 2023	***Sovereign US$ '000***	***Banks and financial institutions US$ '000***	***Commercial, business and others US$ '000***	***Provision for expected credit losses US$ '000***	***Total US$ '000***
Balances with central bank and other banks	**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**

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

At 31 December 2023	*Less than 3 months US$ '000*	*3 to 12 months US$ '000*	*1 to 5 years US$ '000*	*Over 5 years US$ '000*	*Non interest bearing* US$ '000*	*Total US$ '000*
Assets						
Cash and Balances with central bank and other banks	**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**

23 RISK MANAGEMENT (continued)

23.3 Market risk (continued)

23.3.1 Interest rate risk (continued)

At 31 December 2022	*Less than 3 months US$ '000*	*3 to 12 months US$ '000*	*1 to 5 years US$ '000*	*Over 5 years US$ '000*	*Non interest bearing* US$ '000*	*Total US$ '000*
Assets						
Cash and Balances with central bank and other banks	241,262	57,460	-	-	12,032	310,754
Deposits with banks and other financial institutions	426,554	-	-	-	(150)	426,404
Investment securities	18,743	12,867	166,739	49,474	730	248,553
Loans and advances	14,572	41,038	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

	Impact on consolidated statement of profit or loss	
	2023	*2022*
	US$ '000	*US$ '000*
25 bps increase in interest rate		
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:

	Increase in exchange rate	*Effect on consolidated statement of profit or loss for the year*	
		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.

23 RISK MANAGEMENT (continued)

23.4 Liquidity risk (continued)

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

At 31 December 2023	*Up to 1 year*							
	Up to 1 month US$ '000	*1 to 3 months US$ '000*	*3 to 12 months US$ '000*	*Total US$ '000*	*More than 1 year US$ '000*	*No specific maturity US$ '000*	*Provision for expected credit losses US$ '000*	*Total US$ '000*
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**	**-**

23 RISK MANAGEMENT (continued)

23.4 Liquidity risk (continued)

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

23 RISK MANAGEMENT (continued)

23.4 Liquidity risk (continued)

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:

	Up to 1 year					
At 31 December 2023	***Up to 1 month US$ '000***	***1 to 3 months US$ '000***	***3 to 12 months US$ '000***	***Total US$ '000***	***More than 1 year US$ '000***	***Total US$ '000***
Liabilities						
Deposits from banks and financial institutions	**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**

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

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

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 US$ '000	***Carrying value 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 US$ '000	*Carrying value 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

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			
	Shareholders US$ '000	Key management personnel/ Board members US$ '000	Other related parties US$ '000	Total US$ '000	Shareholders US$ '000	Key management personnel/ Board members US$ '000	Other related parties US$ '000	Total US$ '000
Consolidated statement of profit or loss								
Interest income	-	-	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.

26 TRANSACTIONS WITH RELATED PARTIES (continued)

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

	2023 ***US$ 000***	*2022* *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 ***US$ 000***	*2022* *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.

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:

	Unweighted Values (i.e. before applying relevant factors				***2023 USD 000s***	*2022 USD 000s*
Item	***No specified maturity***	***Less than 6 months***	***More than 6 months and less than one year***	***Over one year***	***Total weighted value***	*Total weighted value*
Available Stable Funding (ASF):						
Capital:						
Regulatory Capital	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%

BASEL III PILLAR 3 DISCLOSURES

At 31 December 2023

Table of Contents

1. Executive Summary

This document provides the disclosures pertaining to risk and capital management for Alubaf Arab International Bank B.S.C. (c) (the "Bank") and its wholly owned subsidiary, Bahrain Real Estate Development Company (together the "Group") as of 31 December 2023. The purpose of the document is to enhance the financial transparency through better public disclosure (as required by Central Bank of Bahrain Public Disclosure Requirements ("PD") module) and facilitate the market discipline to align with Basel III accord.

Central Bank of Bahrain ("CBB"), the regulating body for Banks and Financial Institutions in the Kingdom of Bahrain has issued the directives relating to public disclosures. The disclosure requirements in PD module of CBB rulebook follow the requirements of Basel III Pillar 3 and are in addition to, or in some cases serve to clarify, the disclosure requirements of International Financial Reporting Standards ("IFRS"). This document gathers all the elements of the disclosures required under Pillar III and complies with the public disclosure module of CBB (including companies' law), in order to enhance corporate governance and financial transparency. The Pillar 3 disclosures are to be read in conjunction with the consolidated financial statements of the Group presented in accordance with IFRS as of 31 December 2023 as well as the capital disclosures and liquidity disclosures published separately on the Group's website.

For regulatory reporting purposes, the Group has adopted the standardized approach for credit and market risk and the basic indicator approach for operational risk to determine the capital requirements under Pillar 1. The Group's total risk-weighted assets as of 31 December 2023 amounted to US$ 649 million (December 2022: US$ 632 million), comprising 91.50% of credit risk, 0.03% of market risk and 8.47% of operational risk weighted assets. The total consolidated capital adequacy ratio stood at 53.54% (December 2022: 52.89%), compared to the minimum regulatory requirement of 12.50%.

Figures in $ 000s	December 2023	December 2022
Tier 1 capital	340,050	330,147
Tier 2 capital	7,423	3,943
Total Capital	**347,473**	**334,090**
Credit risk weighted assets	593,812	573,549
Market risk weighted assets	163	338
Operational risk weighted assets	54,971	57,754
Total Risk Weighted assets	**648,945**	**631,641**
Tier 1 Capital Ratio	**52.40%**	**52.27%**
Total Capital Ratio	**53.54%**	**52.89%**

There are no restrictions on the transfer of funds or regulatory capital within the Group and there are no differences in the basis of consolidation for accounting and regulatory purposes for the subsidiary within the Group.

2. Basel III Framework

The CBB's Basel III framework is based on three pillars, consistent with framework developed by the Basel Committee, as follows: -

- Pillar 1: the calculation of risk-weighted assets ("RWAs") and capital requirements for credit, market and operational risks.
- Pillar 2: the supervisory review process, including the Internal Capital Adequacy Assessment Process ("ICAAP").
- Pillar 3: the disclosure of risk management and capital adequacy information.

2.1 Pillar 1

Pillar 1 prescribes the basis for the calculation of the regulatory capital adequacy ratio. Pillar 1 sets out the definition and calculations of the RWAs, and the derivation of the regulatory capital base. The capital adequacy ratio is calculated by dividing the regulatory capital base by the total RWAs. As at 31 December 2023, all Banks incorporated in the Kingdom of Bahrain are required to maintain a minimum capital adequacy ratio of 12.50 percent and a tier 1 ratio of 10.50 percent. In the event that the capital adequacy ratio falls below 12.50 percent, additional prudential reporting requirements apply and a formal action plan setting out the measures to be taken to restore the ratio above the target level is to be formulated and submitted to the CBB.

The table below summarizes the Group's approach for calculating RWAs and capital requirements for each risk type in accordance with the CBB's Basel 3 capital adequacy framework:

Approaches for determining regulatory capital requirements		
Credit risk	Market risk	Operational risk
Standardized approach	Standardized approach	Basic indicator approach

a) Credit Risk

For regulatory reporting purposes, the Group applies the standardized approach for credit risk. The RWAs are determined by multiplying the credit exposure by a risk weight factor dependent on the type of counterparty and the counterparty's external rating, where available.

b) Market Risk

For the regulatory market risk capital requirement, the Group applies the standardized approach based on net open position of foreign currencies as per Capital Adequacy (the "CA") module of the CBB rule book.

c) Operational Risk

Under the CBB's Basel 3 capital adequacy framework, all banks incorporated in Bahrain are required to apply the basic indicator approach for operational risk with prior notification to CBB unless approval is granted by the CBB to use the standardized approach. Currently, the Group uses the Basic Indicator Approach for calculating its capital requirement for operational risk.

2.2 Pillar 2

Pillar 2 defines the process of supervisory review of an institution's risk and capital management framework and, ultimately, its capital adequacy. Under the Pillar 2 guidelines, each Bank is required to internally assess its capital requirements taking into consideration all material risks through the ICAAP assessment process and establish internal minimum capital limits.

Pillar 2 comprises of two processes: -
- An ICAAP review; and
- A supervisory review and evaluation process.

Internal Capital Adequacy Assessment Process:

The Group has a capital management and planning framework which ensures adequate capital is available for any expected/unexpected loss and to support its strategic growth opportunities. The capital planning of the Group is carried out through ICAAP which covers inter-alia:

- Forecast of the strategic and business growth plan of the Group over the next 3 years
- Quantitative and qualitative assessment of various external and internal risk factors
- Assessment of capital adequacy under normal and stress scenarios
- Planning of capital action, if any, required to accomplish the strategic and financial objectives of the Group.

The Group has a comprehensive ICAAP that includes board and senior management oversight, monitoring, reporting and internal control reviews, to identify and measure the various risks that are not covered under Pillar 1 risks and to regularly assess the overall capital adequacy considering the risks and the Group's planned business strategies. The non-Pillar 1 risks covered under the ICAAP process include concentration risk, liquidity risk, interest rate risk in the banking book, reputational risk and strategic risk. The ICAAP also keeps in perspective the Group's strategic plans, credit and investment growth expectations, future sources and uses of funds, dividend policy and the impact of all these on maintaining adequate capital levels. In addition, the ICAAP process also includes stress testing on the Group's capital adequacy to determine the capital requirement and planning to ensure that the Group is adequately capitalized in line with the overall risk profile.
The Group has complied with regulatory capital requirements throughout the period. The Group's consolidated capital adequacy ratio of 53.54% is well above the regulatory requirement and provides a healthy cushion against any stress conditions.

Supervisory Review and Evaluation Process:

The supervisory review and evaluation process represent the CBB's review of the Bank's capital management and an assessment of internal controls and corporate governance. The supervisory review and evaluation process are designed to ensure that Banks identify their material risks and allocate adequate capital, and employ sufficient management processes to support such risks. The supervisory review and evaluation process also encourages institutions to develop and apply enhanced risk management techniques for the measurement and monitoring of risks in addition to the credit, market and operational risks addressed in the core Pillar 1 framework. Other risk types which are not covered by the minimum capital requirements in Pillar 1 include: -

- Liquidity risk
- Concentration risk
- Interest rate risk in the banking book (IRRBB)
- Reputational risk
- Strategic risk

These are covered either by capital, or risk management and mitigation processes under Pillar 2.

2.3 Pillar 3

In the CBB's Basel 3 framework, the third pillar prescribes how, when, and at what level information should be disclosed about an institution's risk management and capital adequacy practices. The disclosures comprise detailed qualitative and quantitative information. The purpose of the Pillar 3 disclosure requirements is to complement the first two pillars and the associated supervisory review process. The disclosures are designed to enable stakeholders and market participants to assess an institution's risk appetite and risk exposures and to encourage all Banks, via market pressures, to move towards more advanced forms of risk management. Under the current regulations, partial disclosures consisting mainly of quantitative analysis is required during half year reporting, whereas full disclosure is required to coincide with the financial year-end reporting. In this report, the Group disclosures are beyond the minimum regulatory requirements and provide disclosure of the risks to which it is exposed, both on- and off-balance sheet. The disclosures in this report are in addition to the disclosures set out in the consolidated financial statements presented in accordance with IFRS and accordingly these disclosures should be read in conjunction with the Group's consolidated financial statements for the year ended 31 December 2023.

3. Organizational structure, Risk and Capital Management

3.1 Organization structure

The Group operates under a wholesale banking license issued by Central Bank of Bahrain, to provide Treasury, Loan and Trade finance banking solutions. The Group's customer base includes primarily Corporate, Banks, Financial Institutions, Public Sector Companies, Governments and Semi-government Entities, in the GCC, MENA & European markets as well as other countries across the world.

The Group's largest single shareholder is Libyan Foreign Bank (99.50%); other shareholders comprise of National Bank of Yemen (0.28%) and Yemen Bank for Reconstruction and Development (0.22%). Libyan Foreign Bank (LFB) is 100% owned by the Central Bank of Libya.

The Group's consolidated financial statements are prepared and published in accordance with IFRS. Regulatory capital is reported to the CBB on a regular basis (at least on quarterly basis by way of submitting the Prudential Information Return report) in accordance with CBB guidelines.

3.2 Risk and Capital Management

The Group maintains a prudent and disciplined approach to risk-taking by upholding a comprehensive set of risk management policies, processes and limits, employing professionally qualified people with the appropriate skills, investing in technology and training, and actively promoting a culture of sound risk management at all levels. A key tenet of this culture is the clear segregation of duties and reporting lines between personnel transacting business and personnel processing that business. The Group's risk management is underpinned by its ability to identify, measure, aggregate and manage the different types of risks it faces.

The overall authority for risk management in the Group is vested in the Board of Directors. The Board defines the risk appetite and risk tolerance standards and oversees that adequate risk management standards are in place. The Board also approves appropriate risk policies that form part of its risk management framework, based on the recommendation of management. The Board is supported by the Audit, Risk and Compliance Committee ("ARCC") which oversees the risk management, compliance and internal audit activities as well as ensuring integrity of the consolidated financial statements.

3.2 Risk and Capital Management (continued)

At the second level, executive management is responsible for the identification and evaluation on a continuous basis of all significant risks to the business and implementation of appropriate internal controls to minimize them. Senior management is responsible for monitoring credit lending portfolio, country limits, interbank limits, and general credit policy matters, which are reviewed and approved by the Board of Directors. The Group has established various management committees that review and assess all risk issues. Approval authorities are delegated to different functionaries in the hierarchy depending on the amount, type of risk and nature of operations or risk and the same is codified in the Delegations of Authority (DOA) document approved by the Board.

The risk management department of the Group provides the necessary support to senior management and the business units in all areas of risk management. The risk management function under the Chief Risk Officer (the "CRO") is independent of the business units of the Group, reporting to the ARCC and administratively to the Chief Executive Officer (CEO). The Financial Control Department is responsible for the capital planning process.

Independent internal audit of the risk management process is conducted and its findings are presented to the ARCC.

Following is the governance structure for Risk and Capital Management in the Group:

<table>
<tr><th colspan="4">Board of Directors</th></tr>
<tr><th colspan="4">Board Audit, Risk and Compliance Committee</th></tr>
<tr><th colspan="4">Chief Executive Officer</th></tr>
<tr><th>Assets and Liabilities Committee (ALCO)</th><th>Management Risk Committee (MRC)</th><th>Credit Investment Committee (CIC)</th><th>Special Asset Management Committee (SAMC)</th></tr>
</table>

The risk, liquidity and capital management responsibilities are set out in the table below:

<table>
<tr><th colspan="2">Chief Executive Officer</th></tr>
<tr><th>Head of Financial Control</th><th>Chief Risk Officer *</th></tr>
<tr><td>Capital management framework
Regulatory Reporting</td><td>Risk management framework and policies
Credit Management
Credit risk
Market risk
Operational risk
Liquidity risk and Other risks
ICAAP, ILAAP and Stress testing</td></tr>
</table>

* CRO is an independent function which reports to the ARCC, and administratively to the CEO.

The Group's capital management policies aim to ensure that the Group complies with regulatory capital requirements as well as to ensure adequate availability of capital to meet the Group's strategic growth requirements and maximize shareholder value.

3.3 Risk Types

The major risks associated with the Group's business activities are credit, market and operational risks. Additionally, other material risks that the Group is exposed to include – liquidity risk, concentration risk, interest rate risk in banking book, reputational risk and strategic risk. These risks are continuously monitored and mitigated through effective process of ongoing identification, measurement, controlling and monitoring throughout the year. The following section provides the way these risks are managed and controlled.

3.4 Risks in Pillar I

Basel 3 Pillar 1, which forms the basis for the calculation of the regulatory capital requirement, addresses three specific risk types: credit risk, market risk and operational risk:

a) Credit Risk

The credit risk is the main financial risk relative to the other risks for the Group because of its nature of business to finance and invest. Credit risk represents the potential financial loss as a consequence of a customer's inability to honour the terms and conditions of a credit facility. Such risk is measured with respect to counterparties for both on-balance sheet assets and off-balance sheet items. The Group measures and manages Credit Risk by adhering to the following principles:

- Consistent standards are applied across all customers in the risk-evaluation process using a rating system. The Group has in place a systematic credit rating system which provides a framework for objective risk assessment;
- The exposure should be reasonable in relation to the customer's creditworthiness, capital position or net worth components, and the customer should be able to substantiate its repayment ability;
- Every extension of credit or material change to a credit facility (such as its tenor, collateral structure or major covenants) to any counterparty requires credit approval at the appropriate authority level;
- The Group regularly follows up on developments in the customer's financial position in order to assess whether the basis for the granting of credit has changed; and
- The Group assumes risks within the limits guided under its risk management framework and other rules prescribed by the CBB from time to time.

The Group has in place a credit risk management framework comprising of detailed credit risk management policies and procedures, regular credit assessments and monitoring, internal rating grades, credit administration activities, collateral management and early warning indicator monitoring. Regular reviews are carried out for each exposure and risks identified are mitigated in a number of ways, which include obtaining collaterals or guarantees. The counterparty credit risks are continuously monitored for changes in external environments and other economic challenges that may impact the counterparty's credit profile as part of early warning indicator monitoring. Similarly, prudent norms have been implemented to govern the Group's investment activities, which specify to the Group's Treasury and Investment department, the acceptable levels of exposure to various products, based on its nature, tenor, rating, type, features and other relevant factors.

The business units of the Group are responsible for business generation and initial credit review of proposals in accordance with the stipulated policy requirements. The Group has an independent credit management unit which is responsible to perform a rigorous independent credit analysis for the counterparty and assign an internal credit rating reflecting the level of credit risk.

3.4 Risks in Pillar I (continued)

a) Credit Risk (continued)

In addition, the independent credit administration unit ensures that adherence to the terms and conditions of all credit facilities is strictly implemented and collateral coverage is monitored. The Group has an internal grading system and review process to ensure identification of any deterioration in credit risk and consequent implementation of corrective action. The Group's internal ratings are based on a 20-point scale (AAA to Loss), which considers the financial strength of a borrower as well as qualitative aspects to arrive at a comprehensive snapshot of the risk of default associated with the borrower. The internal rating model is reviewed and validated periodically by an independent external consultant to ensure robustness of the model in terms of stability and discriminatory power of the ratings. Risk ratings assigned to each borrower are reviewed on at least an annual basis. Regular monitoring of the portfolio enables the Group to identify accounts, which witness deterioration in risk profile.

b) Market Risk

Market risk is the potential impact of adverse price movements such as benchmark interest rates, foreign exchange prices, equity prices and commodity prices on the Bank's earnings and capital. The exposure to market risk occurs throughout the contract which may negatively affect the earnings and value of an asset. The categories of market risk to which the Group is exposed are as follows:

Interest rate risk results from exposure to changes in the level, slope, curvature and volatility of interest rates and credit spreads.

Foreign exchange risk results from exposure to changes in the price and volatility of currency spot and forward rates. The principal foreign exchange risk arises from the Group's foreign exchange positions in the banking book including its proprietary positions as well as positions arising from client servicing.

Equity risk arises from exposures to changes in the price and volatility of individual equities or equity indices. The Group does not maintain any equity exposures as at the reporting date and therefore is not exposed to equity price risks.

Commodity risk arises from exposures to changes and volatility of commodity prices. The Group does not maintain any exposures to commodities as at the reporting date and therefore is not exposed to commodity price risks.

The Group does not have material exposure to market risk on account of its limited trading activities. The Group's market risk management framework comprises of various concentration limits to diversify its market risk exposures as well as stop loss limits to minimize losses. The main market risk exposures arise from its forex risk exposures, wherein the Group maintains net open position limits for each active currency which are monitored on a daily basis.

c) Operational Risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes or systems, or from external events. Operational risk is inherent in all business activities and can never be eliminated entirely, however shareholder value can be preserved and enhanced by managing, mitigating and, in some cases, insuring against operational risk.

3.4 Risks in Pillar I (continued)

c) Operational Risk (continued)

The Operational Risk Management Framework (the "ORMF") is codified in the Group's operational risk management policy and broadly comprises of the following:

- Well defined governance framework and delegation of authorities;
- Detailed policies and procedures for all activities of the Group;
- Segregation of duties and internal controls;
- Risk and Controls Self-assessments;
- Identifying and monitoring of Key Risk Indicators; and
- Incident reporting and collection of losses from operational incidents, including near misses.

Qualitative and quantitative methodologies are used to identify and assess operational risk and to provide management with information for determining appropriate mitigating factors. These include a database of operational risk incidents; monitoring of key risk indicators, which can provide an early warning of possible risk; and a Risk and Control self-assessment (the "RCSA") process to analyse business activities and identify operational risks related to those activities. The management of operational risk has a key objective of minimising the impact of losses suffered in the normal course of business (expected losses) and to avoid or reduce the likelihood of suffering a large extreme (unexpected) loss.

The RCSA is performed on a periodic basis, by obtaining senior management inputs to enhance the control environment of the Group. The Group's risk management department coordinates with the heads of departments and the respective risk champions in each department, to conduct the RCSA assessments. As part of such assessments, the key operational risks within each department's activities are evaluated along with the controls available to mitigate or minimize such risks. Based on these assessments, each department maintains a risk register for its risks, which is reviewed and updated on an ongoing basis. Further, the Group identifies and maintains a list of Key Risk Indicators (KRIs) which are monitored on a monthly basis and reported to management and Board.

Heads of departments and functions throughout the Group are responsible for maintaining an acceptable level of internal control commensurate with the scale and nature of operations, and for identifying and assessing risks, designing controls and monitoring the effectiveness of these controls. The ORMF helps managers to fulfil these responsibilities by defining a standard risk assessment methodology and providing a tool for the systematic reporting of operational loss data. Operational incidents are monitored on an ongoing basis through the Group's operational risk management system, and the same are reported to management on a monthly basis and to the Board on a quarterly basis. Moreover, the operational incident reports are reviewed jointly by risk management and the respective department for root cause analysis and to introduce additional controls to minimize chances of similar incident recurring.

Operational functions of booking, recording and monitoring of transactions are performed by staff that are independent of the individuals initiating the transactions. Each business line, as well as support line is further responsible for employing the aforementioned framework processes and control programs to manage its operational risk within the guidelines established by the Group policy, and to develop internal procedures that comply with these policies. Operational risk is also managed through effective staff training and frequent review and enhancement of internal controls of the various activities of the Group. Further, the Group has in place the Business Continuity and Disaster Recovery Policy (BCP/DRP) to ensure that the Group is prepared and has contingency plans in place in the event of a disaster so that business is minimally impacted in such situations. The Group also maintains a well-established framework and policy for managing Cyber Security risks.

3.5 Risk in Pillar II

a) Liquidity Risk

Liquidity risk is defined as the risk to the Group's earnings and capital arising from its inability to meet timely obligations as and when they come due without incurring unacceptable losses. The Group follows a conservative liquidity risk management strategy aligned with its business model. The strategy aims to address:

- Funding liquidity risk and
- Market liquidity risk

The Group utilizes the liquidity management tools in line with Basel 3 and CBB guidelines on liquidity risk management. The Liquidity Coverage Ratio (LCR) addresses the sufficiency of a stock of high-quality liquid assets to meet short-term liquidity needs under specified scenarios. Under LCR, the objective is to ensure that Group maintains an adequate level of unencumbered, high quality assets that can be converted into cash to meet its liquidity needs, under specific prescribed cash inflows and outflows scenarios, for a 30-day time horizon.

The Net Stable Funding Ratio (NSFR) addresses longer-term structural liquidity mismatches. Under NSFR, the objective is to promote more medium and long-term funding of assets through the establishment of a minimum acceptable amount of stable funding over a one-year horizon. The Group maintains its liquidity standards with stable long-term and short-term liquidity ratios (NSFR, LCR, Liquidity Ratio etc.) above the regulatory limits.

The Group has in place a liquidity risk management framework comprising of liquidity and funding strategy, liquidity risk limits, procedures for monitoring and reporting liquidity risks, liquidity stress testing and contingency planning. The liquidity risk management framework is codified in the Group's Liquidity Risk Management Policy approved by the Board. Further, the Group performs an Internal Liquidity Adequacy Assessment Process (ILAAP) on an annual basis. The ILAAP report documents the overall liquidity assessment as well as the framework in place to monitor liquidity risks and the same is presented to the Board.

The Group performs periodic stress testing of its liquidity risk profile to assess its impact on capital and liquidity position.

b) Credit concentration risk

Credit Concentration Risk is the risk that the Group's exposures are concentrated to a sector/industry, geography, product, single party and customer groups, or countries which impact the Group's capital position. It is the risk of exposure to a single counterparty and group of related counterparties, as well as the exposure to selected economic sectors that has the potential to produce losses large enough (relative to the Group's size) to undermine the health of the Group. The existence of exposure concentration can lead to underestimation of Pillar I risks. The Group monitors counterparty, sector and geographic concentration risks and manages them through limits on the same. Regular reports are prepared and analysed to ensure that undesired concentrations are avoided.

Concentration risk is captured in the Group's Pillar 2 capital framework which considers single-name concentrations, Geographical and Industry concentrations in the credit portfolio and capital requirements to cover concentration risks are assessed.

3.5 Risk in Pillar II (continued)

c) Interest rate risk in the Banking book

Interest rate risk is the exposure of a Group's financial condition to adverse movements in interest rates. Changes in Interest rates affect a Group's earnings by changing its net Interest income and the level of other Interest-sensitive income and operating expenses. Changes in Interest rates also affect the underlying value of the Group's assets, liabilities, and off-balance-sheet (OBS) instruments because the present value of future cash flows changes when interest rates change.

The Group monitors the re-pricing gap and the market value of assets and liabilities as part of interest rate risk management and also assesses the impact of a shift in market interest rates on the expected net interest income of the Group as well as the impact on the Group’s economic value of Equity.

The Group assesses the earnings at risk due to a shift of 200 bps in benchmark interest rates for allocating capital to cover its interest rate risk in the banking book.

d) Reputational Risk

Reputational risk is the risk of losses resulting from adverse perceptions about the Group, its brand and relationship by its various stakeholders that is caused by a variety of internal and external factors. The Group has developed a reputational risk management framework that ensures reputational risk is managed and mitigated and the same is codified in the reputational risk management policy of the Group.

e) Strategic Risk

Strategic risks refer to the risk that the Group would be exposed in the event of business strategy and plan not materializing. It is the risk to earnings and profitability arising from strategic decisions, changes in the business conditions and improper implementation of decisions. Thus, a strategic risk arises due to adopting wrong strategies and choices that can cause loss to the Group in the form of a reduction in shareholder value and loss of earnings.

The strategic risk is managed through monthly reviews of performance versus budgeted performance and periodic reviews of the Group’s performance and alignment with the strategic plan.

4. Regulatory capital requirements and the capital base

4.1 Capital base

The Group’s Capital base comprise of Tier I capital, which includes share capital, statutory reserve, retained earnings and fair value changes for investments fair valued through other comprehensive income (“FVOCI”) and Tier II capital, which includes provision for expected credit loss (“ECL”) for stage 1 and 2 exposures.

The Group’s issued and paid up capital amounted to US$ 250 million as at 31 December 2023, comprising of 5 million equity shares of US$ 50 each.

4.1 Capital base (continued)

The regulatory capital base is set out in the table below: -

Break down of Capital Base	US$ '000s	US$ '000s
	CET I	Tier II
Share Capital	250,000	-
Statutory reserve	32,549	-
Retained earnings	53,984	-
Cumulative fair value changes on FVOCI Investments (Debt)	(7,984)	-
All other reserves (proposed divided and ECL)	13,150	
Total CET I capital prior to regulatory adjustments	**341,699**	-
Less: intangibles other than mortgage rights	**(1,649)**	-
Total CET I capital after regulatory adjustment	**340,050**	-
Add: Expected credit loss, Stage 1 and 2 in Tier 2	**-**	7,423
Total	**340,050**	**7,423**
Total available capital		**347,473**

Common equity tier 1 (CET 1) comprises of share capital, statutory reserve, retained earnings, and unrealized gains or losses arising on the measurement to fair value of investment securities adjusted with regulatory adjustment for intangible assets and the provision for expected credit losses in line with CBB circular No. OG/106/2020 dated 17th March 2020. The Group does not maintain any additional-Tier 1 (AT1) capital.

Tier II capital includes provision for expected credit loss on stage 1 and 2 exposures.

4.2 Regulatory capital requirements

For regulatory reporting purposes, the Group calculates the capital requirements as follows:

- **Credit Risk -** Credit risk capital requirements are based on the standardized approach. Under the standardized approach, on and off-balance sheet credit exposures are assigned to exposure categories based on the type of counterparty or underlying exposure. The exposure categories are referred to in the CBB's Basel 3 capital adequacy framework as standard portfolios. The primary standard portfolios are claims on sovereigns, claims on banks and claims on corporates. Following the assignment of exposures to the relevant standard portfolios, the RWAs are derived based on prescribed risk-weightings. Under the standardized approach, the risk weightings are provided by the CBB and are determined based on the counterparty's external credit rating. The external credit ratings are derived from eligible external rating agencies approved by the CBB. The Group uses ratings assigned by Standard & Poor's, Moody's and Fitch.

- **Market Risk –** The Group uses a Standardized approach to calculate the regulatory capital requirements relating to market risk.

4.2 Regulatory capital requirements (continued)

- **Operational Risk -** The capital requirement for operational risk is calculated in accordance with the basic indicator approach. Under this approach, the Group's average gross income over the preceding three financial years is multiplied by alpha coefficient of 15% as prescribed in the CBB's Basel 3 capital adequacy framework.

- **Capital adequacy ratio calculation:**

  The Group's consolidated capital adequacy ratio of 53.54% is well above the minimum regulatory requirement of 12.50%.

	US$ '000
Credit risk weighted assets	593,812
Market risk weighted assets	163
Operational risk weighted assets	54,971
Total Risk weighted assets (RWA)	**648,945**
Total Eligible Capital Base	**347,473**
CET I ratio	**52.40%**
Capital adequacy ratio	**53.54%**

5. Credit Risk-Pillar 3 disclosures

This section describes the Group's exposure to credit risk and provides detailed disclosures on credit risk in accordance with the CBB's Basel 3 framework in relation to Pillar 3 disclosure requirements.

5.1 Definition of exposure classes per Standard Portfolio

The Group has a diversified on and off-balance sheet credit portfolio, the exposures of which are divided into the counterparty exposure classes defined by the CBB's Basel 3 capital adequacy framework for the standardized approach for credit risk. A high-level description of the counterparty exposure classes and the risk weights used to derive the risk weighted assets are as follows:

(a) Claims on sovereigns

These pertain to exposures to governments and their respective central banks. Claims on Bahrain and GCC governments are risk weighted at 0%. Foreign currency claims on other sovereign exposures are risk-weighted based on their external credit ratings or if unrated at 100%.

(b) Claims on PSE

Public sector entities (PSEs) are risk-weighted according to their external ratings with the exception of Bahrain PSEs, and domestic currency claims on other PSEs which are assigned a 0 percent risk weight by their respective country regulator.

5.1 Definition of exposure classes per Standard Portfolio (continued)

(c) Claims on banks

Claims on Banks are risk weighted based on the ratings assigned to them by external rating agencies. However, short term claims on locally incorporated banks maturing within three months and denominated in Bahraini Dinars or US Dollars are risk weighted at 20%. Other claims on banks, which are in foreign currency, are risk weighted using standard risk weights ranging from 20% to 150%. Unrated claims on banks are assigned a risk weight of 50%.

(d) Claims on corporate portfolio

Claims on corporate portfolio are risk weighted based on external credit ratings and are assigned a risk weight of 100% for unrated corporate portfolio.

(e) Equity portfolios

Investments in listed equities are risk weighted at 100%, and investments in unlisted equities are risk weighted at 150%.

(f) Any exposure exceeding 15% of Total capital

Claims on Banks or Corporate and other sovereigns or equity exposure that exceed 15% of total capital are risk weighted at 800%.

(g) Other exposures

These include investment property risk weighted at 200% and other assets risk weighted at 100%.

(h) Past due exposure

Past due exposures include loans and advances of which interest or repayment of principal are due for more than 90 days; past due exposures, net of specific provisions is risk weighted as follows:

(a) 150% risk weight, when specific provisions are less than 20% of the outstanding amount.

(b) 100% risk weight, when specific provisions are greater than 20% of the outstanding amount of the loan.

5.2 Credit exposure and risk weighted assets

US$ '000	Funded exposures	Unfunded exposures	Gross credit exposures*	Eligible collateral	Risk weighted assets	Capital charge
Claims on Sovereigns	645,038	-	645,038	-	122,721	15,340
Claims on Banks**	378,917	14,242	393,159	2,334	287,001	35,875
Claims on Corporate	108,574		108,574	-	149,972	18,747
Other exposures	19,715	-	19,715	-	31,419	3,928
Past Dues	2,699	-	2,699	-	2,699	337
Total	**1,154,943**	**14,242**	**1,169,185**	**2,334**	**593,812**	**74,227**

*Balances are gross of provision for stage 1 and 2 expected credit losses.

**Net credit risk exposures after mitigent is amounted to USD390,825, none of other classification has mitigent.

5.2 (a). Gross credit exposure before credit risk mitigation

US$ '000	Funded credit exposure	Average monthly gross exposure*
Claims on Sovereigns	645,038	618,042
Claims on Banks	378,917	406,485
Claims on Corporate	108,574	104,688
Other exposures	19,715	20,449
Past dues	2,699	2,295
Total funded exposure	**1,154,943**	**1,151,959**
Unfunded exposures	**14,242**	**14,048**
Gross credit exposures	**1,169,185**	**1,166,007**

*Average monthly balance represents the average of the sum of twelve-month end balance for the year ended 31 December 2023.

5.3 Exposure by external credit rating

The Group uses external credit ratings from Standard & Poor's, Moody's and Fitch, which are accredited External Credit Assessment Institutions (ECAI). The Group assigns risk weights through the mapping process provided by CBB to the rating grades.

The breakdown of the Group's exposure into rated and unrated categories is as follows:

US$ '000	Funded exposure	Unfunded exposure	Rated High standard grade exposure	Rated Standard grade exposure	Unrated exposure	Eligible collateral	Risk weighted assets	Capital charge
Claims on Sovereigns	645,038	-	5,151	639,887	-	-	122,721	15,340
Claims on Banks**	378,917	14,242	129,224	227,117	36,818	2,334	287,001	35,875
Claims on Corporate	108,574		5,962	41,631	60,981	-	149,972	18,747
Other exposures	19,715	-	-	8	19,707	-	31,419	3,928
Past Dues	2,699	-	-	2,699		-	2,699	337
Total	**1,154,943**	**14,242**	**140,337**	**911,342**	**117,506**	**2,334**	**593,812**	**74,227**

**Net credit risk exposures after mitigent is amounted to USD390,825, none of other classification has mitigent.

5.4 Geographical distribution of exposures

Geographical distribution of exposures based on residence of the counterparties is summarized below:

US$'000	Gross credit exposure	Funded exposure	Unfunded exposure
Bahrain	568,824	568,824	-
Europe	197,635	197,635	-
Other GCC Countries	223,798	213,752	10,046
Other Middle east & Africa	134,912	130,716	4,196
Rest of the world	44,016	44,016	-
Total	**1,169,185**	**1,154,943**	**14,242**

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

US$ '000	Bahrain	Europe	Other GCC Countries	Other Middle East and Africa	Rest of the world	Total
Claims on Sovereigns	480,946	35,338	43,679	80,459	4,616	**645,038**
Claims on Banks	79,905	73,426	150,362	38,523	36,701	**378,917**
Claims on Corporate	-	88,871	19,703	-	-	**108,574**
Other exposures	7,973	-	8	11,734	-	**19,715**
Past Due	-	-	-	-	2,699	**2,699**
Total funded exposure	**568,824**	**197,635**	**213,752**	**130,716**	**44,016**	**1,154,943**
Unfunded exposures	-	**-**	**10,046**	**4,196**	**-**	**14,242**
Gross credit exposures	**568,824**	**197,635**	**223,798**	**134,912**	**44,016**	**1,169,185**

5.5 Industry sector analysis of exposures

US$ '000	Gross credit exposure	Funded exposure	Unfunded exposure
Sovereign	647,737	647,737	-
Banks	393,167	378,925	14,242
Commercial & other business	128,281	128,281	-
Total	**1,169,185**	**1,154,943**	**14,242**

5.5 Industry sector analysis of exposures (continued)

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

USD '000s	Sovereign	Banks	Commercial & other businesses	Total
Claims on Sovereigns	645,038	-	-	**645,038**
Claims on Banks	-	378,917	-	**378,917**
Claims on Corporate	-	-	108,574	**108,574**
Other exposures	-	8	19,707	**19,715**
Past Due Exposures	2,699	-	-	**2,699**
Total funded exposure	**647,737**	**378,925**	**128,281**	**1,154,943**
Unfunded exposures	**-**	**14,242**	**-**	**14,242**
Gross credit exposures	**647,737**	**393,167**	**128,281**	**1,169,185**

5.6 Maturity analysis of funded exposures

Residual contractual maturities of the Group's funded exposures are as follows:

US$ '000	Within 1 month	1-3 months	3-12 months	Total within 1 year	1-10 years	Total
Claims on Sovereign	96,837	133,520	217,846	**448,203**	196,835	**645,038**
Claims on Banks	261,346	62,096	30,393	**353,835**	25,082	**378,917**
Claims on Corporate	16,315	5,468	22,958	**44,741**	63,833	**108,574**
Other exposures	29	9	17	**55**	19,660	**19,715**
Past Due Exposures	-	-	-	**-**	2,699	**2,699**
Total	**374,527**	**201,093**	**271,214**	**846,834**	**308,109**	**1,154,943**

5.7 Maturity analysis of unfunded exposures

US$ '000	Within 1 month	1-3 months	3-12 months	Total within 1 year	1-10 Years	Total
Claims on Banks	510	1,509	2,162	**4,181**	**10,061**	**14,242**
Total	**510**	**1,509**	**2,162**	**4,181**	**10,061**	**14,242**

5.8 Off- Balance sheet exposures

i. Credit related contingent items

Credit related contingent items comprise letters of credit confirmations, acceptance and guarantees. For credit-related contingent items, the nominal value is converted to an exposure through the application of a credit conversion factor (CCF). The CCF factors range from 20 percent to 100 percent depending on the type of contingent item, and is intended to convert off balance sheet notional amounts into equivalent on balance sheet exposures.

Credit commitments and unutilized approved credit facilities represent commitments that have not been drawn down or utilized. The notional amount provides the calculation base to which a CCF is applied for calculating the EAD. The CCF ranges between 0 percent and 100 percent depending on the approach, product type and whether the unutilized amounts are unconditionally cancellable or irrevocable.

The notional principal amounts reported above are stated gross before applying credit risk mitigants, such as cash collateral, guarantees and counter-indemnities.

At 31 December 2023, the Group held credit-related contingent items & commitment amounting to US$ 41.2 million.

ii. Derivatives and Foreign exchange instruments:

Derivatives include futures, forwards, swaps and options in the interest rate and foreign exchange. The Group's derivative and foreign exchange activities are predominantly short-term in nature.

Derivatives and foreign exchanges exposures are exposed to market risk and settled on net basis. Due to currency movements or interest rate changes, the contract may result into net asset or liability.

5.9 Collateral

The amount and type of collateral depends on an assignment of the credit risk, credit rating and market conditions of the counterparty. The types of collateral mainly include cash collaterals, residential and commercial real estate and securities for both funded and unfunded credit exposures, which is liquidated on maturity/expiry date. For capital adequacy ratio calculation purposes mainly cash collateral is considered as risk mitigant.

5.10 Impairment of assets

The Group had adopted IFRS 9 methodology of recording impairment of assets, effective 1 January 2018. IFRS 9 adoption fundamentally changed to a forward looking and expected credit loss (ECL) approach. The Group records an allowance for expected losses for all loans and other debt type financial assets not held at FVTPL, together with loan commitments and financial guarantee contracts. The allowance is based on the ECL associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination, in which case, the allowance is based on the probability of default over the life of the asset.

5.10 <u>Impairment of assets (continued)</u>

i. Impaired loans and related provisions (stage 3):

USD'000s	1 to 3 year	over 3 years	Total
Gross impaired loans (stage 3)	-	41,324	**41,324**
Less: Specific Provision (stage 3)	-	(41,324)	**(41,324)**
Net outstanding 31 December2022	**-**	**-**	**-**

ii. Movement in impairment provision including expected credit losses - Loans and advances

USD'000s	Stage 1	Stage 2	Stage 3	Total
Loans:				
At beginning of the year	2,343	-	41,324	**43,667**
Transfer to stage 2	(783)	783	-	**-**
Provided during the period	1,066	8,038	-	**9,104**
Reversals and write backs	(717)	(259)	-	**(976)**
Balance as at 31 December2022	**1,909**	**8,562**	**41,324**	**51,795**

iii. Movement in expected credit losses – Investments

USD'000s	Stage 1	Stage 2	Stage 3	Total
Investments				
At beginning of the year	856	1,868	3,302	**6,026**
Transfer to stage 2	(190)	190	-	**-**
Provided during the period	22	765	-	**787**
Reversals during the period	(190)	(739)	(485)	**(1,414)**
Balance as at 31 December2022	**498**	**2,084**	**2,817**	**5,399**

iv. Movement in expected credit losses - Other Financial Assets and Off-Balance Sheet Items:

USD'000s	Stage 1	Stage 2	Stage 3	Total
At beginning of the year	174	1	3,497	**3,672**
Provided during the period	137	-	-	**137**
Reversals during the period	(146)	-	-	**(146)**
Exchange difference	-	-	147	**147**
Balance as at 31 December2022	**165**	**1**	**3,644**	**3,810**

v. Specific provision for impaired assets by geography and sector (Stage 3):

USD '000s	Other Middle East and Africa
Sovereigns	2,817
Banks	33,682
Corporate	11,286
Total	**47,785**

5.11 Restructured facilities
During the year ended 31 December 2023, no facilities were restructured.

6. Market risk - Pillar 3 disclosures

For allocating capital to market risks, the Group uses the Standardized Measurement Method (SMM) for the measurement of market risk and capital allocation based on net open position of foreign currencies as defined under the CA module of CBB Rulebook:

US$ '000	Risk weighted exposures	Capital charge	Maximum value	Minimum value
Foreign Exchange Risk	163	20	338	113

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 GBP and Euro, as Bahrain Dinars and GCC Currencies (except Kuwaiti Dinars) are pegged to US Dollars. The Group manages this risk through net open position limits established for each currency and monitoring net open currency positions on a daily basis.

7. Operational risk- Pillar 3 disclosures

Whilst operational risk cannot be eliminated in its entirety, the Group endeavours to minimize it by ensuring that a strong control infrastructure is in place throughout the organization. The various procedures and processes used to manage operational risk include effective staff training, appropriate controls to safeguard assets and records, regular reconciliation of accounts and transactions, close monitoring of risk limits, segregation of duties, and financial management and reporting. In addition, other control strategies, including business continuity planning and insurance, are in place to complement the procedures, as applicable.

The Group has in place an ORMF to manage and control its operational risk in a cost-effective manner within targeted levels of operational risk consistent with the Group's risk appetite. The ORMF defines minimum standards and processes, and the governance structure for the management of operational risk and internal controls.

The Group adopted the Basic indicator approach in line with CBB regulation to compute total capital charge in respect of operational risk which amounted to US$ 6,871 thousand on operational risk weighted exposure of US$ 54,971 thousand. This operational risk weighted exposure is computed using the Basic indicator approach, where a fixed percentage (Alpha), which is 15% of the average previous of three years' annual gross income, is multiplied by 12.50 operational capital charge; years with positive gross income are counted for computation of capital charge.

8. Pillar 2 Risk Disclosures

a. Credit concentration risk

Concentration risk is the credit risk stemming from not having a well-diversified credit portfolio, i.e. the risk inherent in doing business with large customers or being overexposed in particular industries or geographic regions. The Group has calculated the exposure concentration risk under Bank Pillar 2 capital framework using Herfindahl–Hirschman Index (HHI).

a. Credit concentration risk (continued)

Under the CBB's single obligor regulations, banks incorporated in Bahrain are required to obtain the CBB's approval for any exposure to a single counterparty or group of connected counterparties exceeding 15% of the regulatory capital base.

As at 31 December 2023, the Group's exposure in excess of 15% of the obligor limits to individual counterparties is shown below:

US$ '000	On Balance sheet exposure	Off-Balance sheet exposure	Total
Counterparty A *	480,946	-	480,946

* Comprises of exempted large exposure to sovereign.

The Group has already put in place credit risk management policies as well as and monitoring tools to proactively assess Exposure Concentration risk. The Group has internal limits to monitor and control concentration in sectors, geography and counterparty. Regular reports are prepared and analysed to ensure that undesired concentrations are avoided.

b. Liquidity Risk

The Group maintains adequate liquid assets such as inter-bank placements, treasury bills and other readily marketable securities, to support its business and operations. The Group monitors the maturity profile of its assets and liabilities so that adequate liquidity is maintained at all times. The Group monitors the stability of its funding base on an ongoing basis by ensuring maintaining strong relationship with its key depositors. The Asset Liability Committee (ALCO) reviews the liquidity gap profile and the liquidity stress testing results and addresses strategic issues concerning liquidity risk.

As of December 31, 2023, the Group's NSFR stood at 149% and LCR is 783%. Refer Liquidity risk disclosures made under note 28 of Consolidated Financial Statement for the year ended 31 December 2023. In accordance with Liquidity Risk Management module of CBB, the Group computes the Net Stable Funding ratio (NSFR) and Liquidity Coverage ratio (LCR) and maintain these ratios greater than 100% respectively.

c. Interest rate risk in Banking Book

The Group is exposed to interest rate risk because of mismatches or gaps in the amounts of assets and liabilities and off-balance sheet instruments that mature or re-price in a given period. The Group manages this risk by matching the re-pricing of assets and liabilities and monitoring the interest rate repricing gap by buckets. The Group measures its interest rate sensitivity by measuring the earnings at risk and change in economic value of equity due to a 200-bps parallel shock in interest rates. The ALCO regularly reviews the interest rate gap and sensitivity profile and takes decisions to ensure stability of interest income stream over time.

The following table demonstrates the sensitivity to 200 basis points increase in interest rates, with all other variables held constant, of the Group's Consolidated Statement of Income for the year ended 31 December 2023:

c. Interest rate risk in Banking Book (continued)

US$ '000	31 December 2023
impact	Sensitivity of net Interest income
+/-	6,080

The details of interest rate sensitive assets and liabilities are as follows:

Interest Rate Risk Gap Report							
Balance Sheet Items (Figures in USD 000s)	Less than 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	Over one year	Total Non-Interest rate sensitive	Total Assets and Liabilities
ASSETS							
Balances and deposits with banks and financial institutions	305,577	174,151	81,400	94,066	-	3,724	658,918
Investment securities	-	11,007	19,499	35,254	200,477	1,831	268,068
Loans and advances	56,793	96,830	9,123	6,395	20,965	-10,471	179,635
Investment property	-	-	-	-	-	11,734	11,734
Interest receivable	8,366	5,556	2,070	1,237	-	130	17,359
Other assets, property, equipment and software	-	-	-	-	-	7,952	7,952
TOTAL (A)	**370,736**	**287,544**	**112,092**	**136,952**	**221,442**	**14,900**	**1,143,666**
LIABILITIES							
Deposits from bank and other financial institutions	165,096	144,000	157,153	65,000	-	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	782	988	986	1,330	-	25	4,111
Other liabilities	-	-	-	-	-	11,587	11,587
TOTAL (B)	**231,325**	**144,988**	**158,139**	**66,330**	**-**	**199,990**	**800,772**
Interest Rate Gap (A-B)	**139,411**	**142,556**	**-46,047**	**70,622**	**221,442**	**-185,090**	**342,894**
Cumulative Gap	**139,411**	**281,967**	**235,920**	**306,542**	**527,984**	**342,894**	

d. Reputational Risk
Group relies upon a reputation for integrity in order to maintain its existing business and to pursue its strategies for growth and new business. The Group has no risk appetite for reputational risk and a number of initiatives are dedicated to the avoidance of reputational damage, including controls relating to maintaining regulatory compliance, anti-money laundering controls and data security.

Group has prepared a scorecard to evaluate Reputational risk score based on guidance provided by CBB and Group's internal as well as external operating environment. The score derived from the scorecard is used to assess the capital requirements for reputational risk.

e. Strategic risk
Business / strategic risk primarily arises out of either wrong strategic direction and or wrong strategy/ business plan implementation that could have an adverse impact on the Group's profitability and capital positions. The Group has various monitoring mechanism including Key Performance Indicator, Performance Reports etc. It monitors on a periodic basis to assess any deviation from the approved business plans that could impact the Group's performance in terms of its profitability, asset growth, financial health etc. The strategic risk is managed through monthly reviews of performance versus budgeted performance and periodic reviews of the Group's performance and alignment with the strategic plan.

The Group quantifies the strategic and business risk based on earning volatility approach, comparing the volatility in budgeted vs actual gross income and gross cost of the Group, over a period of last 6 years. The earnings volatility is adjusted based on application of sustainability and contribution factors. The final adjusted volatility (value at risk) at a confidence level is annualized to estimate the pillar 2 strategic risk capital

9. Other disclosures:

a. **Related Party 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. The balances and transactions with the related parties are disclosed in note 26 of the Consolidated Financial Statements for the year ended 31 December 2023.

b. **Assets sold under recourse agreements**: The Group did not enter into any recourse agreement during the year ended 31 December 2023.

c. **Equity positions in the banking book**: Nil

d. **Leverage Ratio**

US$ '000	31 December 2023
Total exposure on-balance sheet (all unweighted)	1,143,666
Total off-balance sheet items - with relevant Credit Conversion Factors	12,242
Total	**1,155,908**
Tier One Capital	**340,050**
Leverage Ratio	**29.42%**