بنك الخليج الدولي

Gulf International Bank

Annual Report 2023

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بنك الخليج الدولي

Gulf International Bank

Gulf International Bank B.S.C. (GIB) is a pan-GCC universal bank established in 1975 and regulated by the Central Bank of Bahrain.

GIB provides diverse financial products, services and bespoke banking solutions to a wide client base in the GCC, Europe and North America. This includes corporate, institutional, global transaction and investment banking; treasury and asset management; and meem, the world's first fully-digital Shariah-compliant retail bank.

The Group is active across regional and international markets through its subsidiaries GIB Saudi Arabia and GIB (UK) Ltd and its branches in the UK, UAE and USA.

GIB Saudi Arabia is the first foreign-domiciled bank to establish a local commercial bank in the Kingdom. Headquartered in Al Khobar, the bank has branches in Riyadh and Jeddah with its Riyadh-based subsidiary, GIB Capital, delivering the Bank's investment banking activities. Its activities span equity advisory and placements, mergers, acquisitions and privatisations; debt capital market solutions and strategic financial advisory, along with asset management and equities brokerage.

GIB (UK) Ltd is a London and New York-based global asset manager. It offers sustainable investment strategies in equities, fixed income and emerging markets.

GIB is owned by the governments of the Gulf Cooperation Council countries, with Saudi Arabia's Public Investment Fund being the primary shareholder.

A regional industry leader with a global reach offering differentiated world-class products and services to its clients.

Board of Directors

Mr. Abdulla bin Mohammed Al Zamil
Chairman

Dr. Najem bin Abdulla Al Zaid
Vice Chairman

Mr. Abdulaziz bin Abdulrahman Al-Helaissi
Director, Group Chief Executive Officer,
Gulf International Bank
Chairman, Gulf International Bank (UK) Limited

Mr. Sultan bin Abdul Malek Al-Sheikh
Director

Mr. Bander bin Abdulrahman bin Mogren
Director

Dr. Khalid bin Abdulla Alsweilem
Director

Mr. Fahad bin Abdul-Jalil Al-Saif
Director

Mr. Rajeev Kakar
Director

Mr. Frank Schwab
Director

Mr. Nezar bin Mohammed Al Saie
Director

Chief Executive Officers

Mr. Abdulaziz Al-Helaissi
Group Chief Executive Officer

Mr. Jamal Al Kishi
Chief Executive Officer, GIB B.S.C.

Mrs. Katherine Garrett-Cox CBE
Managing Director and Chief Executive Officer, GIB (UK) Ltd.

Mr. Osamah Shaker
Chief Executive Officer, GIB Capital


GIB
بنك الخليج الدولي

Financial highlights

	2023	2022	2021	2020	2019
Earnings (US$ millions)					
Net income after tax	**169.4**	96.1	52.7	(308.0)	63.0
Net interest income	**498.5**	345.8	246.1	232.8	280.4
Fee and commission income	**103.2**	101.4	72.5	59.0	64.7
Operating expenses	**397.5**	346.5	296.7	276.9	285.9
Financial position (US$ millions)					
Total assets	**47,069.9**	32,621.6	31,797.0	29,606.3	30,241.7
Loans	**13,624.6**	11,497.6	11,657.5	10,489.7	9,876.1
Investment securities	**6,716.2**	5,785.5	5,968.5	4,689.8	3,828.4
Senior and subordinated term financing	**6,020.7**	4,940.9	5,100.1	4,924.9	3,502.4
Equity	**3,368.6**	3,184.2	3,093.0	3,012.5	3,296.3
Ratios (per cent)					
Profitability					
Return on average equity	**5.3**	3.0	1.7	(9.8)	2.3
Return on average assets	**0.4**	0.3	0.2	(1.0)	0.2
Capital					
Risk asset ratio (Basel 3)					
- Total	**18.9**	17.3	16.1	17.2	18.4
- Tier 1	**16.1**	14.8	14.0	16.4	17.5
Equity as % of total assets	**7.2**	9.8	9.7	10.2	10.9
Asset Composition					
Securities as % of total assets	**14.8**	18.3	19.2	16.2	13.1
Loans as % of total assets	**28.9**	35.2	36.7	35.4	32.7
Liquidity					
Liquid assets ratio (%)	**52.7**	41.4	41.9	45.7	51.3
Loans to deposits ratio (%)[1]	**33.6**	42.8	44.7	42.8	39.9
LCR (%)	**137.8**	299.3	176.3	155.2	163.8
NSFR (%)	**143.0**	161.5	146.2	156.0	163.5

[1] Deposits include senior and subordinated term financing

Chairman's statement

"We demonstrated significant progress in the execution of our strategy and our strong outlook is a testament to our focus on client-centricity and targeted investment in people and technology."

Abdulla bin Mohammed Al Zamil
Chairman of the Board

Chairman's statement

On behalf of the staff, management and Board of Directors of Gulf International Bank B.S.C., I am pleased to present the Annual Report and consolidated financial statements for the fiscal year ended 31 December 2023.

At a global macro level, 2023 was in many ways a volatile and challenging year, with rising interest rates, concerns over the world's largest economies and high levels of inflation. Against this backdrop, however, the GCC proved a remarkably resilient geography, and I am delighted to report that GIB recorded one of its most profitable years.

This sound performance can be attributed to the execution of a multi-year strategy which has resulted in 2023 being a year of record earnings, a healthy asset base, a strong balance sheet, improved margins, and enhanced customer relationships.

GIB's strategic execution has seen the Bank develop rapidly into a meaningful player in the GCC, a region-wide institution with the reach and capability to connect the Gulf to the UK and the United States – a unique franchise that we will continue to invest in, and build on, for a sustainable future.

Economic and Market Environment

While much of the world wrestled with economic headwinds in 2023 including inflation and high interest rates, conditions in the GCC region have been more stable. With oil prices averaging more than US$ 80 a barrel over the year, robust government spending has given confidence to private sector investment despite successive OPEC+ production cuts. The region's banks have also remained on a solid footing, while capital markets saw a stream of IPO's as well as a healthy issuance of green and sustainability-linked debt instruments. The growing role of sustainable finance in the GCC has further augmented ongoing efforts to embed sustainability at the forefront of national development plans including investments in renewable energy.

Leading the regional economic momentum has been the Gulf's vibrant non-oil sector, driven by higher domestic demand, increased investments, and a demonstrated commitment to economic reform implementation. Strategic national transformation plans are underway including Saudi Vision 2030, We the UAE 2031 and Oman Vision 2040 to name a few. These programs provide a powerful framework to reshape the GCC economies underpinned by the common ambition to diversify and grow new economic sectors such as tourism, entertainment, and sports; build a robust private sector; rebalance government finances; attract inward foreign investment; build a global footprint; and invest in transformative projects.

Financial Performance

GIB is capitalising on the momentum of a robust yet sustainable performance in 2023. With a net income of US$ 169.4 million, marking a 76 per cent increase from 2022, the Bank has demonstrated its dedication to generating competitive shareholder returns and achieving strategic objectives. The growth trajectory in Return on Equity by 2.2 per cent year-on-year underscores this strong performance, driven by expansion in core business lines, favourable market conditions, and the positive effects of a rising interest rate environment, resulting in a 36 per cent increase in gross income to US$ 708.3 million.

Moreover, this impressive performance is attributed to focussing on value-accretive offerings, greater attention to fee generating businesses coupled with proactive balance sheet management. The Bank has transitioned from providing lending products and services to becoming a trusted advisor and partner to clients. In line with the Bank's strategic agenda to diversify core revenue, non-interest income rose by 19 per cent to US$ 209.8 million, comprising fee-based offerings, FX income, and enhanced cross-selling initiatives.

Active management of the asset book, including the ability to underwrite, sell down, and distributing loans, exhibited good momentum throughout the year. The Bank maintains and actively manages its balance sheet, with consolidated assets reaching US$ 47.1 billion by year-end.

Loans and advances stood at US$ 13.6 billion at the end of 2023, compared to US$ 11.5 billion the previous year, indicating controlled loan growth in alignment with client growth ambitions. A detailed report and analysis of the Bank's financial performance for 2023 are presented in the Financial Review section.

Chairman's statement (continued)

Funding Profile

GIB grew its balance sheet by 44 per cent to reach US$ 47.1 billion by the end of 2023. This increase was attributed to a 57 per cent surge in customer deposits, notably influenced by our liability-driven balance sheet approach at our GIB UK subsidiary and an 18 per cent expansion in the loan portfolio. The Bank's LCR ratio at 138 per cent and NSFR at 143 per cent indicate a high level of liquidity and stable funds. This underscores the ongoing trust of our clients and counterparties and reaffirms the Bank's commitment to broadening and diversifying its funding sources.

Our strategies encompass securing more competitive and stable funding through further emphasis on global transactional banking and retail activities. Additionally, during the year, the diversity of the Bank's funding base was further bolstered by the issuance of a SAR 1.5 billion 10-year Sukuk through GIB-Saudi Arabia (equivalent to US$ 400 million).

Ratings Confirmation

During the year, we achieved another significant milestone in our journey, where the Bank's credit rating was upgraded by Moody's and Fitch Ratings to A3 and A- respectively. This upgrade coupled with a positive outlook from Moody's reflects the Bank's sustained improvement in its asset risk profile and profitability indicators, as well as favourable asset diversification and supportive operating conditions. Capital Intelligence reaffirmed its A+ rating, a resounding affirmation of the strong performance and underpinning our foundations for future growth.

Strategic Progress

We demonstrated significant progress in the execution of our strategy and our strong outlook is a testament to our focus on client-centricity and targeted investment in people and technology.

The growth in our revenues, in particular our non-funded revenues, reflects the significant strides made in our strategic priorities of increasing and diversifying revenue streams and reducing reliance on lending income. By prioritising client requirements, targeted client acquisitions, collaborative cross-selling, sustainability expertise, and fostering a customer-centric approach in managing relationships, our growing customer base was matched by increased and diversified income streams.

We continued to leverage our international network and offerings to capture trade and financial flows between the GCC and the world. The active execution of regional government strategies along with GIB's 'niche reach' presents a unique opportunity to capitalise on economic opportunities.

Our Investment Banking and Advisory business in GIB Capital witnessed another remarkable year, executing notable transactions, advising major regional M&A transactions and becoming the first bank entity to be an Independent Financial Advisor on an IPO prospectus in Saudi Arabia. This was a major achievement that positioned us strongly in an exciting market.

Chairman's statement (continued)

Sustainability

The global trend towards reporting and disclosure of environmental, social and governance (ESG) metrics accelerated in 2023, with significant developments in the Gulf.

The Central Bank of Bahrain issued its first ESG module in 2023, a new regulatory standard that stipulates that all regulated entities must produce sustainability disclosures. As GIB embarked on its journey to being a fully sustainable organisation some years ago, I am therefore delighted to be able to report that we are well ahead in meeting this new requirement.

GIB is engaged in developing sustainability across the region. The Bank is a key contributor to the Saudi Central Bank's extensive ESG work programme and is also an active participant in the Bahrain Association of Banks' Sustainable Development Committee. We published our Sustainable and Transition Finance Framework (STFF), which sets out how we classify and manage sustainable finance transactions. The framework covers all our jurisdictions and the majority of our business activities, and will help GIB support the world's transition to a sustainable economy.

Another key element of our sustainability strategy is our embrace of the Diversity, Equity and Inclusion (DEI) agenda. We have achieved one of the highest rates of female representation across the workforce of any bank in the region. 2023 also saw GIB become a signatory to the UN's Women's Empowerment Principles.

Looking Ahead

Our 2023 results show a bank that is confident in its strategy, which is being executed at pace. They show a bank that is determined to maintain its sustainable growth trajectory. They show that GIB is a truly regional bank with strong links to Europe and North America which is growing with its clients and bringing its expertise and knowledge to deliver mutual benefits.

2025 will mark the 50th anniversary of GIB and the steps that we have taken over the past few years, and continue to take, are positioning the Bank well for further sustainable growth.

Acknowledgements

On behalf of the Board of Directors, I would like to express my sincere appreciation for the unwavering confidence and support of our shareholders; the enduring trust and loyalty of our clients and the continued support of our counterparties. We are also grateful for the ongoing advice and guidance that we receive from the regulatory and supervisory bodies in the jurisdictions where GIB operates. I also take this opportunity to pay tribute to the commitment and professionalism of our management and employees for delivering on the Bank's strategic transformation.

Abdulla bin Mohammed Al Zamil
Chairman of the Board

Group CEO's statement

"In 2023, we furthered our commitment to sustainable finance offerings, improved governance and risk management frameworks, and increased our sustainability reporting."

Abdulaziz bin Abdulrahman Al-Helaissi
Group CEO & Board Member

2023 marked a year of remarkable evolution and progress for our group. Throughout 2023, we remained dedicated to executing an ambitious transformation agenda, yielding yet another year of record revenues and increased shareholder value. This success was underscored by the growth in our return on equity, reflected by our ability to implement on our strategic priorities.

Our commitment to excellence across financial services, digital innovation, and sustainability has been validated by landmark transactions in key regional markets, awards won by our regional and international entities, and expanding market presence. Our strong asset quality, proactive risk management, and adaptive strategies, supported by world-class risk frameworks, empower the group to manoeuvre through changing market conditions with agility. This has ensured the stability of our balance sheet, safeguarded capital preservation, and maintained profitability. Moreover, our distinctive geographic footprint and transformative strategies offer substantial upside to growth and expansion.

This accomplishment is a testament to the effectiveness of our corporate strategy, our customer-centric business model, the solid foundation of our management team, and the agility with which we navigate market dynamics. Above all, it speaks to the calibre of our workforce.

People

At GIB, we believe that our people are our greatest asset, and it is with immense pride that we witness the calibre of talent we cultivate and attract from both regional and international institutions. Their drive, energy, and unwavering commitment to pushing the boundaries continually inspire us.

Our investment in people is clear throughout the group and in our standing within the market. Whether through the increasing representation of women across all levels, nurturing local talent, or targeted training initiatives, we remain committed to fostering a culture of excellence and developing future leaders.

Technology and Efficiencies

As technological advancements reshape the industries in which we operate, we embrace a digital-first approach not only to enhance the client experience but also to drive efficiencies and create value. Our focus on operational excellence leverages emerging technologies such as machine learning, and robotic process automation, ensuring that we remain responsive to meeting the evolving needs of our clients.

In 2023, our client-centric technology and efficiency initiatives, such as our award-winning API solutions tailored for corporate and MSME clients, including bespoke, sector-specific offerings in line with KSA Vision 2030 initiatives, exemplified our dedication to delivering superior service across all our businesses.

Sustainability

In 2023, we furthered our commitment to sustainable finance offerings, improved governance and risk management frameworks, and increased our sustainability reporting. The establishment of the Board Sustainability and Climate Change Committee underscores the importance we place on the topic.

Looking ahead

Looking ahead, we are energised by the prospects that await us. Our commitment to innovation and client-centricity remains unwavering as we strive to cement our position as a market leader in the region. We will continue to pursue strategic growth initiatives, invest in digital transformation, and uphold sustainable practices.

GIB is steadfast in maintaining financial prudence, bolstering our balance sheet, and adhering to best-in-class compliance and governance standards across all jurisdictions. The achievements of 2023 underscore what is possible when the right team, dedicated to serving our clients, execute the right strategy. As we look to the future, both the Board and management are committed to sustained growth and prosperity in 2024 and beyond.

Abdulaziz bin Abdulrahman Al-Helaissi
Group Chief Executive Officer & Board Member

Deals and Transactions

REGIONAL TRANSACTIONS

WHOLESALE BANKING

Bapco Energies

GIB was mandated as an Underwriter, Initial Mandated Lead Arranger, Bookrunner, ESG Coordinator, Sole Structuring Bank and Global Facility Agent for the sustainability-linked US$ 2.5 billion dual tranche (Islamic and Conventional) facility. This is the Company's first sustainability-linked corporate financing facility, utilising sustainability KPIs relating to Green House Gas (GHG) emission reduction as well as safety measures, including Lost-Time Injury Frequency Rate. The facility allowed the entity to cover its CAPEX programme for 2024 aimed at increasing scale and diversification of its oil and gas assets and achieving goals that align with the United Nations Sustainable Development Goals (SDGs) included in the Bahrain Economic Vision 2030.

OQ Refineries

GIB was mandated as an Underwriter, Initial Mandated Lead Arranger, Bookrunner and the Facility Agent for the US$ 1.2 billion facility used for refinancing of existing facilities and general corporate purposes. The facility aims at supporting OQ's ongoing corporate activities and financing requirements.

Energy Development Oman (EDO)

GIB was mandated as an Underwriter, Initial Mandated Lead Arranger and Bookrunner for the US$ 2.5 billion facility used for general corporate purposes. GIB successfully renegotiated the terms of the facility which resulted in debt optimisation for the company. This was part of a broader debt optimisation initiative undertaken by the Government of Oman and its related entities where GIB played an active and leading role.

Bank Muscat

GIB was mandated as a Joint Lead Coordinator, Mandated Lead Arranger, Bookrunner and Agent for a US$ 700 million syndicated term facility that was completed in Q1,2023.

Bank Dhofar

GIB was mandated as Joint Coordinator, Initial Mandated Lead Arranger and Bookrunner for US$ 500 million club term facility.

Al Salam Bank

GIB was appointed as Sole Arranger for an Islamic financing facility of US$ 100 million to Al Salam Bank.

Deals and Transactions (continued)

REGIONAL TRANSACTIONS

WHOLESALE BANKING

Noon

GIB partnered with Noon to support the acquisition of Namshi by structuring and fully underwriting a facility for Noon AD Holdings Ltd and Noon Investment Company CJSC (together the Noon Group) to support the acquisition of Namshi Holdings Limited from the UAE's largest publicly traded developer, Emaar. The facility was structured as a quasi-bridge with inbuilt flexibilities. GIB, in addition to acting as the Sole Underwriter and Structuring Bank, was also mandated as the Facility and Security Agent. Post closure the facility was later syndicated.

Rawabi Energy and its subsidiaries

GIB acted as Joint Global Coordinator, Mandated Lead Arranger and Security Agent in addition to Account Bank of Rawabi Oil and Gas for the largest private sector syndicated financing in history for the Saudi market in terms of total deal size. The syndication is US$ 1.9 billion multi-currency senior secured term and revolving SAR and US$ facilities.

The Helicopter and Jet company (THC)

GIB was appointed as the Underwriter, Sole Structuring Bank, and Facility Agent for a US$ 213 million facility for 10 years to finance the purchase of aircraft. The long-term Murabaha financing granted by GIB is being used to support the company's CAPEX requirements. The facility has been used to purchase new helicopters to grow the company's fleet to 70 helicopters by 2025. This transaction is considered one of its kind in Saudi Arabia, i.e., Helicopter Financing. The establishment of THC by PIF is part of Saudi Vision 2030 aimed at unlocking a new industry to support the Kingdom's transportation infrastructure and diversify the transportation services provided. This will create a thriving and resilient aviation ecosystem in the Kingdom.

DP World Middle East Ltd. – DPW Jeddah

GIB was a Mandated Lead Arranger in a senior secured club facility of US$ 342 million to support global logistics business DP World, for the expansion of the Jeddah Islamic Port – South Terminal. The project finance structure has been negotiated under DP World's renewed 30 years concession by Mawani. The facility will be used to finance the project to upgrade and expand the terminal's capacity in compliance with the concession. GIB was a Mandated Lead Arranger, an Account Bank and a Senior Hedging Bank.

Deals and Transactions (continued)

REGIONAL TRANSACTIONS

INVESTMENT BANKING: MERGERS & ACQUISITIONS

First Mills Company – *Initial Public Offering*

Underwriter and Advisor to the Selling Shareholders for the successful US$ 266 million IPO of First Mills Company, offering 16.65 million shares representing 30 per cent of its share capital. First Mills Company is the market leader in the milling industry in the Kingdom of Saudi Arabia and the first of its kind to be listed on the Saudi Exchange as part of the privatisation programme under Saudi Arabia's Vision 2030. The institutional tranche was more than 68.9 times oversubscribed and received US$ 18.4 billion in bids; while the retail tranche was more than 9.96 times oversubscribed.

ADES Holding – *Initial Public Offering*

Joint Bookrunner and Joint Underwriter for the successful US$ 1.2 billion IPO of ADES, offering 338.7 million shares representing 30 per cent of its share capital. ADES is a leading oil and gas drilling and production services provider in the Middle East and North Africa region. The IPO attracted US$ 78 billion in orders in bids, representing 63.7 x oversubscription rate, marking the biggest listing of the year in the Kingdom of Saudi Arabia.

Public Investment Fund (PIF) – *Acquisition of four Construction Companies*

Joint Financial Advisor to PIF in the acquisition of stakes in four leading construction companies in the Kingdom of Saudi Arabia with a total investment reaching US$ 1.3 billion by way of a subscription for new shares as part of the capital increase in each of Nasma & Partners Contracting Co., ElSeif Engineering Contracting Co., AlBawani Holding Co. and Almabani General Contractors Co. This transaction will have a profound impact on the construction and services sector in the Kingdom of Saudi Arabia and received significant attention from local and international investment communities and major media outlets.

Public Investment Fund (PIF) – *Sale of Stake in GASCO*

Financial Advisor to PIF in relation to divestment of its 10.92 percent full stake in National Gas & Industrialization Company (GASCO) with a transaction value of US$ 112 million, through a private sale under the M&A rules to Jadwa Investment. This transaction set a precedent as an alternative monetisation route to realising PIF's capital recycling strategy.

National Medical Care (NMC) – *Acquisition in Multiple Targets*

Financial Advisor to National Medical Care Company (Care) on the full acquisition of two targets operating within the healthcare landscape, namely Jiwar Medical Services Company and Chronic Care Specialised Medical Hospital, for a total consideration of US$ 69 million. The two acquisitions aim to contribute towards achieving Care's investment strategy to expand in the healthcare services sector and take advantage of the growth opportunities available in the market.

Gulf International Bank – Saudi Arabia – *Sukuk Issuance*

Sole Manager for GIB – KSA's debut US$ 400 million Tier 2 Sukuk issuance. The transaction demonstrates GIB Capital's capability to access a wide investor base and provide robust advice to assist issuers in navigating challenging market conditions.

SUKUK & BOND ISSUANCE

Public Investment Fund (PIF) – *Green Bond Issuance*

Joint Bookrunner on the Reg S only US$ 5.5 billion triple-tranche Green Bond in February 2023. Through our role in securing orders totalling US$ 7.9 billion in Saudi Arabia, GIB Capital demonstrated its ability to meet PIF's KPI for a successful closing. GIB Capital was the only Saudi investment bank mandated on the transaction.

Rawabi Holding Company – *Sukuk Issuance*

Joint Lead Manager and Bookrunner to the Rawabi Holding Sukuk issuance of US$ 233 million priced in February 2023, which marked Rawabi Holding's largest ever Sukuk issuance since its first Sukuk program was established in 2020 despite facing challenging and volatile market conditions. Additionally, GIB Capital was mandated again by Rawabi Holding for the second triple-tranche Sukuk issuance of US$ 123 million priced in November 2023.

Government of Sharjah – *Sustainability Bond Issuance*

GIB Capital served as a Joint Active Bookrunner and Lead Manager. The Emirate of Sharjah priced its inaugural Sustainability Bond offering (its first ever ESG sovereign issuance out of the GCC region) with US$ 1.0 billion 6.5 percent long 9-year tranche to yield 6.618 per cent. Additionally, GIB Capital won a second mandate to act as Joint Active Bookrunner and Lead Manager for the Sukuk long 10-year US$ 750 million issuance (the longest Sukuk ever issued by a GCC sovereign). GIB Capital was the only Saudi investment bank mandated on both transactions.

Greensaif Pipeline – *Triple-tranche Sukuk and Bond Issuance*

GIB Capital acted as a Joint Bookrunner on the transaction and was positioned by the issuer to support the marketing process for key investors through securing a large book of orders. Greensaif Pipelines priced a Reg S/144A US$ 4.5 billion triple-tranche project financing transaction with the books closed in excess of US$ 20 billion, representing 4.4 x oversubscription.

Awards

AWARDS

Emirates Labour Market Awards (Ministry of Human Resources and Emirisation)
- Establishment - Best HR Practices
- Work Force – Contribution to UAE Business and the Community

2023 Global Finance World's Safest Banks
- Safest Bank in Bahrain

Saudi Trade Finance Awards 2023
- Best Trade Finance Bank 2023 Saudi Arabia
- Customer's Choice Trade Finance Bank 2023 Saudi Arabia
- Best Supply Chain Finance Bank 2023 Saudi Arabia
- Best Transaction Banking Team 2023 Saudi Arabia

The Digital Banker Global Transaction Banking Innovation Awards 2023
- Best Bank for Supply Chain Finance in Bahrain
- Best Bank for Supply Chain Finance in Saudi Arabia
- Best Bank for Trade Finance in Bahrain
- Best Bank for Trade Finance in Saudi Arabia

EMEA Finance Treasury Services Awards 2023
- Best Payment Services in the Middle East

The Asset Triple A Islamic Finance Awards 2023
- Best Sustainability-linked Loan. Aluminium Bahrain US$710 million sustainability-linked syndicated senior ijara facility

Global Finance Innovators Awards 2023
- Best API Banking Initiative

Bonds, Loans & Sukuk Middle East Awards
- ESG Loan Deal of the Year
- Metals & Mining Deal of the Year
- ESG Bond Deal of the Year

EMEA Finance
- Best Islamic Finance Facility

Sustainability review

GIB is committed to sustainability (which encompasses environmental, social and governance (ESG) factors, both in terms of our business offerings and the way we conduct our business.

We believe that finance can be used as a force for good and that we can support our clients in their journey towards transitioning to a more sustainable economic approach.

In 2023, we prioritised the below areas:

- Expanding our sustainable finance activities and supporting clients on sustainability-related matters
- Embedding sustainability in how we operate, particularly with respect to meeting environmental and gender representation targets
- Reporting transparently on our sustainability-related activities and impacts
- Engaging with policy-makers on relevant sustainability-matters

Full details on the Bank's sustainability approach, record and metrics can be found in our 2023 Sustainability Report which will be published shortly.

Corporate social responsibility review

CSR review

Since 1975, GIB has developed a proud tradition and legacy of actively participating, donating and collaborating with the communities in which it operates. The Bank's approach to CSR is to identify and partner with groups, causes, communities, stakeholders and themes where it can ensure long-term positive results from its philanthropic and voluntary involvement.

CSR activity also provides a valuable opportunity for our people to volunteer their time in support of others, and the bank proactively encourages and assists them to do so.

2023 CSR Activities in the GCC:

CSR Initiative	Overview
Aknan Charity	GIB Saudi Arabia provided support to this housing charity, which assists families in improving the quality of their housing.
Tarahum	GIB donated to Tarahum to continue our support for the Eastern Province community.
Emirates Environmental Group	GIB UAE participated and donated to the Emirates Environmental Group's tree planting initiative and their Clean UAE campaign.
Food Bank	GIB volunteers prepared 250 food baskets as part of our Ramadan baskets initiative in cooperation with the Saudi Food Bank Charity in Dammam.
Bahrain Down Syndrome Society	GIB has supported the Bahrain Down Syndrome Society for eight years. In 2023, the Bank made further donations to improve the quality of life of their students by providing them with technologies needed for their education, in addition to engagement with the GIB community.
Disabled Association for Children	GIB supported the Saudi Children with Disabilities Association's "Mubadaraty" programme. This included funding for 700 educational sessions where children with disabilities receive an educational programme according to their age and abilities. The rehabilitation sessions motivate the child's linguistic, cognitive, social, and motor skills using a range of tools to match the student's abilities.
Ithra	Our collaboration with Ithra is part of our main strategy to further deepen our involvement and community presence in Saudi Arabia's Eastern Province. In 2023 we partnered with Ithra by sponsoring one of its largest programme, the "Tanween, Ithra's Creativity Season", a range of activities to promote Saudi youth development, through supporting creative and sustainable programmes and initiatives related to talent development and cross-cultural experiences.
Environmental Green Horizons Society	As part of the sustainability agenda, GIB Saudi Arabia engaged with the Environmental Friends Society in the Eastern Province and the Green Horizons Environmental Association in Riyadh, supporting their tree planting initiatives in Al Khobar and Riyadh in areas in need of reforestation.

Corporate social responsibility review (continued)

2023 CSR Activities in the GCC (continued)**:**

CSR Initiative	Overview
Husn Al Jawar	GIB donated to Husn Al Jawar, a registered approved charity in Bahrain, to help estranged women in society in need of financial support, training, and development.
Hefth Al Neama Society	In cooperation with Hefth Al Neama Society (Bahrain Food Bank), GIB volunteers prepared 260 Ramadan baskets to support families in Bahrain.
Supreme Council for Environment	The Supreme Council for Environment helps preserve mangrove swamps and other vulnerable natural environments. GIB staff participated in a tour, planted mangroves, and helped restore important coastal areas.
Kiswa Bahrain Charity	GIB collaborated with Kiswa in Bahrain to help reduce waste and recycle spare clothes.
Bahrain Animal Rescue Centre (BARC) and BSPCA Animal Welfare Centre	GIB employees visited BARC and BSPCA with food and donations for the abandoned dogs and cats at the centres.
Dar UCO Elderly Care Centre	GIB visited Dar UCO Elderly Care Centre and participated in games and activities to engage and socialise with the elderly visitors.

CSR in the UK: Making Volunteering attractive and accessible to all

The GIB UK Volunteering Initiative is an established scheme whereby colleagues are able to fulfil both personal and corporate volunteering activities during working hours. Every colleague in the UK is entitled to two full days of volunteering during the calendar year.

Teams and departments are also encouraged to include volunteering activities in their team offsite agenda. For example, in 2023, GIB UK's IT team held two volunteering dates at the Children's Book Project, in partnership with HandsOn London. The Children's Book Project works with schools to redistribute new and used books to children and their families, aiming to address the imbalance of book ownership among children and young people.

In addition to encouraging and facilitating voluntary giving, GIB UK also has a donation matching scheme, whereby the Bank matches funds raised by staff for their charity of choice. Beneficiaries of this scheme in 2023 included:

- Wrap Up London, a charity that provides warm clothing for people who struggle to stay warm in winter, including the homeless, hostel residents and refugees.
- Good Food Matters: a charity working with underprivileged children.
- Time4Trees: An environmental charity. GIB UK team helped to plant more than 250 trees in 2023.

CSR in the USA

GIB runs a donation matching programme in the USA and supports volunteering with MIRA USA, a non-profit organisation that promotes the social, communal and civic integration of immigrants in the United States.

Economic review

Global Macro Views

The global economy remained resilient in 2023. This was despite the prevalence of geopolitical stress, mismatch between supply and demand, surging inflation, and unprecedented policy tightening by central banks throughout the prior year. While these trends continued, the impact on some fronts started to recede. Most notably, the normalising in supply chains and a moderation in demand began to temper cost pressures compared to the previous two years.

Yet, uncertainty remained elevated as geopolitics continued to persistently overshadow all risks and turbulence became the new normal. This was particularly prevalent across financial markets as risk assets oscillated on expectations of monetary policy easing. In the fixed income markets, long-term yields surged and retreated on evolving investor perceptions of future policy actions. After reaching highs not seen in nearly two decades, bond yields started declining rapidly towards the end of 2023. Indeed, developments across financial markets, as well as exchange rates and capital flows in emerging market economies remained closely intertwined with the direction of bond market sentiments.

The signature events that underpinned 2023's precarious conditions were the acute strains that simultaneously erupted in parts of the banking sector in both the United States and Switzerland. The turmoil started in the first quarter of 2023 was the most significant system-wide banking stress since the global financial crisis of 2008. Multiple bank failures in the United States and the rescue of one of Switzerland's largest banks briefly triggered a broader crisis of confidence in the resilience of the global banking system across multiple jurisdictions in an era of rapidly rising interest rates. Fortunately, wide-scale response and decisive actions by the governments and central banks of the impacted jurisdictions contained the turbulence and swiftly diffused the stress.

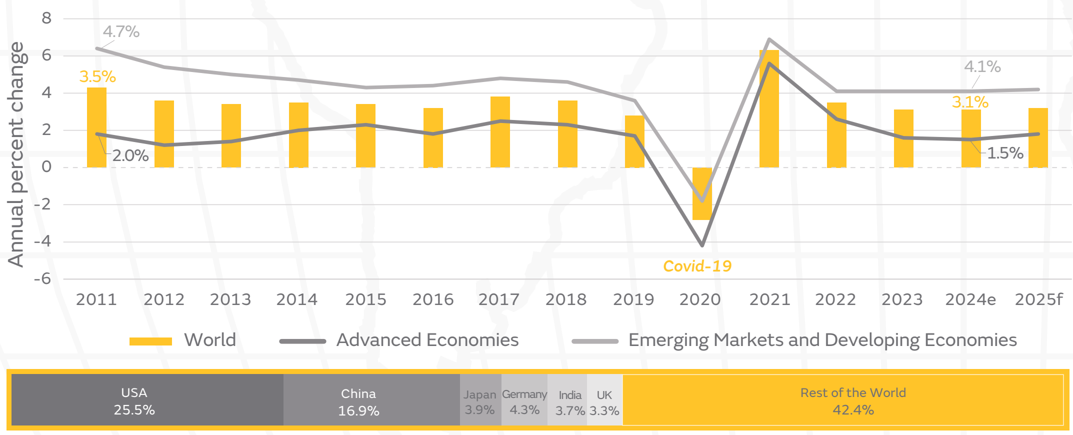
Nevertheless, risks continue to remain tilted to the downside, amid ongoing concerns of the transmission of the rate hikes.

Inflation started to decline both in advanced and emerging market economies during the year, although core inflation remained high. The advent of a pause in interest rates notably by the US Federal Reserve in third quarter of 2023, sparked a debate on the pace of rate cuts to come. Yet despite optimistic market expectations of easing, monetary policy remained in "pause but higher for longer" mode.

The year ended with a major upside surprise in overall global GDP growth and the absence of the much-anticipated recession, notably in the United States. Yet, global indices of business sentiment suggest that advanced economies started losing some momentum from the second half, likely driven by: the accumulating impact of interest rate hikes; diminishing support of Covid-related fiscal stimulus programs; and China's weakened growth prospects. Emerging market economies, by comparison, held up better benefitting in the early part of the year from strong global demand and relatively high commodity prices. Some countries also benefitted from changes in global supply chains, as many businesses expanded supply chains to enhance resilience.

As we enter 2024, global economic conditions are turning benign as major central banks are likely on the verge of loosening monetary policy amid disinflationary trends. However, with new problems emerging, prospects for 2024 remain vulnerable to bouts of instability. The Russia-Ukraine war, conflict in the Middle East, continued tensions between the United States and China, shifting patterns of trade and cross-border investment, and an unprecedented number of elections around the world including the presidential elections in the United States, will continue to keep overall global conditions unsettled.

WORLD ECONOMIC GROWTH



World GDP: US$109.7 trillion (2024e)

Data Source: International Monetary Fund, World Economic Outlook - January 2024

Economic review (continued)

Looking Ahead

The near-term growth momentum and outlook for the GCC countries remains positive. Oil prices are likely to hold at supportive levels, allowing regional economic policies to remain firmly geared towards diversification and decoupling development and growth from oil. Demonstrated government commitment and accumulated financial surpluses are expected to continue providing headroom for capital spending led by the sovereign wealth funds rather than drawing from fiscal budgets. Efforts will also continue to accelerate to embed sustainability at the forefront of development plans including investments in renewable energy, reduction in energy consumption and carbon intensity levels, and enhancing the role of sustainable finance.

Short-term Drivers of Growth

- Improved macroeconomic environment with acceleration in headline real GDP growth across the GCC region.
- Dynamic non-oil sector growth and expansion prospects.
- Disinflation gathering pace and receding global recession risks.
- Expectations of lower interest rates.
- Improvement in China's economic momentum.
- Improving global growth prospects lower risk in emerging markets.
- Data and consumer-driven business models.

Long-term Drivers of Growth

- Middle East region's growing pivot to Asia.
- Healthcare, healthtech and food security drivers.
- Innovation and digitalisation remain key economic growth pillars.
- Near-shoring and reconfiguring of supply chains.
- Green transition and sustainable development to remain at forefront.
- Global megatrends to drive future opportunities in areas of clean energy, mobility, connectivity, sustainable consumption, bioengineering and space technologies.

Economic review (continued)

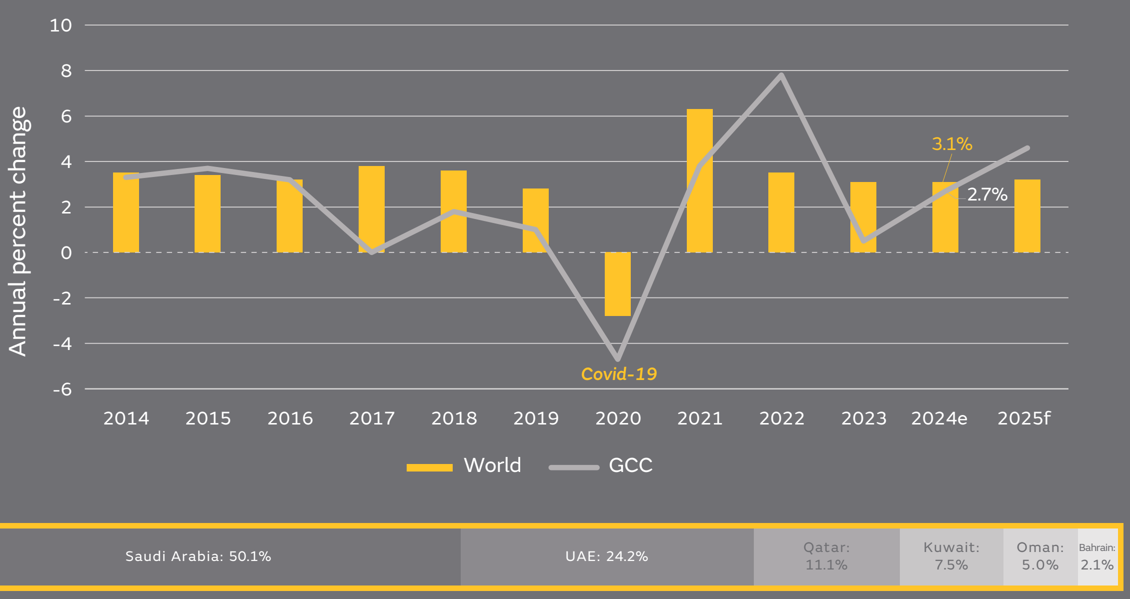
Gulf Cooperation Council (GCC) Regional Views

After a stellar real GDP performance driven by high oil prices, the GCC region experienced a slowdown in 2023 driven by lower oil output in line with OPEC+ decisions to restrain production. Nevertheless, robust sovereign balance sheets, liquidity buffers and economic diversification efforts allowed the vigorous pace of activity in the non-oil sectors to continue. Rising tourism activity and hotel occupancy, strong performance in the transportation and other services sectors, and expansionary Purchasing Managers' Index, notably for Saudi Arabia, the United Arab Emirates and Qatar, have underpinned growth in this sector, uninterrupted since the end of the pandemic-related lockdowns.

Regional banks have also remained on a solid footing as most economic sectors continue to outperform on the back of structural reform and liberalisation policies. High public capital expenditure has buoyed the operating environment and underpinned strong regional credit demand. Strong asset quality and capitalisation levels have further bolstered GCC banks, while high interest rates have also contributed to boosting margins and overall profitability during the year.

The pursuit of economic transformation has been the main driving force for policies shaping the development of the GCC countries and these are likely to be ramped up going forward. Under long-term economic plans, the Gulf countries are pursuing specific targets for economic diversification, human capital development, and renewable energy growth. Saudi Arabia's investments are at the forefront which have accelerated the growth in tourism and entertainment sectors, alongside the development of large infrastructure and giga projects such as NEOM. Public sector investments have also jumped in the UAE notably in the real estate sector while the country leads the region in solar energy investments. Qatar also embarked on the expansion of the North Field, with the long-term development plan to ramp up liquefied natural gas production capacity by 64 percent.

GCC ECONOMIC GROWTH



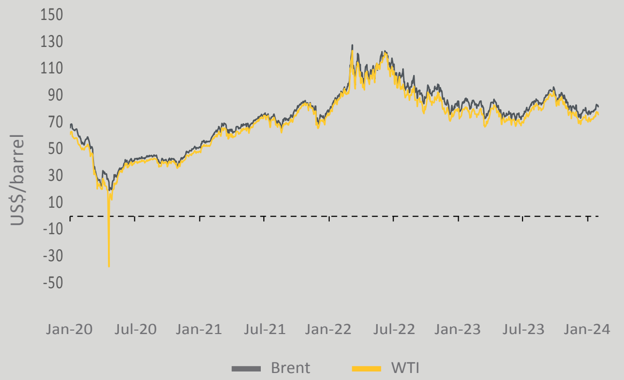
GCC GDP: US$2,219 billion (2024e)

Data Source: International Monetary Fund, World Economic Outlook - January 2024

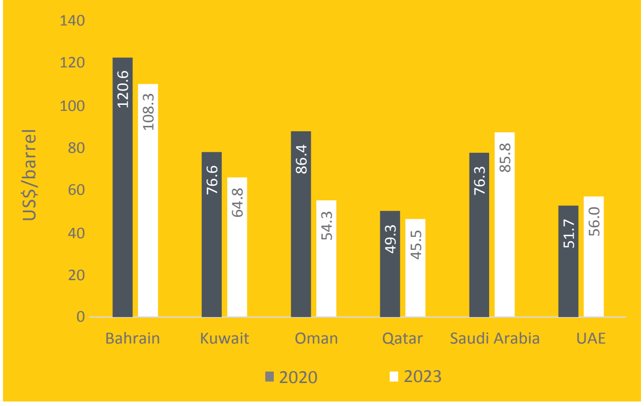
Economic review (continued)

GCC ECONOMIC DEVELOPMENTS

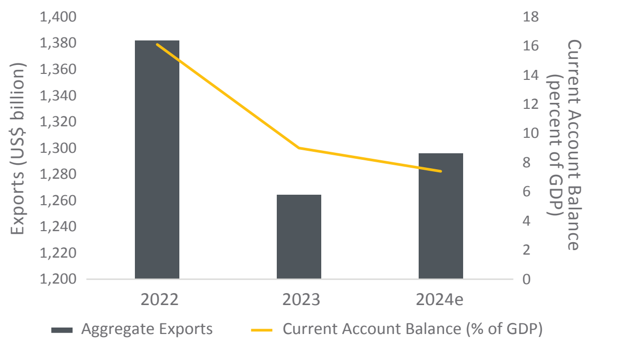
Oil Prices



Fiscal Breakeven Oil Price

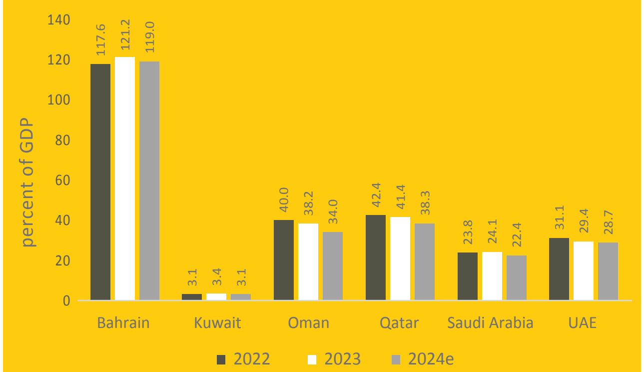


GCC Exports and Current Account Balance

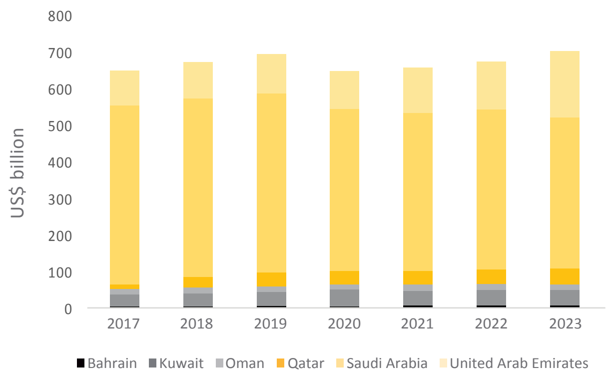


GCC Stock Market Capitalisation

GCC General Government Gross Debt



GCC Foreign Exchange Reserves



Data Source: International Monetary Fund and Bloomberg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Financial review

GIB is capitalising on the momentum of a strong yet sustainable performance in 2023, the Bank has demonstrated its dedication to enhancing shareholder returns and achieving strategic objectives.

The Bank's business model which encompasses optimisation of return on assets with conscious capital utilisation and reduced reliance on net interest income has capitalised higher and improved profitability over the years demonstrating the Bank's journey to provide enhanced returns and maximise shareholder wealth.

Total income for the year increased to US$ 708.3 million from US$ 521.8 million in 2022, as a result of increased and diversified revenues, one of the Bank's key strategic initiatives. Total operating expenses of US$ 397.5 million compared to US$ 346.5 million the previous year, resulting in net income before provisions and tax of US$ 310.8 million, up from US$ 175.3 million in 2022.

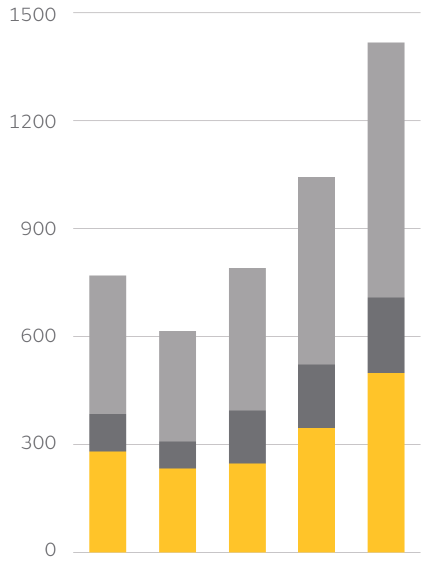
A net provision charge of US$ 112.0 million was recorded in 2023, compared to a US$ 71.6 million charge in the previous year in line with the Bank's prudent risk management approach.

As a result of the above, GIB reported a net profit of US$ 169.4 million for the year, an increase of 76 per cent compared with US$ 96.1 million in 2022.

The bank grew its balance sheet by 44 per cent to reach US$ 47.1 billion by the end of 2023 as compared to US$ 32.6 billion as at 31 December 2022. This increase was attributed to a 57 per cent surge in customer deposits, notably influenced by a liability-driven GIB UK subsidiary, and an 18 per cent expansion in the loan portfolio. Investment securities of US$ 6,716.2 million principally comprised highly rated and liquid debt securities issued by regional governments and major financial institutions. Liquid assets of US$ 24,827.8 million constituted 53 per cent of total assets while loans and advances of US$ 13,624.6 million accounted for 29 per cent of total assets.

Financial review (continued)

Gross income development
(US$ millions)



	2019	2020	2021	2022	**2023**
Net interest income	280.4	232.8	246.1	345.8	**498.5**
Non-interest income	104.3	74.9	148.6	176	**209.7**
Gross income	384.7	307.7	394.7	521.8	**708.3**

Key ratios for group financials

	2023	2022	2021	2020
CAR	**18.94%**	17.30%	16.10%	17.20%
NSFR	**142.97%**	161.50%	146.20%	156.00%
LCR	**137.77%**	299.30%	176.30%	155.20%
Loans to Deposits[1]	**33.61%**	42.80%	44.70%	42.80%
NPL ratio	**1.77%**	1.60%	2.50%	3.40%
Provision Coverage Ratio	**157%**	161%	113%	93%

[1]Deposits includes senior and subordinated term financing.

NET INTEREST INCOME

Net interest income for 2023 increased to US$ 498.5 million from US$ 345.8 million in the previous year, up by 44 per cent propelled by effective management of the balance sheet, widened balance sheet spreads, and favourable interest rates conditions.

Interest income on loans and advances of US$ 926.1 million was up by 96 per cent from prior year, interest income on investment securities of US$ 334.6 million was up by 140 per cent from prior year, and interest income on placements and other liquid assets was US$ 938.2 million up by 208 per cent from prior year.

The overall balance sheet growth achieved was 44 per cent with increase in balance sheet spreads by 27 bps (1.3 per cent as of 31 December 2023).

As a result, the Bank's net interest income increased by US$ 152.7 million representing an increase of 44 per cent.

Looking at segmental net interest income, wholesale banking net interest income increased to US$ 268.3 million for the year, up from US$ 209.8 million in the prior year, and represented 54 per cent of the Bank's total net interest income. Treasury net interest income of US$ 154.7 million compared to US$ 112.3 million in the prior year and accounted for 31 per cent of the Bank's total net interest income.

NON-INTEREST INCOME

Non-interest income rose by 19 per cent to US$209.8 million comprising fee and commission income, foreign exchange income, trading income, and other income reflecting the Bank's strategy to reduce reliance on net interest income.

Fee and commission income reached US$ 103.2 million. Commissions on letters of credit and guarantee at US$ 40.8 million were the largest source of fee-based income, comprising 37 per cent of gross fee and commission income for the year. An analysis of fee and commission income with prior year comparatives is set out in note 24 to the consolidated financial statements.

Investment banking and asset management fees of US$ 32.3 million represented 29 per cent of gross fee and commission income.

The Group's various trading activities recorded an income of US$ 60.9 million for 2023 compared to a loss of US$ 6.8 million the previous year. An analysis of trading income is set out in note 25 to the consolidated financial statements. Trading income principally comprised mark-to-market changes recorded on equity securities and funds classified as fair value through profit or loss (FVTPL), commodity options and customer-related interest rate derivatives.

An income of US$ 33.6 million was recorded on trading investments in equity managed funds due to positive market conditions. As set out in the analysis of trading securities in note 10 to the consolidated financial statements, the majority of the Group's trading activities relate to seed investments in funds managed by the Group's investment banking and asset management subsidiaries, GIB Capital and GIB UK.

Foreign exchange income at US$ 37.2 million for the year was marginally higher than in 2022 this comprises customer-initiated foreign exchange contracts.

Other income stood at US$ 8.5 million in 2023 compared to US$ 44.8 million in the previous year. An analysis of other income is set out in note 27 to the consolidated financial statements. Recoveries on previously written-off assets was US$ 8.5 million compared to US$ 35.4 million in the previous year.

Financial review (continued)

OPERATING EXPENSES

Total expenses reached $397.5 million compared to $346.5 million the preceding year due to targeted investment in people and technology.

Staff expenses at US$ 249.5 million, which accounted for 63 per cent of total operating expenses, were higher than the prior year and reflected the Bank's focused investment in strengthening its human capital. Premises expenses decreased by US$ 1.1 million to US$ 18.5 million during 2023 largely due to depreciation of building installation.

Other operating expenses of US$ 129.5 million were US$ 9.6 million higher than 2022, with increases relating to strategic initiatives.

PROVISIONS

The Group recorded a net provision charge of US$ 112.0 million compared with US$ 71.6 million in the prior year demonstrated the Bank's prudent risk management approach. A net loan provision charge for loans and advances of US$ 108.4 million, compared to US$ 66.7 million in 2022. The loan provision charge comprised a US$ 63.4 million specific (stage 3) provision charge, and a US$ 45.0 million non-specific (stages 1 and 2) provision charge. A US$ 1.4 million provision release was booked for stage 1 investment securities and a release of US$ 0.3 million for stage 2, and a US$ 0.6 million provision charge was recorded for placements as set out in note 28 to the consolidated financial statements.

CAPITAL STRENGTH

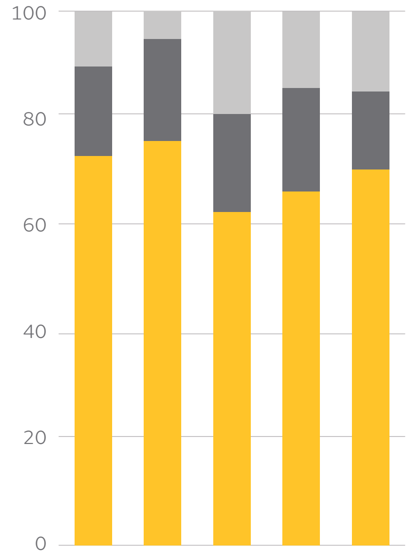
Total equity amounted to US$ 3,368.6 million as at 31 December 2023, of which US$ 2,368.6 million was attributable to the shareholders of the Bank.

With a total regulatory capital base of US$ 3,893.2 million and total risk-weighted exposures of US$ 20,556.3 million, the risk asset ratio calculated in accordance with the Central Bank of Bahrain's Basel 3 guidelines was 18.9 per cent, while the tier 1 ratio was 16.1 per cent, ratios that are high by international comparison and above the regulatory thresholds as set out by the Central Bank of Bahrain. Tier 1 capital comprised 85 per cent of the total regulatory capital base. In accordance with international regulatory guidelines, unrealised gains and losses on equity investments classified as FVTOCI are included in the regulatory capital base.

The capital adequacy ratio incorporates both market and operational risk-weighted exposures. The Group applies the standardised approach for market risk and operational risk.

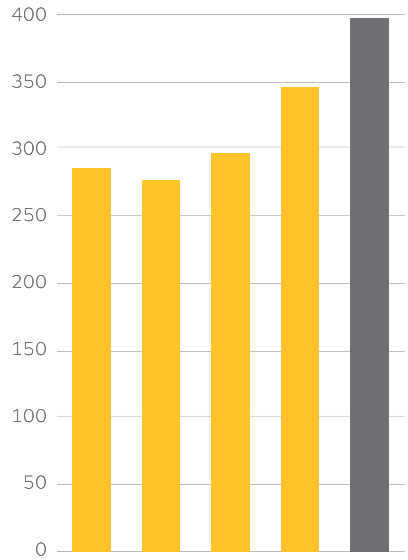
The Risk Management and Capital Adequacy report set out in a later section of the Annual Report provides further detail on capital adequacy and the Group's capital management framework. The Group's policies in relation to capital management are set out in note 31.5 to the consolidated financial statements. As described in more detail in the note, the Group's policy is to maintain a strong capital base so as to maintain investor, counterparty and market confidence and to sustain the future development of the Group's business.

Gross income composition
(%)



	2019	2020	2021	2022	**2023**
Net interest income	72.9	75.7	62.4	66.3	**70.4**
Fee & commission income	16.8	19.2	18.4	19.4	**14.6**
Foreign exchange, trading & other income	10.3	5.2	19.3	14.3	**15.0**
	100.0	100.0	100.0	100.0	**100.0**

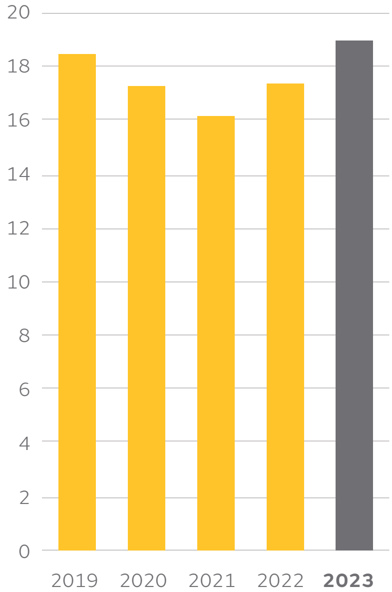
Expenses development
(US$ millions)



	2019	2020	2021	2022	**2023**
Operating expenses	285.9	276.9	296.7	346.5	**397.5**

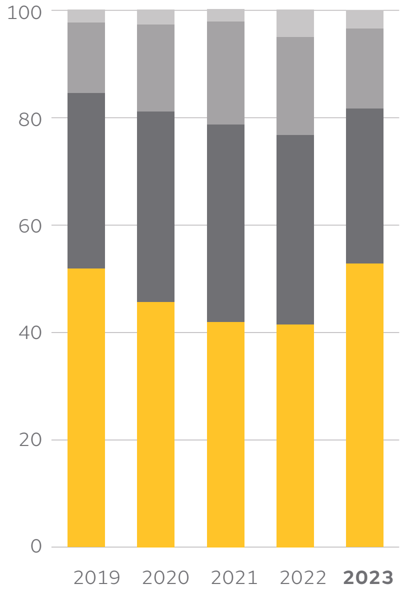
Financial review (continued)

Capital Adequacy ratio
(%)



	2019	2020	2021	2022	2023
Capital Adequacy ratio	18.4	17.2	16.1	17.3	**18.9**

Asset mix by category
(%)



	2019	2020	2021	2022	2023
Placements & other liquid assets	51.8	45.6	41.9	41.4	**52.7**
Loans & advances	32.7	35.4	36.7	35.2	**28.9**
Securities	13.1	16.2	19.2	18.3	**14.8**
Other	2.4	2.8	2.3	5.1	**3.5**
	100	100	100	100	**100**

ASSET QUALITY

The geographical distribution of risk assets is set out in note 32 to the consolidated financial statements. The credit risk profile of financial assets, based on internal credit ratings, is set out in note 31.1(b), demonstrating that 83.7 per cent of all financial assets, comprising liquid assets, placements, securities, loans, and credit-related contingent items, were rated 4- or above, i.e. at or above the equivalent of investment-grade rated.

Further assessment of asset quality is referenced in note 41.7 to the consolidated financial statements, on the fair value of financial instruments. Based on the valuation methodologies set out in that note, the net fair values of all on- and off-balance sheet financial instruments as at 31 December 2023 were not significantly different to their carrying amounts.

At the end of 2023, liquid assets of US$ 24,827.8 million constituted 53 per cent of total assets while loans and advances of US$ 13,624.6 million accounted for 29 per cent of total assets and investment securities of US$ 6,716.2 million accounted for a further 14 per cent

INVESTMENT SECURITIES

Investment securities totalled US$ 6,716.2 million as at 31 December 2023. The investment securities portfolio primarily represents the Group's liquidity reserve and accordingly, principally comprises investment-grade rated debt securities issued by major international and regional financial institutions and government-related entities.

The Group's investment securities portfolio comprise of high quality debt securities that are held across various portfolios at each of its entities. It largely consists of floating rate securities or fixed rate securities that have been swapped to yield constant spreads over the benchmark rates and treasury bills. These accounted for US$ 3,919.9 million, or 58.5 per cent of total gross investment debt securities at 2023 year end. The other debt security portfolio represents the investment of the Group's net free capital in fixed rate securities short-term treasury bills with GCC governments. This portfolio amounted to US$ 2,776.2 million at the end of the year and comprised investments in GCC and OECD government-related fixed rate bonds.

Financial review (continued)

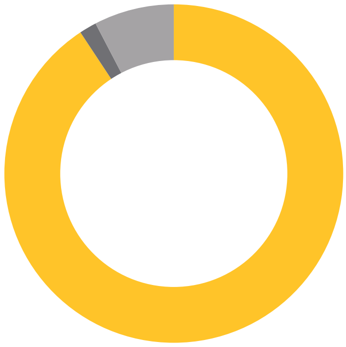
INVESTMENT SECURITIES (continued)

Equity investments at the end of 2023 amounted to US$ 23.2 million. The equity investments comprised largely of private equity-related investments amounting to US$ 16.1 million and listed equities amounting to US$ 7.1 million.

An analysis of the investment securities portfolio by rating category is set out in note 11 to the consolidated financial statements. US$ 6,071.2 million or 90.8 per cent of the debt securities at 2023 year end were rated A- / A3 or above. Based on the rating of the issuer, a further US$ 110.2 million or 1.6 per cent of the debt securities represented other investment grade rated securities. US$ 511.6 million or 7.6 per cent of debt securities were rated below investment grade, i.e. below BBB- / Baa3. These principally comprised debt securities issued by GCC governments.

There were no past due or impaired investment securities as at 31 December 2023. All debt securities were categorised as stage 1 for provisioning purposes.

Investment debt securities rating profile



	US$ millions	%
AAA to A-/Aaa to A3	6,071.2	90.8%
BBB+ to BBB-/Baa1 to Baa3	110.2	1.6%
BB+ to BB-/Ba1 to Ba3	511.6	7.6%
	6,693.0	**100.0%**

LOANS AND ADVANCES

The Bank reported net loans and advances of US$ 13,624.6 million at the end of 2023, up from US$ 11,497.6 million at the end of the prior year. Gross loans and advances were US$ 2,199.2 million higher than at 2022 year end. The asset quality of the loan book, and the Bank's continued focus on being selective in the extension of new loans is reflected in the quality of the loan book with 94.8 per cent of net loans being stage 1.

Based on contractual maturities at the balance sheet date, 53 per cent of the loan portfolio was due to mature within one year, while 27 per cent was due to mature within three years. Only 8.8 per cent of loans were due to mature beyond five years. Details of the classification of loans and advances by industry are set out in note 12.3 to the consolidated financial statements while the geographical distribution of loans and advances is contained in note 32.

As at 31 December 2023, the largest industry sectorial exposure was to the financial sector, comprising 18.2 per cent of gross loans, compared to 18.9 per cent at the end of 2022. This was followed by the trading and services sector, comprising 17.4 per cent.

The credit risk profile of loans and advances, based on internal credit ratings, is set out in note 31.1(b) to the consolidated financial statements. US$ 8,655.9 million or 63.5 per cent of total loans were rated 4- or above, i.e. the equivalent of investment grade rated. Only US$ 417.5 million or 3.1 per cent of loans and advances, net of provisions for impairment, were classified as stage 2 exposures in accordance with IFRS 9, i.e. loan exposures that had experienced a significant increase in credit risk since inception. In addition, exposures classified as stage 3 in accordance with IFRS 9 were US$ 67.4 million, or only 0.5 per cent of loans and advances, net of provisions for impairment. Stage 3 exposures are those exposures which are specifically provisioned based on the present value of expected future cash flows.

Loan maturity profile

	US$ millions	%
Year 1	7,225.50	53.0
Years 2 & 3	3,675.80	27.0
Years 4 & 5	1,523.70	11.2
Over 5 years	1199.6	8.8
	13,624.6	**100**

Financial review (continued)

LOANS AND ADVANCES (continued)

Total loan loss provisions as at 31 December 2023 amounted to US$ 338.9 million. Counterparty specific provisions (stage 3) amounted to US$ 179.4 million while non-specific provisions (stages 1 and 2) were US$ 159.5 million. Total provisions of US$ 338.9 million represented 137.3 per cent of the gross book value of non-performing loans. During 2023, US$ 36.5 million of 100 per cent provisioned loans were transferred to the memorandum records. This resulted in the utilisation of an equivalent amount of stage 3 provisions.

Specific provisions are determined based on the recoverable amount of the loan. The recoverable amount is measured as the present value of the expected future cash flows discounted based on the interest rate at the inception of the facility.

For the purpose of the calculation of the non-specific (stages 1 and 2) provisions, the Group only takes account of collateral held in the form of cash or exchange-traded equities and real estate net of applicable haircuts. While collateral in the form of securities, unlisted equities and physical assets is used for risk mitigation and protection purposes, it is not taken into account in the calculation of the non-specific provisions.

The gross and net book values of non-performing loans as at 31 December 2023 amounted to US$ 246.8 million and US$ 67.4 million, respectively.

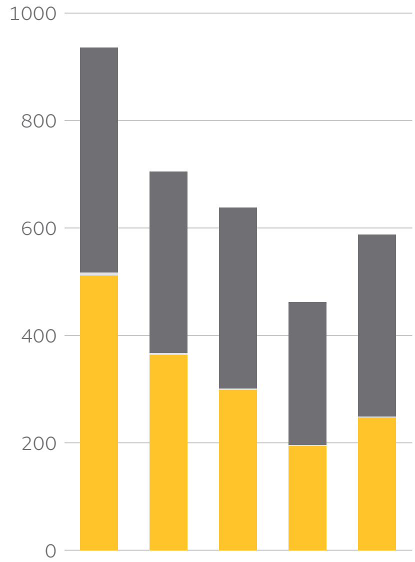
OTHER ASSET CATEGORIES

Cash and other liquid assets, amounting to US$ 17,006.5 million at the end of 2023, are analysed in note 7 to the consolidated financial statements. This principally comprises cash and balances with central banks, and financial institutions in the key geographic locations in which the Group operates.

Placements totalled US$ 7,077.4 million at the end of 2023, and were well diversified by geography, as illustrated in note 32 to the consolidated financial statements. Placements were largely with European, GCC and North American bank counterparties and represented 15 per cent of total assets at the end of 2023, supplemented by US$ 743.9 million of securities purchased under agreements to resell. These represented collateralised placements, thereby reducing the Group's risk exposure to the financial institution sector.

An analysis of trading securities is set out in note 10 to the consolidated financial statements. Trading securities at US$ 270.8 million as at 31 December 2023 largely comprised investments in funds managed by GIB's subsidiaries, GIB Capital and GIB UK.

PDO loan development
(US$ millions)



	2019	2020	2021	2022	**2023**
Gross PDO loans (US$ millions)	511.4	363.5	298.4	193.9	**246.8**
Gross PDO loans as % of gross loans	5	3.4	2.5	1.6	**1.8**
Provisions	419.6	337.8	336.6	266.7	**338.9**

RISK ASSET AND COMMITMENT EXPOSURE

Risk asset and commitment exposure as at 31 December 2023 amounted to US$ 53,762 million. These comprise all assets included in the balance sheet (except for other assets) and credit-related contingent items. As referred to earlier, an analysis of risk asset and commitment exposure by category and geography is contained in note 32 to the consolidated financial statements. US$ 30,826 million or 57.3 per cent of total risk assets and commitments represented exposure to counterparties and entities located in the GCC states. The remaining risk asset exposure largely represented short-term placements with major European banks, and investment securities issued by highly rated issuers in Europe, North America, and Asia. An analysis of derivative and foreign exchange products is set out in note 35 to the consolidated financial statements, while a further analysis of credit-related contingent items together with their risk-weighted equivalents, is contained in note 36.

Financial review (continued)

Risk asset and commitment exposure

	US$ millions	%
GCC	30,826.2	57.3
Other MENA	470.8	0.9
Europe	8,214.2	15.3
North America	13,160.8	24.5
Asia	1,089.6	2.0
	53,761.60	**100.0**

Deposits - geographical profile

	US$ millions	%
GCC countries	25,956.20	73.3
Other MENA	425.8	1.2
Other countries	9,019.80	25.5
	35,401.80	**100.0**

FUNDING

Bank and customer deposits at 31 December 2023 totalled US$ 35,401.8 million. Customer deposits amounted to US$ 34,517.9 million, representing 97.5 per cent of total deposits; while bank deposits totalled US$ 883.9 million, accounting for 2.5 per cent.

Total deposits are analysed by geography in note 15 to the consolidated financial statements. US$ 25,956.2 million or 73.3 per cent of total deposits were derived from counterparties in GCC countries. Deposits derived from non-MENA countries, principally Europe, amounted to US$ 9,445.6 million or 26.7 per cent of total deposits are primarily booked in GIB UK which is considered as a liability driven balance sheet wherein, they receive short term funds and place in interbank markets at a spread. The Group is therefore a net placer of funds in the international interbank market.

Securities sold under agreements to repurchase (repos) were US$ 743.1 million as at 31 December 2023. Where effective from a cost and tenor basis, the Group utilises its high quality and highly rated investment securities to raise funding on a collateralised basis, as well as constantly validating the ability to repo securities as part of the Group's liquidity contingency plans.

Senior term financing and subordinated term financing as at 31 December 2023 totalled US$ 6,020.7 million. During the year, GIB – KSA subsidiary successfully issued a subordinated financing facilities under Tier 2 Sukuk programme which are restricted to qualified institutional clients maturing in ten years callable in five years. Term financing and equity represented 146.7 per cent of loans maturing beyond one year.

Further commentary on liquidity and funding is provided in the Risk Management and Capital Adequacy report.

Corporate governance report

Since Gulf International Bank B.S.C. (“GIB” or the “Bank”) was established back in 1975, its Agreement of Establishment and Articles of Association (“AoA”), executed at the time by the Gulf Cooperation Council (“GCC”) Governments that created it, set the foundation of solid governance practices for the Bank. From the start, sound corporate governance has been essential at GIB, both in achieving organisational integrity and efficiency as well as in attaining fairness to all stakeholders.

SOUND GOVERNANCE PRACTICES

Since Gulf International Bank B.S.C. (“GIB” or the “Bank”) was established back in 1975, its Agreement of Establishment and Articles of Association (“AoA”), executed at the time by the Gulf Cooperation Council (“GCC”) Governments that created it, set the foundation of solid governance practices for the Bank. From the start, sound corporate governance has been essential at GIB, both in achieving organisational integrity and efficiency as well as in attaining fairness to all stakeholders.

Over the years, GIB has progressively adopted and implemented standards of corporate governance and has regularly published a statement on corporate governance in its annual reports since 2003.

Currently, GIB has in place many measures that are hallmarks of good corporate governance practices, such as comprehensive corporate governance policies, charter and mandates for the Board of Directors (“Board”) and for Directors and for Board Committees; a Code of Conduct (Code of Conduct, Ethics and Avoiding Conflicts of Interest) published on the Bank’s website; a dedicated Corporate Governance Unit; and a variable remuneration framework that is fully compliant with the Sound Remuneration Practices issued by the CBB.

Pursuant to the issuance of the Central Bank of Bahrain’s (“CBB”) restructured High-level Controls Module (“HC Module”) during 2023, the Compliance and Corporate Governance Units conducted a bank-wide gap analysis in coordination with the relevant stakeholders, to assess the impact of any new or modified rules introduced under the new HC-Module. Accordingly, the outcome of the gap analysis and remediation plan were communicated with CBB.

Corporate governance report (continued)

To address the gaps, Management adopted an action plan to address the gaps and ensure compliance with the restructured HC Module by 1 October 2023, which included updating relevant existing policies and Board related mandates, and appointing a Corporate Governance Officer. GIB's Board has adopted a whistle blowing policy which has been updated in line with the restructured HC Module, whereby management has designated officials to whom employees can approach. The policy provides adequate protection to the employees for any reports in good faith; GIB's Board of Directors review the policy periodically.

GIB owns a network of consolidated Subsidiary companies that form the Group globally (collectively referred to as "GIB Group"). Accordingly, the Board have adopted since 2021 a Subsidiary Corporate Governance Policy to outline the corporate governance framework of the GIB Group Subsidiaries and the main principles for promoting sound corporate governance practices across the Group. The purpose of this Policy is to establish a coherent, well–functioning and transparent governance system within the GIB Group to ensure sound governance practices, with clear lines of responsibility and accountability across the Group consistent with each Subsidiary's applicable legal requirements under the jurisdiction it operates in. Each of the Subsidiaries has a board and management structure appropriate for its activities and complexity.

The Corporate Governance Policy, Board Charter and its respective Committees' Mandates are subject to an annual review to ensure that they continue to reflect the current processes, best practices and any new regulatory requirements. During 2023, the Board approved updates to these documents in February 2023, and in light of the issuance of the restructured HC Module, subsequent amendments were approved in September 2023.

The relevant corporate governance policies are posted in their entirety on the Bank's website (www.gib.com), and largely reflect the corporate governance requirements contained in the HC Module of the CBB Rulebook Volume 1.

Pursuant to the requirements stipulated within the CBB Rulebook on the annual disclosure to the Board of Directors, regarding the employment of relatives of the approved persons occupying controlled functions within the Bank, the Chief Executive Officer has declared to the Board of Directors that there are no relatives of any member occupying approved person in controlled functions within the Bank for the year 2023.

The measures adopted by GIB formally entrenched a culture of professional corporate governance in the organisation. They also demonstrated GIB's commitment to financial transparency, fairness and disclosure of financial information that will benefit all users of such information, including regulators, customers, counterparties, rating agencies and other stakeholders.

In March of every year, the Board prepares for its Shareholders' Annual General Meeting ("AGM") a report on GIB's corporate governance in line with the relevant CBB rules.

GIB discloses in the Annual Report additional information required to be disclosed in accordance with Section PD-1.3.8 Public Disclosures Module of the CBB Rulebook Volume 1, and the Board also discloses to the Shareholders the information required to be disclosed to them annually in accordance with Section PD-6.1.1 of the Rulebook.

To ensure the Bank continues to adhere to applicable corporate governance rules and regulations, the Governance, Nomination & Remuneration Committee annually reviews a report on the Bank's compliance with the CBB Rulebook including the HC Module and Commercial Companies Law of the Kingdom of Bahrain.

SHAREHOLDERS

The current shareholding structure of GIB is as follows:

Shareholder	Percentage of shareholding
Public Investment Fund Kingdom of Saudi Arabia	97.226%
Kuwait Investment Authority State of Kuwait	0.730%
Qatar Holding Company State of Qatar	0.730%
Bahrain Mumtalakat Holding Company Kingdom of Bahrain	0.438%
Oman Investment Authority Sultanate of Oman	0.438%
Ministry of Finance United Arab Emirates	0.438%

During the first quarter of 2023, GIB obtained approval of its shareholders at an extra-ordinary general assembly meeting on 30 March 2023 to restructure the Bank's equity after having received regulatory approvals. The move aims to support GIB's growth strategy and build on the progress and profitability achieved over the last two years.

The Shareholders have approved the set-off of accumulated retained losses of US$ 729 million as of 31 December 2022 against capital and reserves. In doing so, the Bank has decreased its capital by US$ 500 million through a 20 per cent pro-rata reduction in shares as well as using its voluntary reserves and share premium in full, and the reduction of legal reserves by US$ 42.4 million. Total shareholders' equity, after the restructuring, remains unchanged.

ORGANISATION – RULES AND ROLES

GIB maintains a corporate governance structure that delineates and segregates the functions, roles and responsibilities of the Board and Management, and ensures that the requisite separate attribution of responsibilities between them is maintained:

- There is an effective and appropriately constituted Board responsible for the stewardship of the Bank and the supervision of its business; it receives from Management all information required to properly fulfil its duties and the duties of the committees that assist it; and it delegates to Management the authority and responsibility for managing the day-to-day business of the Bank.

Corporate governance report (continued)

- There is an effective and appropriately organised management structure responsible for the day-to-day management of the Bank and the implementation of Board-approved strategy, policies and controls.
- There is a clear division of roles and responsibilities between the Board and Management, and between the Chairman and the Chief Executive Officer (CEO).
- There are defined and documented mandates and responsibilities (as well as delegated authorities where applicable) for Senior Management.

The Bank's corporate governance structure and organisation chart is set out on page 58-59 of this Annual Report.

BOARD OF DIRECTORS

Under GIB's AoA, the Board may comprise up to 10 members to be appointed or elected every three years. The AoA gives the right to each Shareholder holding 10 per cent of the share capital to members on the Board. The Shareholders exercising this right also have the right to terminate such appointment and replace the relevant Directors. The appointment of Directors is subject to prior approval from the CBB.

During November 2021, the Public Investment Fund (PIF) - holder of 97.226% shareholding percentage- appointed nine members on the Board of Directors for a 3-year term starting 10 November 2021 and ending on 9 November 2024. During the annual general assembly meeting held on 31 March 2022, the Shareholders appointed an additional Board member to serve on the Board of Directors until 9 November 2024.

GIB has a written appointment agreement with each Director. This agreement describes the Directors' powers, duties, responsibilities and accountabilities, as well as other matters relating to their appointment, including their term, the time commitment envisaged, their assignment on the Board Committees, the payment of financial considerations and expense reimbursement entitlement, and their access to independent professional advice when needed.

At the year end, the Board comprised ten Directors of whom four are non-executive directors including the Chairman, five independent directors including the Vice-Chairman, and one executive Director, who together bring a wide range of skills and experience to the Board. Their biographies are set out on page 52-55 of this Annual Report.

INDEPENDENCE OF DIRECTORS

The independence or non-independence of the Directors is subject to an annual review by the Board. As at 31 December 2023, five Directors of the Bank were classified as non-independent in accordance with the CBB regulations, and the remaining five Directors were classified as independent (see table on page 36).

BOARD RESPONSIBILITIES

The Board is responsible for the overall business performance and strategy of the Bank.

The Board establishes the objectives of the Bank, the adoption and annual review of strategy, the management structure and responsibilities, and the systems and controls framework. It monitors Management performance, and the implementation of strategy by Management, keeps watch over conflicts of interest, and prevents abusive related party transactions.

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

The Board also convenes and prepares the agenda for Shareholders' meetings and assures equitable treatment of Shareholders including minority Shareholders.

Finally, the Board delegates to Management the responsibility for the day-to-day management of the Bank in accordance with policies, guidelines and parameters set by the Board.

In preparation for Board and Committee meetings, the Directors receive, in a timely manner, regular reports and all other information required for such meetings, supplemented by any additional information specifically requested by the Directors from time to time. The Directors also receive monthly financial reports and other regular management reports that enable them to evaluate the Bank's and Management's performance against agreed objectives. As prescribed in GIB's Articles of Association, the Board plans at least four meetings per year, with further meetings to occur at the discretion of the Board.

During the Board meetings which took place during 2023, two (2) directors have abstained from voting on four (4) credit and investment proposals submitted during meetings or by circulation, due to being professionally affiliated to the borrowers. Moreover, there were no significant issues which were raised to the Board regarding GIB's business activities.

The details of Board membership and Directors' attendance during 2023 are set out in the following table:

Corporate governance report (continued)

DIRECTORS' ATTENDANCE 1 JANUARY 2023 - 31 DECEMBER 2023 MEETINGS

Board members	Board	Executive Committee	Audit Committee	Governance, Nomination and Remuneration Committee	Risk Policy Committee	Innovation Committee	Board Sustainability and Climate Change Committee	Executive Non-Executive	Independent Non-Independent
Mr. Abdulla bin Mohammed Al Zamil – Chairman	(5) 5	(4) 4				(4) 4	(2) 2	Non-Executive	Non-Independent
Mr. Abdulaziz bin Abdulrahman Al-Helaissi	(5) 5	(4) 3				(4) 4	(2) 2	Executive	Non-Independent
Dr. Najem bin Abdulla Al Zaid	(5) 5			(3) 3	4 (4)			Non-Executive	Independent
Mr. Sultan bin Abdul Malik Al-Sheikh	(5) 5		(5) 5			(4) 3	(2) 2	Non-Executive	Non-Independent
Mr. Bander bin Abdulrahman bin Mogren	(5) 4			(3) 1				Non-Executive	Non-Independent
Mr. Frank Schwab	(5) 5		(5) 5	(3) 3		(4) 4		Non-Executive	Independent
Mr. Rajeev Kakar	(5) 5	4 (4)	(5) 5					Non-Executive	Independent
Dr. Khaled Alsweilem	(5) 4				4 (4)			Non-Executive	Independent
Mr. Fahad Al-Saif	(5) 5	(4) 4			(4) 4			Non-Executive	Non-Independent
Mr. Nezar Al Saie	(5) 5				(4) 4			Non-Executive	Independent

Figures in (brackets) indicate the maximum number of meetings during the year.

BOARD COMMITTEES

The Committees of the Board derive their authorities and powers from the Board. Details of Committees' membership and attendance are listed in the tables below:

BOARD COMMITTEES' MEMBERSHIP (1 January 2023 – 31 December 2023)

Board committees	Member name	Member position
Executive Committee	Mr. Abdulla bin Mohammed Al Zamil	Chairman
	Abdulaziz bin Abdulrahman Al-Helaissi	Member
	Mr. Rajeev Kakar	Member
	Mr. Fahad Al-Saif	Member
Audit Committee	Mr. Rajeev Kakar	Chairman
	Mr. Frank Schwab	Member
	Mr. Sultan bin Abdul Malik Al-Sheikh	Member
Governance, Nomination & Remuneration Committee	Dr. Najem bin Abdulla Al-Zaid	Chairman
	Mr. Frank Schwab	Member
	Mr. Bander bin Abdulrahman bin Mogren	Member
Risk Policy Committee	Dr. Najem bin Abdulla Al-Zaid	Chairman
	Mr. Khaled Alsweilem	Member
	Mr. Fahad Al-Saif	Member
	Mr. Nezar Al Saie	Member
Innovation Committee	Mr. Frank Schwab	Chairman
	Mr. Abdulla bin Mohammed Al Zamil	Member
	Mr. Abdulaziz bin Abdulrahman Al-Helaissi	Member
	Mr. Sultan bin Abdul Malik Al-Sheikh	Member
	Mr. Nezar Al Saie	Member
	Mr. Jamal Al Kishi	Member
Board Sustainability and Climate Change Committee (BSCCC)*	Mr. Abdulla bin Mohammed Al Zamil	Chairman
	Mr. Abdulaziz bin Abdulrahman Al-Helaissi	Member
	Mr. Sultan bin Abdul Malik Al-Sheikh	Member
	Ms. Katherine Garrett-Cox	Member

*The Board of Directors approved the establishment of the Committee during its meeting held on 21 February 2023.

Corporate governance report (continued)

BOARD AND COMMITTEES' MEETINGS DURING 2023

Type of meeting	Meeting dates
Board of Directors	1. 21 February 2023 2. 10 May 2023 3. 28 July 2023 4. 08 November 2023 5. 12 December 2023
Executive Committee	1. 21 February 2023 2. 10 May 2023 3. 16 August 2023 4. 08 November 2023
Audit Committee	1. 15 February 2023 2. 08 May 2023 3. 27 July 2023 4. 05 November 2023 5. 10 December 2023
Governance, Nomination & Remuneration Committee	1. 19 February 2023 2. 20 March 2023 3. 11 December 2023
Risk Policy Committee	1. 19 February 2023 2. 09 May 2023 3. 10 August 2023 4. 01 November 2023
Innovation Committee	1. 15 February 2023 2. 09 May 2023 3. 26 July 2023 4. 06 November 2023
Board Sustainability and Climate Change Committee	1. 03 May 2023 2. 20 November 2023

Corporate governance report (continued)

EXECUTIVE COMMITTEE

The mandate of the Executive Committee requires it, among other things, to:

1. Assist the Board in formulating the executive policy of the Bank and controlling its implementation.
2. Assist the Board by reviewing, evaluating, and making recommendations to the Board with regard to key strategic issues or material changes in key strategic objectives or direction.
3. Approve credit limits that exceed the authority of the CEO, subject to the limits approved by the Board.
4. Carry out additional responsibilities specifically mandated to it by the Board.
5. Exercise the powers of the Board on matters for which the Board has not otherwise given specific direction in circumstances in which it is impossible or impractical to convene a meeting of the Board (and subject to applicable law and GIB's Agreement of Establishment & Articles of Association). However, the Board may, acting unanimously, modify or amend any decision of the Committee on such matters.

In all cases, the members of the Committee must exercise their business judgement to act in what they reasonably believe to be in the best interests of the Bank and its Shareholders.

AUDIT COMMITTEE

The role of the Audit Committee is to assist the Board in providing oversight of (i) the integrity and reporting of the Bank's quarterly and annual financial statements, (ii) compliance with legal and regulatory requirements and rules of good corporate governance; (iii) the Bank's systems of internal controls; (iv) the qualifications, independence and performance of the Bank's internal and external auditors; (v) independent audits and regulatory inspections; (vi) the review of Bank's compliance, auditing, accounting and financial reporting policies and processes; and (vii) the review of internal audit, external audit and compliance reports and ensure that senior management is taking necessary corrective actions in a timely manner to address any control weaknesses, non-compliance with policies, laws and regulations, and other problems identified by auditors, the compliance officer and other control functions.

The mandate of the Audit Committee provides further particulars on responsibilities relating to financial statements, internal controls, internal audit, external audit, regulatory compliance reporting and complaints/whistleblowing. The Chief Auditor and the Group Chief Compliance Officer report functionally to the Audit Committee and administratively to the Group CEO.

BOARD RISK POLICY COMMITTEE

The Committee assists the Board in fulfilling its oversight responsibilities in respect of setting the overall risk appetite, parameters and limits within which the Bank conducts its activities. On an on-going basis, the Committee:

1. Ensures that policies in respect of management of all significant risks are drafted and approved appropriately.
2. Receives, reviews, challenges and recommends for approval by the Board any proposed amendments to the overall risk appetite of the Bank.
3. Monitors whether Management maintains a culture that rewards the recognition, communication and management of risks.
4. Ensures that roles and responsibilities for risk management are clearly defined, with Group and/or division heads directly responsible, and that heads of risk management and the control functions are in supporting or monitoring roles, independent of business development.
5. Ensures that Management reports significant excesses and exceptions, as and when they arise, to the Committee for information and review.
6. Ensures that, on a timely basis, Management informs the Committee of all significant risks arising, and that it is comfortable with Management's responses and actions taken to address such findings.
7. Reviews the Bank's risk profile and significant risk positions and in so doing:
    - Receives reports on credit exposure by country, credit rating, industry/concentration, nonperforming loans and credit stress tests.
    - Receives reports on liquidity and market risk positions including related stress tests and contingency funding plan testing.
    - Receives updates on operational risk management
    - Receives updates on cyber risks
    - Receives updates on strategic risks
    - Receives updates on other risks e.g., fraud risk, information technology risk, etc.

Corporate governance report (continued)

GOVERNANCE, NOMINATION & REMUNERATION COMMITTEE

The principal objective of the Committee is to help the Board with ensuring that the Bank's remuneration levels remain competitive for GIB to continue to attract, retain and motivate competent staff to achieve the strategy and objectives of the Bank. The responsibilities of the Committee, as stated in its mandate, also include, but are not limited to, the following:

Nomination matters:

1. Assess the skills and competencies required by the Senior Management and the extent to which the required skills are represented by the Senior Management;
2. Establish processes for the review of the performance of the individual Senior Executive and Senior Management as a whole; subject senior management to annual performance assessment and document such assessments for the Board oversight. Obtain feedback on performance evaluation of the Chief Risk Officer, Chief Internal Auditor, Head of Compliance, Head of Internal Shariah Audit, Shariah Officer from the designated Board committee responsible for oversight of these functions;
3. Establish the processes for identification of suitable candidates for Senior Management and ratifying the recommended individuals qualified to become members of Senior Management;
4. Establish process for the succession planning of the Senior Management to ensure maintenance of appropriate balance of skills and experience within the Bank. Recommend to the Board appropriate succession plans of approved persons within senior management;
5. Oversee human resource policies relating to recruitment, retention, performance measurement and separation of the CEO and Senior Management.
6. Review and supervise the implementation and enforcement of the Bank's code of conduct.

Remuneration matters:

Reviewing and making recommendations to the Board in respect of:

1. Review the remuneration policies for the approved persons and material risk-takers, which must be approved by the shareholders and be consistent with the corporate values and strategy of the bank;
2. Approve, monitor and review the remuneration system to ensure the system operates as intended and includes effective controls, including back testing and stress testing of the remuneration policy. The system should be regularly reviewed for compliance with regulations, internal policies and bank procedures. In addition, remuneration outcomes, risk measurements, and risk outcomes should be regularly reviewed for consistency with the Board's approved risk appetite;
3. Approve the remuneration policy and amounts for each approved person and material risk taker, as well as total variable remuneration to be distributed, taking account of total remuneration including salaries, fees, expenses, bonuses and other employee benefits;
4. Ensure remuneration is adjusted for all types of risks and that the remuneration system takes into consideration employees that generate the same short-run profit but take different amount of risk on behalf of the bank;
5. Ensure that for material risk takers, the variable remuneration forms a considerable part of their total remuneration;
6. Review the stress testing and back testing results before approving the total variable remuneration to be distributed taking account of total remuneration including salaries, fees, expenses, bonuses and other employee benefits;
7. Carefully evaluate practices by which remuneration is paid for potential future revenues whose timing and likelihood remain uncertain by means of both quantitative and qualitative key indicators. The GNRC shall question payouts for income that cannot be realised or whose likelihood of realisation remains uncertain at the time of payment;
8. Ensure that for approved persons in risk management, internal audit, operations, financial controls, human resources, information technology, legal, AML/CTF and compliance functions, the mix of fixed and variable remuneration is weighted in favour of fixed remuneration;
9. Ensure appropriate compliance mechanisms are in place to ensure that employees commit themselves not to use personal hedging strategies or remuneration-and liability-related insurance to undermine the risk alignment effects embedded in their remuneration arrangements;
10. The performance evaluation and remuneration of senior management and staff must be based, among other factors, on their adherence to all relevant laws, regulations and CBB rulebook requirements, including but not limited to AML/CTF requirements in the FC module; and
11. Ensure the disclosure of remuneration to the Bank's shareholders pursuant to Section PD-6.1, and in the annual report pursuant to PD-1.3.8 (Public Disclosure Module) of Volume 1, of the Central Bank of Bahrain Rulebook (as amended from time to time).

Governance Matters:

1. Overseeing the development, maintenance and review of corporate governance policies.
2. Monitoring the Bank's compliance with regulatory requirements relating to corporate governance.
3. Review mandates and performance evaluations of the Board and its Committees and recommend to the Board any improvements deemed necessary or desirable to the mandates.
4. Review classification of individual Directors, and declaration of Directors and members of Senior Management regarding their outside activities and interests to determine whether any conflict of interest exists and take appropriate steps in that regard.
5. Overseeing Directors' corporate governance educational activities.
6. Oversee the Bank's public reporting on corporate governance matters.
7. Assess the Board and Committee's existing structure, size and composition on an annual basis.

CONTENTS

Corporate governance report (continued)

INNOVATION COMMITTEE

This is a special purpose non-regulatory mandated committee, mandated with the role of assisting the Board in its responsibilities by overseeing Bank's overall capabilities and strategic direction in matters of technology and innovation, including investment in research and development and other technological initiatives. Its responsibilities include:

1. Assisting the Board in its oversight responsibilities relating to Fintech matters, Fintech regulation and innovation.
2. Reviewing emerging Fintech innovation and trends for potential adoption and application within the Bank.
3. Overseeing management's review, selection, development and implementation of innovative themes and solutions in line with the strategic priorities of the bank.
4. Identifying opportunities that help create client value and differentiation on the bank's product and service offering across business units.
5. Raising awareness about the challenges and opportunities offered by fast-paced changes in the digital landscape.

BOARD SUSTAINABILITY AND CLIMATE CHANGE COMMITTEE ("BSCCC")

This is a special purpose non-regulatory mandated committee. It has an advisory role in the design and implementation of GIB's sustainability and climate change strategy, which includes Environmental, Social and Governance issues (ESG). The BSCCC advises the Board on the progression of the strategies, and challenges executive management to ensure that sustainability and climate change risks and opportunities are effectively embedded into the Bank and Group businesses.

The BSCCC is responsible for:

- GIB's Sustainability Framework
- GIB's Sustainable Finance and Transition Framework and other related sustainability frameworks and policies
- Sustainability targets and monitoring associated metrics

EVALUATION OF THE BOARD OF DIRECTORS

The mandates of the Corporate Governance and the Nomination & Remuneration Committees, as well as the Board Charter, reflect the requirement that the Board must conduct an evaluation of its performance, the performance of each Committee and of each individual Director, at least annually. The Board reviewed independent performance reports from each of its Committees as well as a report on its own performance by evaluating the major activities undertaken during the year in comparison with the respective mandates. The evaluation of individual Directors included measurable rating scales, self-evaluations and the Chairman's input. A report on the board's performance assessment conducted each year is also provided to Shareholders at each AGM.

SHARIAH SUPERVISORY BOARD ("SSB")

GIB's Board of Directors (the "Board") has established a Shariah Supervisory Board (the "SSB"), which was initially formed in 2012. The Board subsequently reconstituted the SSB and the new SSB started operating on 1st January 2021, with a 3-year term, expiring on 31st December 2023. The Shareholders ratified the SSB's constitution on 31st March 2022.

The SSB is an independent body, composed of esteemed Shariah scholars, and is responsible for directing, reviewing, and supervising the Shariah compliant banking activities of GIB in order to ensure that they are in compliance with Islamic Shariah rules and principles. The SSB is mainly responsible to:

- Undertake Shariah supervision of GIB's Islamic business and activities;
- Determine the Shariah parameters necessary for GIB's Islamic banking activities;
- Issue decisions on Shariah matters in order to enable the Bank to comply with the provisions and principles of Shariah;
- Ensure that the Bank's Shariah policies and procedures are in compliance with Shariah provisions and principles; and
- Provide Fatwas, approvals and recommendations on GIB's Islamic products and services before offering the same to clients.

The SSB, during the year 2023, has undertaken Shariah supervision through reviewing and discussing Shariah compliant banking activities, reviewing the Shari'ah compliant banking internal audit reports and ensuring that all activities are in compliance with Shariah principles.

The SSB carried out its duties independently and with the support and cooperation of the senior management and the Board. The SSB received the required assistance to access Islamic documents and data and reviewed and discussed necessary amendments and Shariah requirements to issue objective Shariah decisions. Post their satisfactory review, the SSB has issued the attached Shariah Compliance Report for 2023, confirming, amongst others, that all Islamic contracts, transactions and dealings of GIB were carried out in accordance with the Islamic Shariah rules and principles.

THE SSB MEMBERS

Member name	Member position
Sheikh Mohamed Ali Elgari	Chairman
Sheikh Nedham Yaqoobi	Executive Member
Sheikh Osama Bahar*	Member

*Sheikh Osama joined the SSB on 1 September 2022 and his appointment was ratified in the annual general meeting of the Shareholders held on 30 March 2023.

Corporate governance report (continued)

The SSB Meetings Held During 2023

There were four quarterly SSB meetings held in 2023, with the following details of attendance:

SSB Members	20 March	6 June	12 September	5 December
Sheikh Mohamed Ali Elgari	√	√	√	√
Sheikh Nedham Yaqoobi	√	√	√	x
Sheikh Osama Bahar	√	√	√	√

Remuneration of the SSB

The SSB's current remuneration has been determined in accordance with GIB's Board of Director's Resolutions issued on October 28, 2020 and July 29, 2022. The aggregate remuneration, including the retainer and the meeting fees, paid to the SSB members during 2023 was as follows:

Retainer Fees	USD 75,000
Meetings Fees	USD 5,500
Total**	USD 80,500

**Excluding VAT

INDUCTION AND THE CONTINUING EDUCATION OF DIRECTORS

The Board and its Committees regularly receive updates on key developments in the regulatory and other areas that fall under their responsibilities.

The Board also stresses the importance of providing training and development opportunities for the Directors. The Board has passed a resolution to encourage Directors to seek any training they deem necessary (with the Bank bearing the expenses of such training), and the Directors are frequently briefed on the availability of training opportunities.

The Governance, Nomination & Remuneration Committee adopted a Board training program for 2023 which was rolled out throughout the year. The virtual sessions, delivered by world-class providers, represent a thought leadership curriculum of which aimed to deliver tangible impact.

The program was delivered by local and worldclass training providers and covered topics relating to Financial Management; Major Trends in Asset Management; Cyber Security, Central Banks Focus 2023/Financial Services Global Regulatory Changes; Strategic Decision Making for Leaders; Leading Change in an Age of Digital Transformation; Advanced International Corporate Finance; and Financing the Energy Transition/Decarbonising the Economy.

In addition to the aforementioned program, the Bank held an exclusive GIB Executive Forum Webinar with James Baker III on the topic of "The World in Transition", and the Board attended an AML awareness session during 2023 in line with regulatory requirements.

MANAGEMENT

The Senior Management team is responsible for the day-to-day management of the Bank entrusted to it by the Board. It is headed by the Group Chief Executive Officer and the Deputy Group Chief Executive Officer[1] ("CEO Office"), who are supported by senior members of the management team and the Board Secretary. The biographies of the Bank's Senior Management team are set out on page 56-57 of this Annual Report.

The following 1st level management committees assist the CEO Office in the management of the Bank:

1. GIB Group Management Committee
2. GIB B.S.C. Management Committee
3. Group Risk Management Committee
4. Group Assets and Liabilities Committee (ALCO)
5. GIB B.S.C. Assets and Liabilities Committee (ALCO)
6. Special Assets Unit Credit Committee
7. GIB Group Sustainability Council
8. Information Security Management Committee
9. Group Operational Risk and Internal Control Committee
10. Tender Review Committee
11. GIB B.S.C. Credit Committee
12. Group Investment Committee
13. Group Digital Committee[2]
14. Project Approval Committee
15. GIB B.S.C. Provisions Committee
16. GIB B.S.C. Crisis Management Committee
17. GIB B.S.C. Business Continuity Management Steering Committee
18. Transformation Steering Committee

[1] Following the resignation of the Deputy Group Chief Executive Officer, the Bank will no longer continue with this element of the role.

[2] Formerly known as Project Evaluation Committee. As at 1 January 2024, this Committee has been discontinued and responsibilities relating to project costs oversight are being handled by the Transformation Steering Committee.

Corporate governance report (continued)

MANAGEMENT (continued)

These Committees derive their authorities from the CEO's Office, based on the authorities and limits delegated by the Board.

In fulfilling its principal responsibility for the day-to-day management of the Bank, the Senior Management team is required to implement Board-approved policies and effective controls within the strategy and objectives set by the Board.

Responsibilities and accountabilities of the Senior Management team include assisting with and contributing to:

1. Formulation of the Bank's strategic objectives and direction.
2. Formulation of the Bank's annual budget and business plan.
3. Ensuring that high-level policies are in place for all areas, and that such policies are fully applied.
4. The setting and management of risk/return targets in line with the Bank's overall risk appetite.
5. Determining the Bank's overall risk-based performance measurement standards.
6. Reviewing business units' performance against strategic objectives and budget and initiating appropriate action to ensure strategy implementation.
7. Ensuring that the Bank operates to the highest ethical standards and complies with both the letter and spirit of the law, applicable regulations and codes of conduct.
8. Ensuring that the Bank is an exemplar of good business practice and customer service.

Their attention is also drawn to the fact that these obligations are in addition to their specific functional responsibilities and objectives, and those set out in the Bank's policies and procedures.

Strategy progress across divisions is reported monthly to Group and entity CEOs and senior management. The Board receives a quarterly progress update on the Group's strategic priorities and balanced scorecards.

REMUNERATION

The Bank's total compensation policy, which includes the variable remuneration policy, sets out GIB's policy on remuneration for Directors and Senior Management, and the key factors that were taken into account in setting the policy.

The Bank adopts Sound Remuneration Practices in accordance to CBB requirements. The Board approved the framework and incentive components and obtained Shareholders' approval at the 2015 Annual General Meeting. The key features of the remuneration framework are summarised below.

The GNRC reviews the operation of the variable remuneration policy annually to ensure that the policy has operated as intended and was compliant with the applicable laws, regulations, principles and standards.

Remuneration strategy

The Bank's basic compensation philosophy is to provide a competitive level of total compensation to attract, retain and motivate qualified and competent employees. The Bank's variable remuneration policy is driven primarily by a performance-based culture that aligns employee interests with those of the Shareholders of the Bank. These elements support the achievement of set objectives through balancing reward for both short-term results and long-term sustainable performance. The strategy is designed to share its success and to align employees' incentives with the risk framework and risk outcomes.

The quality and long-term commitment of all employees is fundamental to the success of the Bank. The Bank therefore aims to attract, retain and motivate the very best people who are committed to maintaining a career with the GIB, and who will perform their role in the long-term interests of Shareholders. The Bank's reward package comprises the following key elements:

- Fixed pay
- Benefits
- Annual performance awards
- Deferred remuneration plan

A robust and effective governance framework ensures that the Bank operates within clear parameters of its compensation strategy and policy. All compensation matters, and overall compliance with regulatory requirements, are overseen by the Governance, Nomination and Remuneration Committee of the Board ("GNRC").

The Bank's remuneration policy, in particular, considers the role of each employee, and has set guidance depending on whether an employee is a Material Risk-taker and/or an Approved Person in business line, control or support functions. An Approved Person is an employee whose appointment would require prior regulatory approval because of the significance of the role within the Bank; and an employee is considered a Material Risk Taker if they head up significant business lines, and any individuals within their control have a material impact on the Bank's risk profile.

In order to ensure alignment between what is paid to employees and the business strategy, GIB assesses bank-wide, divisional and individual performance against annual and long-term financial and non-financial objectives, summarised in line with the business planning and performance management process. This takes into account adherence to the Bank's values, risk and compliance measures and, above all, acting with integrity. Altogether, performance is therefore judged not only on what is achieved over the short- and long-term, but also importantly on how it is achieved, as the latter contributes to the long-term sustainability of the business.

Corporate governance report (continued)

Remuneration strategy (continued)

GNRC role and focus

The GNRC has oversight of all reward policies for the Bank's employees. The GNRC is the supervisory and governing body for compensation policy, practices and plans. It is responsible for determining, reviewing and proposing variable remuneration policy for approval by the Board. It is responsible for setting the principles and governance framework for all compensation decisions. The GNRC ensures that all persons must be remunerated fairly and responsibly. The remuneration policy is reviewed on a periodic basis to reflect changes in market practices, and the business plan and risk profile of the Bank.

The aggregate remuneration paid to the GNRC members during the year in the form of sitting fees for the 3 meetings held during 2023 [2022: 3 meetings] amounted to US$ 21,000 [2022: US$ 27,000].

Scope of application of the remuneration policy

The principles of the remuneration policy apply on a Group-wide basis. However, application of deferral requirements and issue of non-cash instruments for foreign branches and subsidiaries of the Bank is determined by applicable local regulations and market norms.

Board remuneration

The Bank's board remuneration is determined by its Shareholders in line with its Articles of Association. The compensation is linked to actual attendance of meetings. The structure and level of the compensation for the members of the Board are approved by the Annual General Meeting, and consist of the following:

- Attendance fees payable to members attending different Board-related Committee meetings
- Allowance to cover travelling, accommodation and subsistence, while attending Board and related Committee meetings
- A pre-defined fixed amount representing an annual remuneration fee

In 2023, the aggregate remuneration paid to GIB B.S.C. Board members was US$ 1.8 million [2022: 1.5 million]. At the Group level, aggregate remuneration paid to Board members and key Management was US$ 31.9 million [2022: US$ 30.4 million], of which US$ 4.2 million [2022: US$ 3.6 million] was paid to the Board members.

Variable remuneration for staff

The variable remuneration is performance related and consists primarily of the annual performance award. As a part of the staff's variable remuneration, the annual reward consists of delivery of operational and financial targets set each year, the individual performance of the employees in achieving those targets, and their contribution to delivering the Bank's strategic objectives.

The Bank has adopted a Board-approved framework to develop a transparent link between variable remuneration and performance. The framework is designed on the basis that the combination of meeting both financial performance and achievement of other non-financial factors would, all other things being equal, deliver a target award pool for the employees, prior to consideration of any allocation to business lines and employees individually. In the framework adopted to determine the variable remuneration pool, the GNRC aims to balance the distribution of the Bank's profits between Shareholders and employees.

The key performance metrics at the Bank level include a combination of short-term and long-term measures, and include profitability, solvency, liquidity and growth indicators. The performance management process ensures that all goals are appropriately cascaded down to respective business units and employees.

In determining the amount of variable remuneration, the Bank starts from setting specific targets, establishing market comparable bottom-up, setting a revenue target and other qualitative performance measures that would result in a target top-down award pool. The award pool is then adjusted to take account of risk via the use of risk-adjusted measures.

The GNRC carefully evaluates practices by which remuneration is paid for potential future revenues whose timing and likelihood remain uncertain. The GNRC demonstrates that its decisions are consistent with an assessment of the Bank's financial condition and future prospects.

The Bank uses a formalised and transparent process to adjust the award pool for quality of earnings. It is the Bank's objective to pay out variable remuneration out of realised and sustainable revenue. If the quality of earnings is not strong, the profit base could be adjusted based on the discretion of the GNRC.

For the Bank to have any funding for distribution of a variable remuneration pool, thresholds of financial targets have to be achieved. The performance measures ensure that the total variable remuneration is contracted where subdued or negative financial performance of the Bank occurs. Furthermore, the target award pool, as determined above, is subject to risk adjustments in line with the risk adjustment and linkage framework.

The Bank has engaged Aon McLagan as the independent remuneration consultant for market benchmarking and to provide professional opinion to the GNRC as an when required.

Corporate governance report (continued)

Remuneration of control functions

The remuneration level of staff in the control and support functions allows the Bank to employ qualified and experienced personnel in these functions. The Bank ensures that the mix of fixed and variable remuneration for control and support function personnel is weighted in favour of fixed remuneration. The variable remuneration of control functions is based on function-specific objectives and is not to be determined by the individual financial performance of the business area they monitor.

The Bank's performance management system plays a major role in deciding the performance of the support and control units on the basis of the objectives set for them. Such objectives are more focused on non-financial targets that include risk, control, compliance and ethical considerations, as well as the market and regulatory environments, apart from value-adding tasks which are specific to each unit.

Variable remuneration for business units

The variable remuneration for the business units is primarily decided by the key performance objectives set through the performance management system of the Bank. Such objectives contain financial and non-financial targets, including risk control, compliance and ethical considerations, as well as the market and regulatory environments.

Risk assessment framework

The risk assessment framework of GIB aligns variable remuneration to the risk profile of the Bank, and also ensures that the remuneration policy reduces employees' incentives to take excessive and undue risk. The Bank considers both quantitative measures and qualitative measures in the risk assessment process, and risk adjustments are applied to ensure that the Bank's remuneration policies are aligned to its risk appetite.

The GNRC considers whether the variable remuneration policy is in line with the Bank's risk profile and ensures that through the ex-ante and ex-post risk assessment framework and processes, remuneration practices where potential future revenues, whose timing and likelihood remain uncertain, are carefully evaluated.

Risk adjustments consider all types of risks, including intangible and other risks such as reputation risk, liquidity risk and the cost of capital. The Bank undertakes risk assessment to review financial and operational performance against the business strategy and risk performance, prior to distribution of the variable remuneration. GIB ensures that total variable remuneration does not limit its ability to strengthen its capital base.

The variable remuneration pool considers the performance of the Bank, which is considered within the context of its risk management framework. This ensures that the variable pay pool is shaped by risk considerations and Bank-wide notable events.

The size of the variable remuneration pool and its allocation within the Bank considers the full range of current and potential risks, including:

- The capital required to support the risks taken
- The level of liquidity risk assumed in the conduct of business
- Consistency with the timing and likelihood of potential future revenues incorporated into current earnings

The GNRC keeps itself abreast of the Bank's performance against the risk management framework. The GNRC will use this information when considering remuneration to ensure that return, risk and remuneration are aligned.

Risk adjustments

The Bank has an ex-post risk assessment framework, which is a qualitative assessment to back-test actual performance against risk assumptions.

In years where the Bank suffers material losses in its financial performance, the risk adjustment framework would work as follows:

- There would be considerable contraction of the Bank's total variable remuneration.
- At the individual level, poor performance by the Bank would mean individual KPIs are not met, and hence employee performance ratings would be lower.
- Reduction in value of deferred shares or awards.
- Possible changes in vesting periods, and additional deferral applied to unvested awards.
- Lastly, if the qualitative and quantitative impact of a loss incident is considered significant, a malus or clawback of previous awards may be considered.

The GNRC, with Board approval, can rationalise and make the following discretionary decisions:

- Increase/reduce the ex-post adjustment
- Consider additional deferrals or increase in the quantum of share awards
- Recovery through malus and clawback arrangements

Malus and clawback framework

The Bank's malus and clawback provisions allow the GNRC to determine that, if appropriate, unvested elements under the deferred plan can be forfeited/adjusted, or the delivered variable remuneration could be recovered in certain situations. The intention is to allow the Bank to respond appropriately if the performance factors, on which reward decisions were based, turn out not to reflect the corresponding performance in the longer-term. All deferred remuneration awards contain provisions that enable the Bank to reduce or cancel the awards of employees whose individual behaviour has had a materially detrimental impact on GIB during the concerned performance year. Any decision to take back an individual's award can only be taken by the GNRC.

Corporate governance report (continued)

Malus and clawback framework (continued)

The Bank's malus and clawback provisions allow the Board to determine that, if appropriate, vested/unvested elements under the deferred remuneration plan can be adjusted/ cancelled in certain situations. These events include, but are not limited to, the following:

- Reasonable evidence of misbehaviour or material error by the employee causing harm to the Bank's reputation, or where the employee's actions have amounted to misconduct, incompetence or negligence.
- The employee's business unit suffers a material downturn in its financial performance, or a material risk management failure, or a material restatement of the financial statements of the Bank.
- The employee deliberately misleads the market and/or Shareholders in relation to the financial performance of the Bank.
- A significant deterioration in the financial health of the Bank, or the relevant line of business incurring losses.

Clawback can be used if the malus adjustment on the unvested portion is insufficient, given the nature and magnitude of the issue.

Components of variable remuneration

Variable remuneration has following main components:

Upfront cash	The portion of the variable remuneration that is awarded and paid out in cash on conclusion of the performance evaluation process for each year.
Deferred cash	The portion of variable remuneration that is awarded and paid in cash on a pro-rata basis over a period of three years.
Upfront share awards	The portion of variable remuneration that is awarded and issued in the form of shares on conclusion of the performance evaluation process for each year.
Deferred shares	The portion of variable remuneration that is awarded and paid in the form of shares on a pro-rata basis over a period of three years.

All deferred 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 share awards is linked to the Bank's Net Asset Value as per the rules of GIB's Share Incentive Scheme. Any dividend on these shares is released to the employee, along with the shares (i.e. after the retention period).

Deferred remuneration

All employees at the grade 12 and higher shall be subject to deferral of variable remuneration as follows:

	Allocation of variable remuneration					
Element of variable remuneration	**CEO, MDs and the 5 most highly-paid business line employees**	**Grade 12 and higher**	**Deferral period**	**Retention**	**Malus**	**Clawback**
Upfront cash	40%	50%	None	-	-	Yes
Upfront shares	-	10%	None	6 months	Yes	Yes
Deferred cash	10%	-	3 years*	-	Yes	Yes
Deferred share awards	50%	40%	3 years*	6 months	Yes	Yes

* The deferral vests on a pro-rata basis over a 3-year period.

The GNRC, based on its assessment of role profiles and risk taken by an employee, could increase the coverage of employees that would subject to deferral arrangements.

Corporate governance report (continued)

Details of remuneration

Board of Directors

GIB B.S.C.		
US$ millions	**2023**	2022
Directors Remuneration *(including sitting fees)*	**1.5**	1.4
Directors Travel Expenses	**0.2**	0.1
Directors Expenses	**0.1**	0.0
Directors Expenses	**1.8**	**1.5**

GIB Group		
US$ millions	**2023**	2022
Directors Remuneration	**3.4**	3.2
Directors Travel Expenses	**0.6**	0.4
Directors Expenses	**0.2**	0.0
Directors Expenses	**4.2**	**3.6**

Employees

2023											
		Fixed remuneration		Sign on bonuses	Guaranteed bonuses	Variable remuneration					
						Upfront		Deferred			
US$ 000's	Number of staff	Cash	Others	(Cash / shares)	(Cash / shares)	Cash	Shares	Cash	Shares	Others	Total
Approved persons											
- Business Lines	**10**	**6,017**	**400**	-	-	**2,132**	**40**	**479**	**2,554**	-	**11,621**
- Control and Support	**16**	**4,834**	**276**	-	-	**1,116**	**212**	-	**847**	-	**7,284**
Other Material Risk Takers	**22**	**5,711**	**394**	-	-	**1,096**	**199**	**25**	**923**	-	**8,349**
Other Staff	**250**	**27,392**	**5,465**	-	-	**4,538**	**85**	-	**341**	-	**37,821**
Overseas Staff	**1,081**	**118,077**	**20,058**	-	-	**31,800**	**112**	**85**	**3,104**	-	**173,235**
TOTAL	**1,379**	**162,031**	**26,592**	-	-	**40,682**	**648**	**589**	**7,768**	-	**238,310**

2022											
		Fixed remuneration		Sign on bonuses	Guaranteed bonuses	Variable remuneration					
						Upfront		Deferred			
US$ 000's	Number of staff	Cash	Others	(Cash / shares)	(Cash / shares)	Cash	Shares	Cash	Shares	Others	Total
Approved persons											
- Business Lines	11	5,460	410	-	-	2,446	67	523	2,886	-	11,792
- Control and Support	15	4,403	245	-	-	839	160	-	642	-	6,289
Other Material Risk Takers	14	3,782	291	-	-	610	106	20	524	-	5,333
Other Staff	219	23,445	4,606	-	-	3,149	54	-	215	-	31,469
Overseas Staff	1,005	99,921	19,163	-	-	20,223	66	2,164	947	-	142,484
TOTAL	**1,264**	**137,011**	**24,715**	-	-	**27,267**	**453**	**2,707**	**5,214**	-	**197,367**

Other staff expenses reported in the consolidated statement of income that have not been included in the table above, amounting to US$ 11.2 million [2022: US$ 9.7 million], comprise indirect staff costs including training, recruitment expenses, life assurance contributions, and differences between accrued staff expenses and the amounts actually paid.

Corporate governance report (continued)

Details of remuneration (continued)

Deferred Awards

	2023[4]				
	Cash	Shares		Others	Total
	US$'000s	Number	US$'000s	US$'000s	US$'000s
Opening balance	1,160	6,928,048	6,159	-	7,319
Awarded during the period	790	5,674,854	5,045	-	5,835
Paid out / released during the period	(698)	(3,733,648)	(3,319)	-	(4,017)
Service, performance and risk adjustments	-	-	-	-	-
Corporate action adjustment[2]	-	(1,744,582)	(1,551)	-	(1,551)
Changes in value of unvested awards	-	-	2,073	-	2,073
Closing balance[1]	1,252	7,124,672	8,407	-	9,659

[1]Closing balance Share value based on NAV as on 31-12-23

[2]Number of unvested phantom shares has been reduced to reflect 20 per cent reduction approved by general assembly as part of restructuring the Bank's equity.

[4]To be confirmed.

	2022				
	Cash	Shares		Others	Total
	US$'000s	Number	US$'000s	US$'000s	US$'000s
Opening balance	1,148	5,690,571	4,883	-	6,031
Awarded during the period	586	4,227,648	3,627	-	4,213
Paid out / released during the period	(574)	(2,990,171)	(2,566)	-	(3,140)
Service, performance and risk adjustments	-	-	-	-	-
Changes in value of unvested awards	-	-	215	-	215
Closing balance*	1,160	6,928,048	6,159	-	7,319

* Closing balance Share value based on NAV as on 31-12-22

Severance Pay

The total of 3 [2022: NIL] severance payments during the year amounted to US$ 111,095 [2022: US$ NIL] of which the highest paid to a single person amounted to US$ 68,801 [2022: US$ NIL].

SUSTAINABILITY

GIB is committed to sustainability, both in terms of its business offerings and the way in which it conducts its business. Sustainability, which encompasses ESG factors, is relevant for nearly all aspects of GIB.

Within that, the following areas were priorities in 2023:

i. **Expanding its sustainable finance activities and supporting clients on sustainability-related matters**. A key priority was the launch of the Sustainable and Transition Finance Framework, which sets out clearly and transparently how GIB classifies and manages sustainable financing activities.

ii. **Embedding sustainability in how it operates.** Within its environmental work stream, there was a particular focus on implementing the recommendations of the Taskforce for Climate-related Financial Disclosure. Within its social work stream, GIB became a signatory to the UN Women's Empowerment Principles and sought to increase the share of female employees in the Bank.

v. **Reporting transparently** on its sustainability-related activities and impacts. GIB published its second Sustainability Report in 2023. It also made disclosures about its activities aligned with the Principles for Responsible Banking.

vi. **Engaging** with policy-makers on relevant sustainability-matters, particularly the Saudi Central Bank. A highlight for GIB in 2023 was its participation in COP28. GIB contributed to numerous discussions and through the publication of an article on investor engagement to drive the net zero transition.

For further information, please see the Sustainability Report published on GIB's website.

Corporate governance report (continued)

CORPORATE COMMUNICATIONS

The Bank's Public Disclosure Policy and Corporate Communications Policies ensure that the disclosures made by GIB are fair, transparent, comprehensive and timely; and reflect the character of the Bank and the nature, complexity and risks inherent in its business activities. Main communications channels include the website, annual report, social media, employee communications, and announcements in the appropriate media.

This transparency is also reflected in the Bank's website (www.gib.com) which provides substantial information on the Bank, including its profile, vision, and mission; its financial statements and press releases for the last five years.

Corporate Social Responsibility ("CSR") is an institutional commitment and constitutes an integral part of GIB's pursuit of good corporate citizenship. The Bank continues to pursue initiatives that support sustainable community services projects, help improve the quality of life of individuals with special needs, support national environmental initiatives as well as endorse cultural and heritage projects in the community.

CODE OF CONDUCT

The Bank's website also contains the Board-approved Code of Conduct that contains rules on conduct, ethics and on avoiding conflicts of interest, applicable to all the employees and Directors of the Bank. The Code of Conduct is designed to guide all employees through best practices to fulfil their responsibilities and obligations towards the Bank's stakeholders (Shareholders, clients, staff, regulators, suppliers, the public, and the host countries in which the Bank conducts business, etc.), in compliance with all applicable laws and regulations. The Board of Directors' Code of Conduct is covered under the board approved Corporate Governance Policy.

The Code addresses such issues as upholding the law and following best practices; acting responsibly, honestly, fairly and ethically; avoiding conflicts of interest; protecting Bank property and data; protecting client-confidential information and safeguarding the information of others; complying with inside information rules and with the prohibition on insider trading; preventing money laundering and terrorism financing; rejecting bribery and corruption; avoiding compromising gifts; as well as speaking up and 'whistle blowing'.

All employees and Directors of the Bank are reminded every year of their obligations under the Code of Conduct and the Corporate Governance Policy by means of an email from the Bank that includes a copy of the Code of Conduct (in English and Arabic), and everyone is required to sign an Acknowledgment and Declaration confirming that they have received and read the Code of Conduct and understand its requirements; have followed and will continue to follow these requirements; and agree that if they have any concern about any possible misconduct or breach of the Code of Conduct, they will raise the concern with the appropriate persons within the Bank as per the Code.

In addition, all employees of the Bank must sign an annual Declaration on outside employment and other activities, to ensure that no conflicts of interest exist. These Declarations are addressed to the Bank's Human Resources department. Similarly, all approved persons (including Directors) Committee must complete and sign a similar annual declaration, addressed to the Corporate Governance Committee of the Board. All approved persons' outside interests declared under these declarations are reported to the Governance, Nomination & Remuneration Committee on an annual basis.

DISCLOSURES

The Bank's website provides access to GIB's annual reports, and all the information contained in these reports is accessible globally. The information includes Management discussion on the business activities of the Bank, as well as discussion and analysis of the financial statements and risk management. The financial data aligns with the most recent International Financial Reporting Standards relevant for implementation during the reporting period.

The Board-approved Disclosure Policy is in accordance with the requirements of Basel 3 Pillar 3, in compliance with CBB rules. The objective of this policy is to ensure transparency in the disclosure of the financial and risk profiles of the Bank to all interested parties.

INTERNAL CONTROLS

Senior management is responsible for establishing, maintaining and monitoring GIB's internal control systems to ensure the effective functioning of GIB. The internal control systems comprise the establishment and implementation of policies, procedures, processes, systems and a risk framework across all functions of GIB, which are approved by the Board of Directors.

The ***Board of Directors***, supported by the ***Board Risk Policy Committee*** and the Audit Committee, is responsible for ensuring that the internal systems and controls framework are effective for GIB's business and associated risks.

The ***Board Risk Policy Committee*** sets and endorses the organisation's risk appetite (which is approved by the Board of Directors) and also seeks to identify the principal risks facing the organisation, together with the management. It has oversight in respect of GIB's overall risk appetite, parameters and limits within which GIB conducts its activities to seek assurance on an ongoing basis that the management is responding appropriately to such risks in a timely manner.

Corporate governance report (continued)

INTERNAL CONTROLS (continued)

To achieve this, the Board Risk Policy Committee ensures that GIB has an effective Enterprise-wide risk management framework in place and that all risk controls operating throughout GIB are in accordance with regulatory requirements and best practice standards for management of risks in banks. The ***Enterprise Risk Management (ERM)*** Framework based approach followed by GIB takes a comprehensive view of all risk families on a proactive basis – including Credit risk, Market risk, Operational risk, Interest rate risk, Liquidity risk, and non-financial risks such as strategic risk, information and cyber security risks, business model risk, reputational risk, concentration risk, etc. This enables management to effectively deal with uncertainty, and any associated risk and opportunity, enhancing the capacity to build stakeholder value. This includes aligning GIB's risk appetite and strategies, ensuring well thought out risk-response decisions, helps reduce the frequency and severity of operational losses, identifies and helps proactive management of multiple and cross-enterprise risks, prepares GIB to proactively realise the opportunities arisen, and improves the capital deployment effectiveness.

To ensure the effectiveness of the set Enterprise risk management framework, the Board Risk Policy Committee relies on adequate line functions for independent monitoring and assurance functions within GIB, using a ***'Three Lines of Defense'*** Risk Management model to ensure that control roles are independent and responsibilities are segregated – with the ***'First line of defense'*** owning and managing risk as direct line functions, the ***'Second line of defense'*** overseeing through specialists in risk management, financial control, and compliance functions, and the ***'Third line of defense'*** providing independent assurance through specialist functions like Internal audit and External Statutory Audit teams. GIB follows a ***Forward-looking Stress Testing Framework*** across all risk families to identify possible events or changes in market conditions that could adversely impact GIB, and this helps in identifying action plans including contingency funding readiness for timely and adequate risk mitigating actions.

The ***Chief Risk Officer*** reports functionally to the ***Board Risk Policy Committee*** and administratively to the ***Chief Executive Officer***, making ***Risk Management*** an independent function of management, with the ability to effectively implement the Enterprise-wide risk management framework and provide independent monitoring without constraints. Risk Management is properly and adequately resourced with a team of professionals with appropriate knowledge, skills, and experience.

The ***Audit Committe***e oversees the effectiveness of GIB's internal controls systems by reviewing and evaluating the systems of internal controls and meets with Internal Audit, External Audit and management to assess the adequacy and effectiveness of the systems of internal controls and obtaining reasonable assurances from them on a periodic basis. The Audit Committee periodically receives reports as to the existence of any significant deficiency or material weakness in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect GIB's ability to record, process, summarise and report financial information and as to the existence of any fraud, whether or not material, that involves management or other employees who have a significant role in GIB's internal control over financial reporting. Further, the Audit Committee Chairman provides updates to the Board on the key discussions and decisions considered by the Audit Committee.

The ***Internal Audit Unit*** as the third line of defense in providing an independent appraisal to the Board's Audit Committee and the management as to the effectiveness of internal controls, including conducting independent periodical reviews for the activities of the Compliance and Anti-Money Laundering Department, to ensure regulatory compliance and conformity with Bank's approved policies and procedures.

All significant and material findings of Internal Audit reviews are reported to the Audit Committee of the Board through quarterly activity reports. The updates include description of the internal controls' gaps noted and the tracking of corrective action plans to adequately address those gaps by the Management. The Audit Committee actively monitors the adequacy and effectiveness of the internal control system to ensure that identified risks are mitigated to safeguard the interest of the Bank and its stakeholders.

Concerted and integrated efforts are made by all functions of the Bank to improve the control environment at grass root level through continuous reviewing and streamlining of procedures to prevent and rectify any control deficiencies. Each function, under the supervision of the Senior Executive Management is entrusted with the responsibility to oversee rectification of control deficiencies identified by control bodies.

The ***Compliance Function*** is an independent function who oversees Regulatory Compliance, Anti Money Laundering/Combatting Terrorist Financing, Sanctions, Anti-Bribery & Corruption, and Anti-Fraud Unit. The Compliance Function works closely with other control functions in order to establish an effective control framework and provides assurance to the Board Audit Committee through its duties and responsibilities under the programs of Compliance Governance, Compliance Advisory, Monitoring and Testing, Regulatory Communication, Anti-Money Laundering/Combatting Terrorist Financing, Sanctions and Anti-Fraud, that sets out its planned activities such as the implementation and review of specific policies and procedures, compliance risk assessment, and establishing a strong compliance culture among employees, and submit relevant reports to the Audit Committee who in turn assesses those programs and sets out relevant recommendations.
In terms of regulatory mandate, Compliance operates independently in the capacity of Second Line of Defence, with direct access to the board, and ensures that all regulations and rules are implemented in a timely manner. By virtue of the independence, Compliance enjoys full and unrestricted access to all bank data, to fulfil its duties. The Compliance Unit has a direct reporting line to the Audit Committee.

Corporate governance report (continued)

INTERNAL CONTROLS (continued)

The Bank's internal control system has been designed to provide reasonable assurance to the Board, on the management of risks to achieve the Bank's strategic objectives. Internal control systems, no matter how effective is designed, it has inherent limitations, and may not prevent or detect all control deficiencies. Moreover, the projection of current evaluations of the effectiveness to future periods is subject to a limitation that controls may become inadequate due to changes in conditions or compliance with policies and procedures.

Based on the results of the ongoing evaluation of internal controls carried out by the management during the year, the Management considers that the Bank's existing internal control system is adequately designed, operating effectively and monitored consistently.

The process of *Internal Control* is facilitated through a set of separate functions, which report directly to senior management. These functions include risk management, financial control, and compliance. This multi-faceted approach aids the effective management of risk by identifying, measuring and monitoring controls from a variety of perspectives.

GIB maintains a disciplined approach to risk-taking by upholding a comprehensive set of risk management policies, processes and limits, employing qualified people with the appropriate skills, investing in technology and training, and actively promoting a culture of sound risk management at all levels.

In relation to *Operational risk*, GIB has implemented an operational risk management framework which includes tools such as risk and control self-assessment, key risk indicators, an internal control testing framework which entails a robust system of validation of controls across the first and second lines of defense and the escalation of operational risk events and remedial measures to prevent recurrence. These tools provide the business areas the opportunity to reassess the control effectiveness within their business processes. Any control deficiencies identified as a result of utilisation of these tools by the Business Units are overseen by a segregated Operational Risk Management Department and governed through the Bank's Operational Risk & Internal Control Committee reporting ultimately to the Board Risk Policy Committee. Any key issues requiring the attention of senior management are escalated to GIB's Management Committee.

The *Information Security function* ensures the adequate protection of GIB's and its customers' information by securing the Bank's IT and Information Security infrastructure from internal and external threats, by the implementation of "Defence in Depth" approach, i.e., layered security controls. The overall information security management system of GIB is designed in-line with industry standards, regulatory mandates and best practices and comprises of an integrated model of people, policy, process, procedure and technology, including 24/7 security operation centre, cyber security risk management, vulnerability and incident management processes, periodic penetration testing and red-teaming exercise, threat intelligence, brand protection services, preventive and detective end point perimeter security solutions etc.

GIB endeavours to inculcate a strong appreciation for risk and internal controls through periodic *training programmes* for its employees and to increase their awareness of the importance of risk assessment, and their responsibility maintaining the system of internal controls.

Whilst the risk of failures in internal controls cannot be entirely eliminated, *Management* mitigates and manages such risk by maintaining the appropriate infrastructure, controls, systems, procedures and ensuring that trained and competent people are employed to protect the interest of GIB and its stakeholders.

Opinion on Internal Control by the Audit Committee

For the year ended 31 December 2023, the Audit Committee was made aware of the opportunities for enhancement in the internal controls of GIB. These recommendations were addressed, or are in the process of being addressed, by management. Furthermore, these recommendations are tracked and validated independently by Internal Audit and an update on the implementation is provided to the Audit Committee on periodic basis.

EXTERNAL AUDIT

In 2023, the Group paid the external auditors US$ 1,731,359 for audit and assurance fees.

All non-assurance services were preapproved by the Audit Committee of each entity. The Group paid external auditors an amount of US$ 740,797 for non-assurance services.

POLICY ON CONNECTED PARTIES AND RELATED TRANSACTIONS

The Board-approved Policy on connected parties governs GIB's dealings with such parties. The Policy defines which parties are considered to be connected with GIB within the criteria set by the CBB, and imposes not only the limitations placed by the CBB but also additional criteria imposed by GIB. The policy sets out the internal responsibilities for reporting GIB's connected counterparties exposures to the CBB, and the disclosures to be made in GIB's financial statements and annual reports, in line with applicable disclosure requirements.

The Conflict of Interest & Related Party Policy has been updated during 2023 to reflect the requirements stipulated under the restructured HC Module.

If loans are extended to related parties, these are approved by the Board. The Bank will not deal with any of its Directors in a lending capacity. It should be noted that Article 16 of the Articles of Association prevents Directors of the Bank from having any interest, directly or indirectly, in any contract with the Bank. In the event of proposed dealings with companies associated with Director, the proposals are referred to the Board for approval with the abstention of the Director involved from voting.

All loans to Senior Management members (including the CEO and his direct reports), as well as staff of GIB, are governed by the policies applicable to staff. These policies are reviewed by the Nomination & Remuneration Committee of the Board at least annually. All dealings with companies associated with member of the Senior Management are referred to the Board for approval.

Corporate governance report (continued)

MATERIAL TRANSACTIONS THAT REQUIRE BOARD APPROVAL

The Bank has delegated credit authority to the CEO based on a risk-rating matrix. When considering transactions, any exposure to an entity that exceeds the CEO's limit will require the approval of the Board Executive Committee or the Board.

COMPLIANCE

The Compliance framework adopted by the Board sets out key principles, fundamentals, and methodologies to be pursued by the Bank to mitigate the risk of non-compliance. The framework reflects the principles for promoting sound compliance practices at GIB. It also demonstrates the Bank's adherence to applicable legal and regulatory requirements, and to high professional standards. The role of the Compliance function is to assist Senior Management in ensuring that the activities of GIB and its staff are conducted in conformity with applicable laws and regulations, and generally with sound practices pertinent to those activities. The Group Chief Compliance Officer reports directly to the Board Audit Committee and administratively to the CEO.

Compliance risk is the risk of legal or regulatory sanctions, material financial loss or damage to the reputation of the Bank arising from failure to comply with the requirements of applicable laws, rules, regulations and related self-regulatory organisations' standards and codes of conduct (collectively, applicable laws, rules and regulations). Group Compliance independently assesses compliance risk and evaluates the business and control units for adherence to applicable laws, rules and regulations, including identifying compliance issues and risks, by performing independent Compliance testing and monitoring as well as reporting on the state of compliance activities across the Bank.

The Bank's approach to the management of compliance risk is described in the Group Compliance Policy, which outlines the requirements of the Bank's Group Compliance Program, and defines roles and responsibilities of Board, Senior Management, Business and Control units, Internal Audit, and the three lines of defense in managing compliance risk. The requirements work together to drive a comprehensive risk-based approach for the proactive identification, management, and escalation of compliance risks throughout the Bank

The Group Compliance Policy also sets the requirements for reporting compliance risk information to executive management as well as the Board or appropriate Board level committees in support of Group Compliance responsibility for conducting independent oversight of the Bank's compliance risk management activities. The Board provides oversight of compliance risk mainly through its Audit Committee and the Governance, Nomination & Remuneration Committee.

In ensuring that the tone emanates from the top, the CEO issues a yearly message to all GIB employees reminding everyone of the importance of complying with all laws and regulations applicable to GIB's operations. Exemplary compliance behaviour and strict adherence to maintain proper compliance conduct is ensured through its inclusion as a mandatory measurement criterion in staff evaluations.

During 2023, the Bank was penalised a total amount of BHD 23,075/- due to downtime occurred during a Disaster Recovery test which was conducted on 05 August 2023 and 12 August 2023 for a total of 10 hours. In addition, EFTS downtime which temporarily suspended transactions due to an unplanned outage occurred in 2022 and has been charged in January 2023.

This statement in the Annual Report is being made to fulfil the Central Bank of Bahrain requirements under Public Disclosure Module section PD-1.3.37, and the Enforcement Module sections EN-1.3.3. and EN-6.1.3.

ANTI-MONEY LAUNDERING

The Bank's current Anti-Money Laundering and Combatting Terrorism Financing (AML/CTF) procedures and guidelines conform to the legal and regulatory requirements of the Kingdom of Bahrain. These legal and regulatory requirements largely reflect the FATF recommendations on Money Laundering. GIB's AML/CTF procedures and guidelines apply to all of the Bank's offices, branches and subsidiaries, wherever located. In addition, the GIB entities located outside Bahrain are subject to the laws and requirements of the jurisdictions where they operate, and if local standards differ, the higher standards apply.

Systems and controls are in place to ensure that business relationships are commenced with clients whose identity and activities can reasonably be established to be legitimate; to collect and record all relevant client information; to monitor and report suspicious transactions; to provide periodic AML/CTF training to employees; and to review with external auditors the effectiveness of the AML/CTF procedures and controls. The Bank's AML/CTF procedures prohibit dealing with shell banks. A proactive structure of officers is in place to ensure Group-wide compliance with AML/CTF procedures, and the timely update of the same to reflect the changes in regulatory requirements. This structure consists of the Group Chief Compliance Officer and the Group Money Laundering Reporting Officer, MLROs, and Deputy MLROs.

CORPORATE GOVERNANCE FRAMEWORK – INTERNAL AUDIT REVIEW

The Internal Audit review of the Bank's Corporate Governance framework is conducted as a separate project since the introduction of the Corporate Governance Rules in 2010. Accordingly, the latest audit was undertaken as of August 16th 2022. The report was issued with "Satisfactory" rating on October 17th, 2022. The purpose of the audit was to provide a level of assurance about the processes of corporate governance within the Bank. The scope of the audit included reviewing the existing policies, procedures and current practices followed by GIB in light of the CBB rules contained in the HC Module of the CBB Rulebook.

The overall conclusion of the audit was that the Corporate Governance framework of GIB appears to be operating effectively and is providing a sound framework to control the risks inherent in GIB's current business activities.

Board of Directors biographies

Mr. Abdulla bin Mohammed Al Zamil
Appointed Chairman as of 10 November 2021
Director since 2009

Mr. Abdulla bin Mohammed Al Zamil is the Chairman of the Board of Zamil Industrial Investment Company, having previously served as Chief Executive Officer. Prior to this, he was the Senior Vice President at Zamil Air Conditioners, where he started his career as an industrial engineer.

He is also the Chairman of Saudi Global Ports, Zamil Steel Holding Co., Gulf Insulation Group, Gulf International Bank - Saudi Arabia, and GIB Capital. His board memberships include Ranco & Zamil Concrete Industries, Zamil Offshore Services Company, Saudi Telecom Company (STC) – Bahrain, and Gulf International Bank (UK) Limited.

Mr. Al Zamil holds an MBA (with a concentration in Finance) from King Fahd University of Petroleum and Minerals, Saudi Arabia, and a BSc in Industrial Engineering from the University of Washington, USA. He has 37 years' professional experience.

Dr. Najem bin Abdullah Al Zaid
Elected Vice Chairman on 28 November 2021
Director since 2018

Dr. Najem bin Abdulla Al Zaid is the Vice Minister of Justice in Saudi Arabia. He was the Founding Partner of ZS&R law firm in association with Hogan Lovells. He is the Vice Chairman of the Saudi Electricity Company and a member of the Tadawul Group Regulatory Policies and Oversight Committee. Further, he is a Board and Board Risk Committee member at Gulf International Bank - Saudi Arabia.

He also served as the Vice Chairman of the Mediterranean & Gulf Cooperative Insurance & Reinsurance Company, Board Member of the National Centre for Privatization & PPP, member of the audit committees at Diriyah Gate Development Authority and the Saudi Agriculture & Livestock Company (SALIC), member of the governance committee at Arabian Centres Company, member of the governance committee at the Saudi International Petrochemical Company, member of the executive committee of the Saudi Falcon Club and member of the Saudi Delegation that negotiated Saudi Arabia's World Trade Organization (WTO) membership.

Prior to founding ZS&R, Dr. Al Zaid was the Chief Governance and Legal Officer at Al Rajhi Bank Group and had previously served as the Commissioner and a Board Member of the Saudi Capital Market Authority, appointed by royal order. He also worked as Counsel at the Islamic Development Bank Group.

Dr. Al Zaid holds a Doctor of Juridical Science from the George Washington University Law School, USA, a Master of Laws from the University of Minnesota Law School, USA, a High Diploma in Law from the Institute of Public Administration, Saudi Arabia, and a BA in Islamic Jurisprudence & Law from Umm AlQura University, Saudi Arabia. Further, he successfully completed the Harvard Law School Leadership Program and the London Business School Management Development Program. He has 29 years' professional experience.

Board of Directors biographies (continued)

Mr. Abdulaziz bin Abdulrahman Al-Helaissi
Director since 2016
Group Chief Executive Officer, Gulf International Bank

Mr. Abdulaziz bin Abdulrahman Al-Helaissi is the Group Chief Executive Officer and a Board Member of Gulf International Bank B.S.C., Chief Executive Officer and Board Member of Gulf International Bank - Saudi Arabia, Board Member of GIB Capital, and Chairman of Gulf International Bank (UK) Limited - UK.

Prior to joining GIB in February 2016, Mr. Al-Helaissi was the Deputy Governor for Supervision at the Saudi Central Bank (SAMA), having started there in 2013. At SAMA, his responsibilities included the oversight of the Banking and Insurance sectors as well as finance company regulations (mortgage, leasing, and other nonbank finance institutions). He was additionally responsible for consumer protection.

Prior to SAMA, Mr. Al-Helaissi was Senior Country Officer and Managing Director, Saudi Arabia, for JP Morgan Chase, as well as Head of Global Corporate Banking for the Middle East and North Africa. Earlier in his career, he was Saudi British Bank's (affiliate of HSBC) Central Province Area General Manager, covering all key lines of business, including corporate and consumer banking. He has also served on a number of boards, including the Saudi Stock Exchange (Tadawul). He currently serves as a Board Member of the King Fahd Causeway Authority and a Member of the Emerging Markets Advisory Council of Institute of International Finance, Inc.

Mr. Al-Helaissi has 34 years' banking and regulatory experience and holds BA in Economics from the University of Texas in Austin, USA. His various board memberships include / have included government, semi-government and private sector entities.

Mr. Sultan bin Abdul Malek Al-Sheikh
Director since 2018

Mr. Sultan bin Abdul Malek Al-Sheikh is a Senior Director - Head of Financial Institutions Sector at the MENA Investments Division at the Public Investment Fund of Saudi Arabia (PIF). He is the Board Chairman of Saudi Company for Exchanging Digital Information (Tabadul), and Tawreed Company for Financing Solutions. He also serves as a Board Member of Tahakom Investment Company, Gulf International Bank - Saudi Arabia, and Saudi Real Estate Refinance Company (SRC). In addition, Mr. Al-Sheikh is a member of the Executive Board Committee of the Regional Voluntary Carbon Market Company.

Prior to joining PIF, Mr. Al-Sheikh held key positions in reputable financial institutions. He served as an Associate and Vice President of Investment Banking at Saudi Fransi Capital. Mr. Al-Sheikh also worked as an Officer in the Securities Listing Department at the Saudi Capital Market Authority (CMA) and as a Relationship Manager at the National Commercial Bank (NCB) of Saudi Arabia. Additionally, he previously served as a director at Al-Marai Company and the Helicopter Company.

Mr. Al-Sheikh holds a MSc in Finance from the George Washington University, USA, and a BSc in Finance from King Fahd University of Petroleum and Minerals, Saudi Arabia. He has 20 years' professional experience..

Mr. Bander bin Abdulrahman bin Mogren
Director since 2018

Mr. Bander A. Mogren is a Senior Managing Director, and the Chief Operating Officer at the Saudi Arabia Public Investment Fund (PIF) since 2016, where he leads the development of the Shared Services function as well as the strategic transformation of Information Technology systems and infrastructure. He is also a Member of the PIF Portfolio Companies Nomination Committee. In his current role, Mr. Bander Bin Mogren represents PIF on a number of boards and board committees including as Chair of the Board of Directors of both JASARA Program Management Company and SRJ Sports Investment Company. In addition, Mr. Bander Bin Mogren is a Board Member of King Abdullah Financial District Development Company and the Chair of its Nomination and Remuneration Committee. He is also a Board Member of both Gulf International Bank - Saudi Arabia and Bahrain and a Member of its Nomination and Remuneration Committees (NRC's) and is a Member of the Professional Fighters League (PFL) Board and its Compensation Committee. Mr. Bander Bin Mogren serves as a Member of the NRC's of a number of PIF portfolio companies, including NEOM; Qiddiya Investment Company; ROSHN; Saudi Tadawul Group; Saudi Arabian Military Industries; Newcastle United plc; Savvy Games Group; Riyadh Air; the Royal Court Decision Support Centre and other companies.

Prior to joining PIF, Mr. Bander Bin Mogren was Managing Director of Human Resources and Corporate Services at NCB Capital and before that he held several other key positions at a number of Saudi Arabia's leading investment institutions, including Head of Human Resources at Jadwa Investments.

Mr. Bander Bin Mogren holds a double major BA in Human Resources and Business Administration from Eastern Washington University, USA. He has 22 years' professional experience.

Board of Directors biographies (continued)

Dr. Khalid bin Abdulla Alsweilem
Director since 2021

Dr. Khalid bin Abdulla Alsweilem is an accomplished economist and successful business leader, with over 31 years' experience in business and government. He served as Director General of SAMA's Investment Department. He is one of the world's longest serving and most successful sovereign investment practitioners.

Dr. Alsweilem is the Chairman of Ninety One Capital KSA, an independent board director at Fajr Capital, an independent board director at Cenomi Centers, and an investment committee member at the Arab Gulf Fund for Development. He previously served as the Chairman of Ashmore Investment Saudi.

He is a former fellow at the Belfer Center for Science and International Affairs at the Harvard Kennedy School and is currently a Visiting Scholar at Stanford University and a Research Affiliate at MIT. Dr. Alsweilem was a lead author of three major papers on sovereign funds models and institutions that were published as joint reports by the Belfer Center for Science and International Affairs and the Center for International Development at Harvard.

He also co-authored an important book in 2017 published by Columbia University Press on the role of sovereign funds in resources economies while he was at Stanford University Global Projects Center (GPC).

Dr. Alsweilem holds a BSc in Industrial Engineering from the University of Arizona, an MA in Economics from Boston University, a PhD in Economics from the University of Colorado, and a Post-Doctoral Fellowship from the Department of Economics at Harvard University. He has 32 years of professional experience.

Mr. Fahad bin Abdul-Jalil Al-Saif
Director since 2021

Mr. Fahad Al-Saif is a Senior Managing Director and the Head of PIF's Global Capital Finance Division, where he oversees PIF's Global Capital Financing activities and its portfolio companies.

Mr. Al-Saif worked on developing PIF's green financing framework and obtaining an investment grade inaugural credit rating by international rating agencies, subsequently launching PIF's debut international bond program; issuing the first green bond with a 100-year tranche, the first bond of its kind globally by a Sovereign Wealth Fund, among other efforts that support PIF and its portfolio companies in diversifying the sources of capital to fund transformational projects across different sectors.

Mr. Al-Saif holds several board positions in national and international companies, including the Chairmanship of the Aircraft Leasing Company (AviLease) and Emaar King Abdullah Economic City (KAEC). He is the Vice Chairman of the Saudi Real Estate Refinance Company and Bahri Company, the chairman of the Audit & Risk Committee of King Salman Airport Development Company's Board. He also serves as a Board Member at King Salman Airport Development Company, ACWA Power, the Regional Voluntary Carbon Market Company, and a member of the Investment & Funding Committee Member of NEOM Company. In addition, Mr. Al-Saif is a member of PIF's Management Committee and Management Liquidity Committee and is also a member of multiple governmental committees in the financial sector.

Mr. Al-Saif served in senior positions in Saudi British Bank (SABB) and HSBC Saudi Arabia for over a decade. Following this, Mr. Al-Saif took on a role in Saudi Arabia's Ministry of Finance, where he served as a senior advisor to the Minister of Finance, and established and headed the ministry's debt management function, later renamed as National Debt Management Centre (NDMC), where he was the Chief Executive Officer and Board Member.

Mr.Alsaif is a graduate of information systems from King Fahd University of Petroleum and Minerals and has more than 26 years of experience in leading diverse functions including treasury, investment, debt capital management and corporate finance.

Board of Directors biographies (continued)

Mr. Nezar Al Saie

Director since 2022

Mr. Nezar Al Saie is the Vice Chairman of the Board at Gulf Union Holding and is also an entrepreneur who has founded several leading regional companies in the telecom and building materials sectors in the Kingdom of Bahrain, including Kalaam Telecom and Polycon Bahrain, and is currently the Chairman of both companies. Mr. Al-Saie is also the Chairman of Ahmed Al-Saie & Bros and N. Al Saie W.L.L., and Vice Chairman of Gulf Union Holdings.

Previously, Mr. Al Saie spent 14 years at Investcorp Bahrain, where he was a member of the Management Committee and responsible for the placement of alternative assets including private equity, real estate, and hedge funds in the Gulf region. Prior to that, he was a Vice President at Chase Manhattan in Bahrain and London, where he worked across the global bank's credit, corporate and private banking divisions. Mr. Al Saie served on the Boards of several public and private financial institutions, and as senior advisor to Lazard Brothers, London, and Itau Bank, Brazil.

Mr. Al Saie holds a BSc in Civil Engineering from the University of Texas, Austin, and a MSc in Management from London Business School. He has 43 years' professional experience.

Mr. Rajeev Kakar

Director since 2018

Mr. Rajeev Kakar is a Board Member of Eurobank Ergasias SA (Greece), Commercial International Bank (Egypt), CIB Mayfair Bank, Kenya, UTI Asset Management Company (India), and is a Global Advisory Board member at the University of Chicago's Booth School of Business. He is also a Board Member at Gulf International Bank - Saudi Arabia.

From 2006-2018, he was the Global Co-Founder of Fullerton Financial Holdings, a wholly owned subsidiary of Temasek Holdings, Singapore; and also served concurrently as the Global CEO of Consumer Banking, Regional CEO for Central Europe, Middle East and Africa; and as the founder, Managing Director and CEO of Dunia Finance, Fullerton's UAE subsidiary. Prior to that, he was at Citibank for 20 years, finishing as the Regional CEO & Division Executive - Turkey, Middle East and Africa.

Mr. Kakar holds an MBA, Finance & Marketing from the Indian Institute of Management, and a B. Tech in Mechanical Engineering from the Indian Institute of Technology. He has 37 years' professional experience.

Mr. Frank Schwab

Director since 2018

Mr. Frank Schwab is a strategic advisor, a co-founder of FinTech Forum Frankfurt, and a member of the Supervisory Board at Addiko Bank in Vienna. He also serves as a member of the Risk Advisory Committee at PayU in Amsterdam and a member of the Supervisory Board at Hauck & Aufhaeuser Innovative Capital in Frankfurt. Mr. Schwab is also a Board Member of Tawreed Co. and a senior strategic advisor of Nagarro. His main topics are innovation, crypto currencies, blockchain, technology, transformation and banking.

Previously, Mr. Schwab was the CEO of GIZS GmbH & Co KG (Sparkassen-Finanzgruppe / paydirekt), MD of Token GmbH Germany, and CEO of Fidor Solutions AG. He was also the Chairman of Hufsy in Copenhagen, and a senior advisor to McKinsey on banking transformation in Germany. He has held numerous management roles at Deutsche Bank AG, including Director for Strategy, Architecture, Business Development and Innovation; Group Technology & Operations; Private & Business Clients; IT & Operations; as well as Head of Internet & E-Commerce Technology. He also lectured for several years at the Mannheim Business School Creativity and Innovation Management.

Mr. Schwab holds an Executive MBA from Ashridge, UK and completed a Bank Officer apprenticeship with Deutsche Bank, Mannheim, Germany, and study of Computer Science and Business Administration at the University of Mannheim. He has 27 years' professional experience.

Senior management biographies

Abdulaziz Al-Helaissi
Group Chief Executive Officer and Board Member,
Chairman – Gulf International Bank (UK) Limited

Abdulaziz Al-Helaissi has 34 years' banking and regulatory experience and holds a BA in Economics from the University of Texas in Austin, USA. His various board memberships include governmental, semi-governmental and private sector entities.

Katherine Garrett-Cox
Managing Director and Chief Executive Officer
Gulf International Bank (UK) Limited

Katherine Garrett-Cox has over 34 years' experience in the global asset management industry, managing institutional and retail funds across a broad range of investment disciplines. Katherine holds a BA in History from Durham University, UK and studied Leadership and Public Policy for the 21st Century at John F. Kennedy School of Government, Harvard University, USA.

Mushari Al Otaibi
Group Chief Operating Officer and interim Group Head of Retail Banking

Mushari Al Otaibi has over 32 years' experience in Back Office Operations, Human Resources, Retail Banking and Wealth Management. Mushari attended the High Performers Leadership Programme at INSEAD, France, and the Finance for Non-Finance Executives Programme at London Business School in UK.

Marwan Abiad
Group Chief Financial Officer

Marwan Abiad has 41 years' international experience in banking, insurance, risk management, finance, accounting, technology and operations. He holds a BBA and an MBA from the American University of Beirut, Lebanon and CPA, CFA and FRM charters.

Jamal Al Kishi
Chief Executive Officer GIB B.S.C.
Deputy Group CEO

Jamal Al Kishi has 28 years of regional banking experience and holds a BSc in Engineering from Arizona State University and an MBA in Finance and Banking from King Fahd University of Petroleum and Minerals, Saudi Arabia.

Osamah Shaker
Chief Executive Officer and Board Member GIB Capital

Osamah Shaker has over 25 years' experience in investment banking, asset management and banking regulatory control and holds a MSc in Statistics from Colorado State University, USA, and a Bachelor of Administrative Science degree in Quantitative Methods, from King Saud University, Riyadh.

Khaled Abbas
Group Head of Wholesale Banking & Country Head for UAE

Khaled Abbas has 27 years' regional banking experience in Saudi Arabia, Bahrain and the UAE. He holds a BSc in Business Studies from Lebanese American University, Beirut, Lebanon and has obtained executive education degrees from Harvard Business School, Darden Business School at the University of Virginia and INSEAD, France.

Sara Abdulhadi
Group Chief Investment and Treasury Officer

Sara Abdulhadi has more than 20 years of experience in global markets activities and strategic planning with a background in investments, derivative and FX trading; along with liquidity and funding management and holds an MSc in Investment Management from Cass Business School, City University, London and a BSc in Accounting from King Saud University, Riyadh. Sara has also completed the Advanced Management Program (AMP) at Harvard Business School.

Senior management biographies (continued)

Arun Hari
Group Chief Risk Officer

Arun Hari has over 32 years of experience in corporate banking and risk management and holds a BSc in Mathematics from Mahatma Gandhi University, India and an MBA from Southern New Hampshire University, USA.

Ali Abdulhadi
Group Chief Auditor

Ali Abdulhadi has 32 years' senior level banking and audit experience. He has a Bachelor of Accounting degree from King Abdulaziz University, Jeddah, Saudi Arabia, and is an associate member of the Institute of Internal Auditors and the Institute of Management Accountants.

Saleem Al Dabbagh
Group Chief Compliance Officer

Saleem Al Dabbagh has 30 years' experience in compliance and risk management gained across a range of financial institutions. He holds a Master of Business Administration from Anglia Ruskin University in London, and several related certifications and is a member of the Associated Certified Anti-money Specialist (ACAMS), and the American Academy of Financial Management (AAFM).

Helen Lloyd
Group Chief Human Resources Officer

Helen Lloyd has over 35 years' international experience in human resources development, learning and cultural transformation and holds an MBA from Heriot Watt University, UK; and a BA from the University of South Africa (UNISA). She attended the Management Development Programme at UNISA School of Business Leadership.

Sridhar Iyer
Group Chief Digital Officer and Deputy Head of Retail

Sridhar Iyer has over 25 years of international digital banking experience and holds a PGDM in Finance and Marketing from the Indian Institute of Management, Bangalore and a BE in Chemical Engineering from the Birla Institute of Technology and Science.

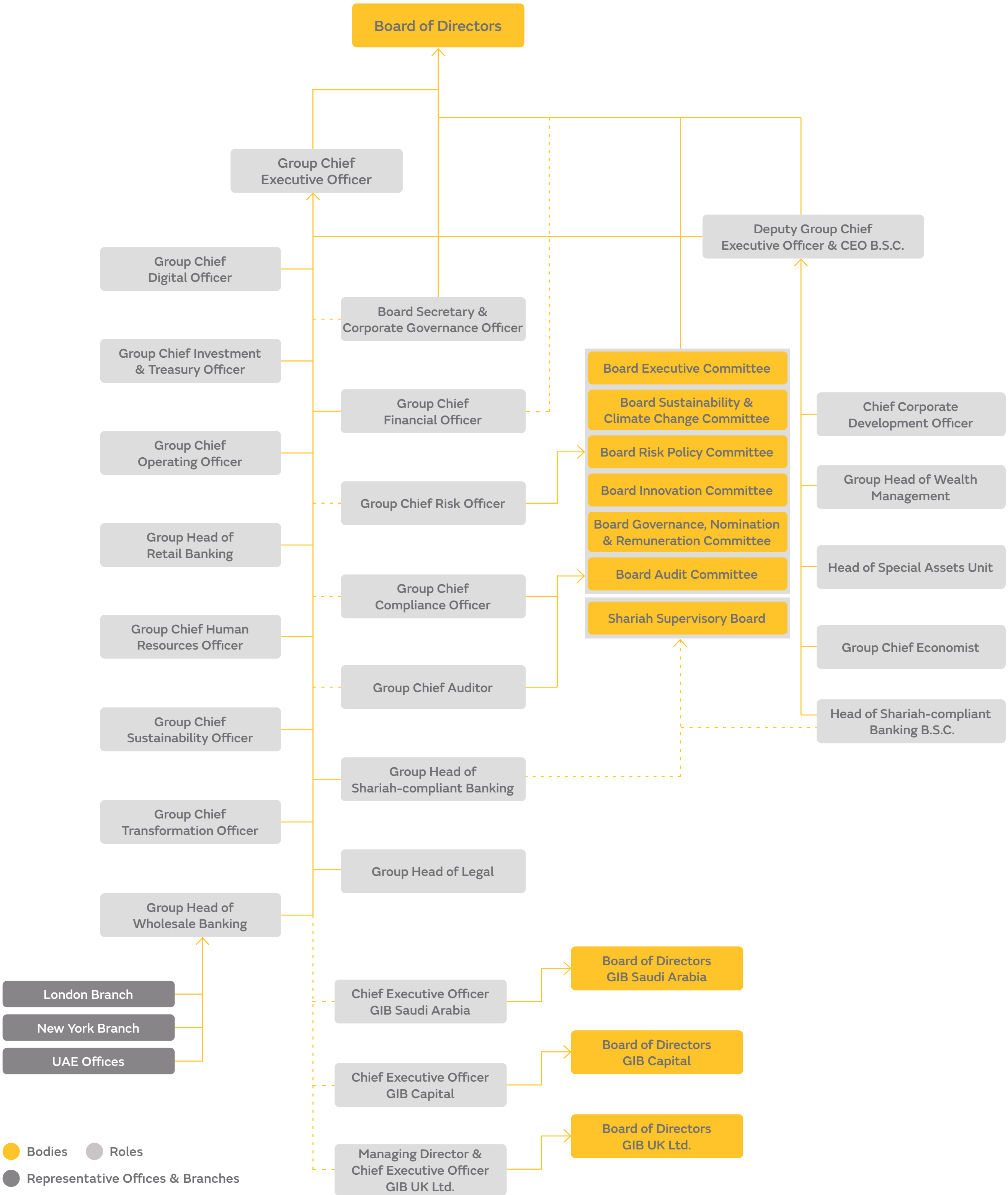
Sukhwinder Nijjar
Group Chief Transformation Officer

Sukhwinder Nijjar has over 25 years' of international banking experience in Business Development, Strategic Planning and Operational Risk across the UK, Asia and the Middle East. He holds BSc in Economics and Accounting from City University in London and is a Fellow of the Association of Chartered Certified Accountants.

Venetia Bell
Group Chief Sustainability Officer

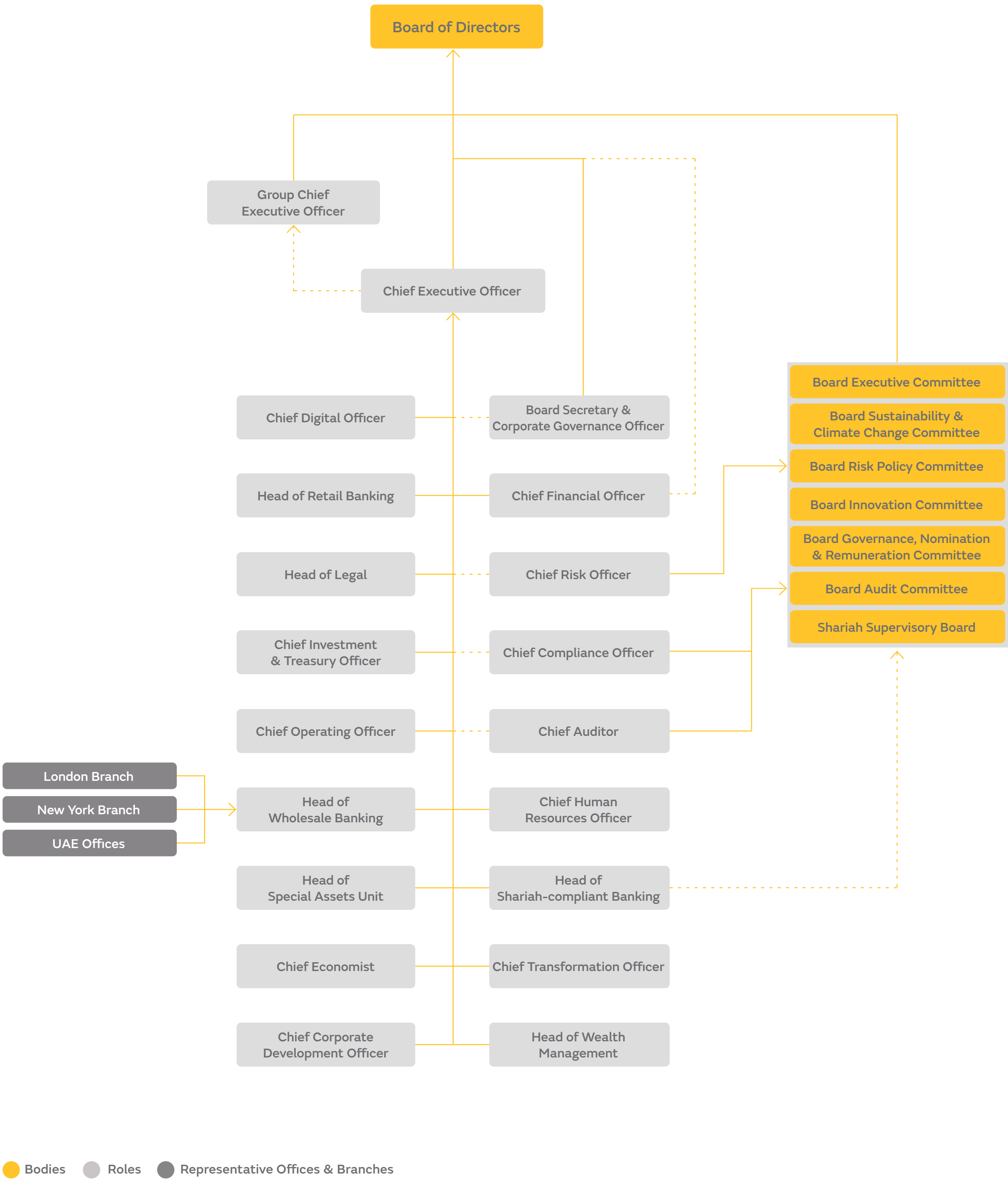
Venetia Bell has over 20 years of experience in sustainability, economics and public policy. She has an MSc in Economics from the London School of Economics, an MA in Economics from the University of Cambridge, UK and graduated from the Advanced Management Programme at INSEAD, France.

GIB Group organisation structure



Group Chief Executive Officer and Chief Executive Officer – GIB Saudi Arabia roles are held by the same incumbent
Group Heads who 'double hat' as B.S.C. Heads also have a reporting line into the DGCEO & CEO B.S.C.
Control Functions in branches (such as Compliance, Internal Audit, Risk Management, etc.) have a functional reporting to Group Heads

GIB B.S.C. organisation structure



Group Heads who double hat as B.S.C. Heads have reporting lines to the Group CEO as well as the CEO B.S.C.

Consolidated financial statements

For the year ended 31st December 2023

Contents

Independent auditors' report to the shareholders of Gulf International Bank B.S.C.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of Gulf International Bank B.S.C. (the "Bank") and its subsidiaries (together the "Group"), which comprise the consolidated statement of financial position as at 31 December 2023, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of 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 consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

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 consolidated financial statements in the Kingdom of Bahrain, and we have fulfilled our other ethical responsibilities in accordance with these requirements and IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended 31 December 2023. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

1. Impairment of loans and advances under IFRS 9

Key audit matter	How the key audit matter was addressed in the audit
The Group exercises significant judgment using subjective assumptions over both when and how much to record as loan impairment, and estimation of the amount of the Expected Credit Losses ("ECL") for loans and advances. Loans and advances form a major portion of the Group's assets, and due to the significance of the judgments used in classifying loans and advances into various stages stipulated in IFRS 9 and determining related ECL requirements, this audit area is considered a key audit risk. As at 31 December 2023, the Group's gross loans and advances amounted to US$ 13,963.5 million and the related impairment provisions amounted to US$ 338.9 million, comprising of US$ 159.5 million of provision against Stage 1 and 2 exposures and US$ 179.4 million against exposures classified under Stage 3. The accounting policies relating to estimating ECL are presented in the accounting policies, and the associated credit risk disclosure is presented in Note 31 to the consolidated financial statements.	▪ We gained an understanding of the Group's key credit processes comprising granting, booking, monitoring and provisioning, including an understanding of the design and operating effectiveness of relevant controls over the ECL model, including model build and approval, ongoing monitoring/validation, model governance and mathematical accuracy. ▪ We read the Group's IFRS 9 based impairment provisioning policy and compared it with the requirements of IFRS 9 as well as relevant regulatory guidelines and pronouncements. ▪ We assessed the soundness of the Group's loan grading processes. **Stage 1 and Stage 2 Provisions:** ▪ For ECL against exposures classified as Stage 1 and Stage 2, we obtained an understanding of the Group's provisioning methodology, the underlying assumptions and the sufficiency of the data used by management. ▪ We obtained an understanding of the Group's internal rating model for loans and advances. We have read the annual external validation report on the internal rating model to assess the appropriateness of the rating model.

Independent auditors' report to the shareholders of Gulf International Bank B.S.C. (continued)

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

Key audit matters (continued)

1. Impairment of loans and advances under IFRS99 (continued)

Key audit matter	How the key audit matter was addressed in the audit
	• We checked the appropriateness of the Group's determination of significant increase in credit risk and the resultant basis for classification of exposures into various stages. • For forward looking assumptions used by the Group in its ECL calculations, we held discussions with management and corroborated the assumptions using publicly available information. • For a sample of exposures, we checked the appropriateness of the Group's staging. • For Probability of Default ("PD") used in the ECL calculations we checked the Through the Cycle ("TTC") PDs with internal historical data and checked the appropriateness of conversion of the TTC PDs to Point in Time PDs. • We checked the appropriateness of the Loss Given Default used by the Group's management in the ECL calculations. • For a sample of exposures, we checked the appropriateness of determining Exposure at Default, including the consideration of repayments in the cash flows and the resultant arithmetical calculations. • We checked the completeness of loans and advances and credit related contingent items included in the ECL calculations as of 31 December 2023. • We involved Financial Services Risk Management and Information System specialists to verify the appropriateness of the model. • We considered the adequacy of the disclosures in the consolidated financial statements in accordance with IFRS 9. Refer to the material accounting policies, accounting judgements, estimates and assumptions, disclosures of loans and advances and credit risk management in notes 3, 5, 12 and 31 respectively to the consolidated financial statements. **Stage 3 (Specific) Provisions:** • For a sample of exposures determined to be individually impaired, we obtained an understanding of the latest developments in the counterparty's situation and examined management's estimate of future cash flows and checked the resultant provision calculations. • For each exposure in the sample selected, we re-performed the provision calculation by considering the appropriateness of the management assumptions used and where possible benchmarked the provision held to that across the industry.

Independent auditors' report to the shareholders of Gulf International Bank B.S.C. (continued)

Other information included in the Group's 2023 Annual Report

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information obtained prior to the date of the auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors for the consolidated financial statements

The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS 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.

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 ISA, 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.
- 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.

Independent auditors' report to the shareholders of Gulf International Bank B.S.C. (continued)

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

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

We also provide the Group's Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and communicate to them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or the safeguards applied.

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

Report on Other Legal and Regulatory Requirements

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

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

b) the financial information contained in the Chairman's Statement is consistent with the consolidated financial statements;

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

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

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

Ernst + Young

Partner's registration no.115
25 February 2024
Manama, Kingdom of Bahrain

Consolidated Statement of Financial Position

	Note	31.12.23 US$ millions	31.12.22 US$ millions
ASSETS			
Cash and other liquid assets	*7*	**17,006.5**	6,329.0
Securities purchased under agreements to resell	*8*	**743.9**	195.8
Placements	*9*	**7,077.4**	6,988.3
Trading securities	*10*	**270.8**	175.4
Investment securities	*11*	**6,716.2**	5,785.5
Loans and advances	*12*	**13,624.6**	11,497.6
Other assets	*13*	**1,630.5**	1,650.0
Total assets		**47,069.9**	32,621.6
LIABILITIES			
Deposits from banks	*15*	**883.9**	509.1
Deposits from customers	*15*	**34,517.9**	21,940.5
Securities sold under agreements to repurchase	*16*	**743.1**	537.4
Other liabilities	*17*	**1,535.7**	1,509.5
Senior term financing	*18*	**5,620.7**	4,940.9
Subordinated term financing	*19*	**400.0**	-
Total liabilities		**43,701.3**	29,437.4
EQUITY			
Share capital	*20*	**2,000.0**	2,500.0
Reserves	*21*	**237.3**	450.6
Retained earnings		**131.3**	(729.0)
Equity attributable to the shareholders of the Bank		**2,368.6**	2,221.6
Non-controlling interest	*44*	**1,000.0**	962.6
Total equity		**3,368.6**	3,184.2
Total liabilities & equity		**47,069.9**	32,621.6

The consolidated financial statements were approved by the Board of Directors on 25th February 2024 and signed on its behalf by:

Abdulla Mohammed Al Zamil
Chairman of the Board

Rajeev Kakar
Chairman of the Board Audit Committee

Abdulaziz A. Al-Helaissi
Group Chief Executive Officer

Consolidated Statement of Income

	Note	Year ended 31.12.23 US$ millions	Year ended 31.12.22 US$ millions
Interest income	23	**2,198.9**	917.1
Interest expense	23	**1,700.4**	571.3
Net interest income		**498.5**	345.8
Net fee and commission income	24	**103.2**	101.4
Trading income / (loss)	25	**60.9**	(6.8)
Foreign exchange income	26	**37.2**	36.6
Other income	27	**8.5**	44.8
Total operating income		**708.3**	521.8
Staff expenses		**249.5**	207.0
Premises expenses		**18.5**	19.6
Other operating expenses		**129.5**	119.9
Total operating expenses		**397.5**	346.5
Net income before provisions and tax		**310.8**	175.3
Provision charge for expected credit losses	28	**(112.0)**	(71.6)
Net income before tax		**198.8**	103.7
Taxation and zakat charges	29	**(29.4)**	(7.6)
Net income		**169.4**	96.1
Attributable to:			
Shareholders of the Bank		**140.0**	78.7
Non-controlling interest		**29.4**	17.4
		169.4	96.1

Abdulla Mohammed Al Zamil
Chairman of the Board

Rajeev Kakar
Chairman of the Board Audit Committee

Abdulaziz A. Al-Helaissi
Group Chief Executive Officer

Consolidated Statement of Comprehensive Income

	Note	Year ended 31.12.23 US$ millions	Year ended 31.12.22 US$ millions
Net income		**169.4**	96.1
Other comprehensive income:			
Items that will not be reclassified to consolidated statement of income:			
Net changes in fair value of equity investments classified as fair value through other comprehensive income (FVTOCI)		**13.5**	(5.5)
Remeasurement of defined benefit pension fund		**2.6**	1.2
Net changes in deferred tax reserves	*21*	**(1.1)**	(0.6)
		15.0	(4.9)
Total other comprehensive income / (loss)		**15.0**	(4.9)
Total comprehensive income		**184.4**	91.2
Attributable to:			
Shareholders of the Bank		**147.0**	76.2
Non-controlling interest		**37.4**	15.0
		184.4	91.2

Consolidated Statement of Changes in Equity

	Equity attributable to the shareholders of the Bank					
	Share capital	Reserves	Retained earnings	Total	Non-controlling interest	Total
	US$ millions	US$ millions	US$ millions	US$ millions	US$ millions	US$ millions
At 1st January 2023	**2,500.0**	**450.6**	**(729.0)**	**2,221.6**	**962.6**	**3,184.2**
Net income for the year	**-**	**-**	**140.0**	**140.0**	**29.4**	**169.4**
Other comprehensive income for the year	**-**	**7.0**	**-**	**7.0**	**8.0**	**15.0**
Total comprehensive income for the year	**-**	**7.0**	**140.0**	**147.0**	**37.4**	**184.4**
Transfers during the year	**-**	**8.7**	**(8.7)**	**-**	**-**	**-**
Share capital reduction (note 20)	**(500.0)**	**(229.0)**	**729.0**	**-**	**-**	**-**
At 31st December 2023	**2,000.0**	**237.3**	**131.3**	**2,368.6**	**1,000.0**	**3,368.6**
At 1st January 2022	2,500.0	435.5	(790.1)	2,145.4	947.6	3,093.0
Net income for the year	-	-	78.7	78.7	17.4	96.1
Other comprehensive loss for the year	-	(2.5)	-	(2.5)	(2.4)	(4.9)
Total comprehensive (loss) / income for the year	-	(2.5)	78.7	76.2	15.0	91.2
Transfers during the year	-	17.6	(17.6)	-	-	-
At 31st December 2022	2,500.0	450.6	(729.0)	2,221.6	962.6	3,184.2

Consolidated Statement of Cash Flows

	Note	Year ended 31.12.23 US$ millions	Year ended 31.12.22 US$ millions
OPERATING ACTIVITIES			
Net income for the year		**169.4**	96.1
Adjustments for:			
Depreciation and amortisation		**28.8**	40.0
Provision for expected credit losses - net		**112.0**	71.6
Realised loss / (gain) on debt investment securities		**0.2**	(1.9)
Operating income before changes in operating assets and liabilities		**310.4**	205.8
Changes in operating assets and liabilities:			
Statutory deposits with central banks		**(56.8)**	(12.0)
Certificates of deposit		**(195.0)**	-
Securities purchased under agreements to resell		**(548.1)**	4.2
Placements		**(89.7)**	(592.2)
Trading securities		**(95.4)**	(54.3)
Loans and advances		**(2,235.4)**	93.2
Interest receivable		**(135.6)**	(160.3)
Other assets		**177.8**	(788.5)
Deposits from banks		**374.8**	(482.2)
Deposits from customers		**12,577.4**	945.7
Securities sold under agreement to repurchase		**205.7**	(147.8)
Interest payable		**61.8**	205.0
Other liabilities		**(38.7)**	377.5
Net cash from / (used in) operating activities		**10,313.2**	(405.9)
INVESTING ACTIVITIES			
Purchase of investment securities		**(1,595.1)**	(1,833.1)
Maturity / sale of investment securities		**673.3**	1,994.9
Purchase of premises and equipment		**(45.5)**	(15.3)
Net cash (used in) / from investing activities		**(967.3)**	146.5
FINANCING ACTIVITIES			
Issuance of financing		**1,876.6**	1,317.3
Maturity of financing		**(796.8)**	(1,476.5)
Net cash from / (used in) financing activities		**1,079.8**	(159.2)
Net increase / (decrease) in cash and cash equivalents		**10,425.7**	(418.6)
Cash and cash equivalents at 1st January		**5,888.1**	6,306.7
Cash and cash equivalents at 31st December	7	**16,313.8**	5,888.1

Cash and cash equivalents at 31st December 2023 excludes statutory deposits with the Central Bank amounting to US$497.7 million (2022: US$440.9 million) and certificates of deposit with original maturities of three months or more amounting to US$195.0 million (2022: nil).

Notes to the Consolidated Financial Statements

For the year ended 31st December 2023

1. Incorporation and registration

The parent company, Gulf International Bank B.S.C. ("the Bank"), is a Bahraini Shareholding Company incorporated in the Kingdom of Bahrain by Amiri Decree Law No. 30 dated 24th November 1975 and is registered as a conventional wholesale bank and a conventional retail bank with the Central Bank of Bahrain. The registered office of the Bank is located at Al-Dowali Building, 3 Palace Avenue, Manama, Kingdom of Bahrain.

The Bank and its subsidiaries (together "the Group") are principally engaged in the provision of wholesale commercial, asset management, investment banking and retail consumer banking services. The Group operates through subsidiaries, branch offices and representative offices located in six countries worldwide. The total number of staff at the end of the financial year was 1,379 (2022: 1,264).

2. Basis of preparation

2.1 Statement of compliance

The consolidated financial statements for the year ended 31st December 2023 have been prepared in accordance with International Financial Reporting Standards (IFRS) and in conformity with the Bahrain Commercial Companies Law and the Central Bank of Bahrain and Financial Institutions Law.

2.2 Basis of measurement and presentation

The consolidated financial statements have been prepared under the historical cost convention as modified by the revaluation of trading securities, equity investment securities, derivative financial instruments and pension assets and liabilities as explained in more detail in the following accounting policies. Recognised assets and liabilities that are hedged by derivative financial instruments are also stated at fair value in respect of the risk that is being hedged. The Group's consolidated financial statements are presented in United States Dollars (US$), which is also the Bank's functional currency. All values are rounded-off to the nearest million (US$ million), except where otherwise indicated.

2.3 Consolidation principles

The consolidated financial statements include the accounts of Gulf International Bank B.S.C. and its subsidiaries. Subsidiaries are companies and other entities, including special purpose entities, which the Bank controls. Control is achieved when 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 those returns.

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

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

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

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

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

The principal subsidiaries and the Group's ownership of each are set out in note 43.

Notes to the Consolidated Financial Statements

For the year ended 31st December 2023

3. Material accounting policies

The principal accounting policies adopted in the preparation of the consolidated financial statements are set out below:

3.1 Financial assets and liabilities

Financial assets and liabilities comprise all assets and liabilities reflected in the consolidated statement of financial position, although excluding employee benefit plans and property and equipment.

a) Recognition and measurement

The Group recognises financial assets and liabilities in the consolidated statement of financial position when, and only when, the Group becomes party to the contractual provisions of the instrument.

Financial instruments are classified at inception into one of the following categories, which then determine the subsequent measurement methodology:

Financial assets are classified into one of the following three categories:

- financial assets at amortised cost;
- financial assets at fair value through other comprehensive income (FVTOCI); or
- financial assets at fair value through the profit or loss (FVTPL).

Financial liabilities are classified into one of the following two categories:

- financial liabilities at amortised cost; or
- financial liabilities at fair value through the profit or loss (FVTPL).

Financial assets are initially recognised at fair value including transaction costs attributable to the financial asset, with the exception of trade receivables which are recognised at fair value. Financial liabilities are initially recognised at fair value, representing the proceeds received net of premiums, discounts and transaction costs that are directly attributable to the financial liability.

All regular way purchases and sales of financial assets and liabilities classified as FVTPL are recognised on the trade date, i.e. the date on which the Group commits to purchase or sell the financial asset or liability. All regular way purchases and sales of other financial assets and liabilities are recognised on the settlement date, i.e. the date on which the asset or liability is received from or delivered to the counterparty. Regular way purchases or sales are purchases or sales of financial assets that require delivery within the time frame generally established by regulation or convention in the market place.

Subsequent to initial measurement, financial assets and liabilities are measured at either amortised cost or fair value. The classification and the basis for measurement are subject to the Group's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets, as detailed below:

Financial assets at amortised cost

Financial assets are measured at amortised cost using the effective interest rate method if:

- the assets are held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

If the first criteria is not met, the financial assets are classified and measured at fair value through other comprehensive income (FVTOCI). If both criteria are not met, the financial assets are classified and measured at fair value through the profit or loss (FVTPL).

Additionally, even if a financial asset meets the amortised cost criteria, the Group may choose to designate the financial asset at FVTPL. Such an election is irrevocable and applicable only if the FVTPL classification significantly reduces a measurement or recognition inconsistency.

Financial assets at fair value through other comprehensive income (FVTOCI)

At initial recognition, the Group can make an irrevocable election to classify an equity investment that is not held for trading as FVTOCI.

Notes to the Consolidated Financial Statements

For the year ended 31st December 2023

3. Material accounting policies (continued)

3.1 Financial assets and liabilities (continued)

a) Recognition and measurement (continued)

For this purpose, a financial asset is deemed to be held for trading if the equity investment meets any of the following conditions:

- it has been acquired principally for the purpose of selling in the near term;
- on initial recognition, it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profitability; or
- it is a derivative and not designated and effective as a hedging instrument or a financial guarantee.

The irrevocable election is on an instrument-by-instrument basis. If an equity investment is designated as FVTOCI, all gains and losses, except for dividend income, are recognised in other comprehensive income and are not subsequently included in the consolidated statement of income.

Financial assets at fair value through the profit or loss (FVTPL)

Financial assets not otherwise classified above are classified and measured as FVTPL.

Financial liabilities at amortised cost

All financial liabilities, other than those classified as financial liabilities at FVTPL, are classified as financial liabilities at amortised cost and are measured at amortised cost using the effective interest rate method as described in note 3.4(a).

Financial liabilities at fair value through the profit or loss

Financial liabilities not otherwise classified above are classified as financial liabilities at FVTPL. This classification includes derivatives that are liabilities measured at fair value.

b) Modification of assets and liabilities

Financial assets

If the terms of a financial asset are modified, the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, the original financial asset is derecognised and a new financial asset is recognised at either amortised cost or fair value. If the cash flows are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Group recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in the statement of income.

Financial liabilities

The Group derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at either amortised cost or fair value. The difference between the carrying amount of the financial liability derecognised and the new financial liability with modified terms is recognised in the statement of income.

3.2 Impairment of financial assets

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

Notes to the Consolidated Financial Statements

For the year ended 31st December 2023

3. Material accounting policies (continued)

3.2 Impairment of financial assets (continued)

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; and
- Financial guarantee contracts: estimates the ECLs based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the guarantor expects to receive from the holder, the debtor or any other party. If a loan is fully guaranteed, the ECL estimate for the financial guarantee contract would be the same as the estimated cash shortfall estimate for the loan subject to the guarantee.

For the purposes of ECL calculation, the Group categorises its financial instruments that are not measured at FVTPL into Stage 1, Stage 2 and Stage 3, based on the applied impairment methodology, as described below. Equity investments are not subject to impairment assessments.

- Stage 1: for financial instruments where there has not been a significant increase in credit risk since initial recognition and that are not credit-impaired on origination, the Group recognises an allowance based on the 12-month ECL.
- Stage 2: for financial instruments where there has been a significant increase in credit risk since initial recognition but that are not credit-impaired, the Group recognises an allowance for the lifetime ECL.
- Stage 3: for credit-impaired financial instruments, the Group recognises the lifetime ECL.

12-month ECL is the portion of ECL that results from probable default events on a financial instrument within 12 months after the reporting date.

Lifetime ECL is a probability-weighted estimate of credit losses and is determined based on the difference between the present value of all cash shortfalls. The cash shortfall is the difference between all contractual cash flows that are due to the Group and the present value of the recoverable amount at the reporting date. For stage 3 financial instruments, the recoverable amount is measured as the present value of expected future cash flows, including amounts recoverable from guarantees and collateral, discounted based on the interest rate at the inception of the credit facility or, for debt instruments, at the current market rate of interest for a similar financial asset.

The Group incorporates forward-looking information in the measurement of ECLs, such as macroeconomic factors (e.g., GDP growth, oil prices, country's equity indices and unemployment rates) and economic forecasts. To evaluate a range of possible outcomes, the Group formulates three scenarios: a base case, a positive and a negative scenario. For each scenario, the Group derives an ECL and apply a probability weighted approach to determine the impairment allowance.

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 as follows:

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.

The Group applies the low credit risk presumption and considers all exposures to GCC sovereigns as low credit risk.

Stage 2

IFRS 9 requires financial assets to be classified in Stage 2 when their credit risk has increased significantly since their initial recognition. For these assets, a loss allowance needs to be recognised based on their lifetime ECLs.

The Group considers whether there has been a significant increase in credit risk of an asset by comparing the rating migration upon initial recognition of the asset against the risk of a default occurring on the asset as at the end of each reporting period. In each case, this assessment is based on forward-looking assessment, in order to recognise the probability of higher losses associated with more negative economic outlooks. In addition, a significant increase in credit risk is assumed if the borrower falls more than 30 days past due in making its contractual payments, or if the Group expects to grant the borrower forbearance or facility has been restructured owing to credit related reasons, or the facility is placed on the Group's list of accounts requiring close monitoring. Further, any facility having an internal credit risk rating of 8 are also subject to stage 2 ECL calculation.

Notes to the Consolidated Financial Statements

For the year ended 31st December 2023

3. Material accounting policies (continued)

3.2 Impairment of financial assets (continued)

Measurement of ECL (continued)

Stage 2 (continued)

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

For revolving facilities such as credit cards and overdrafts, the Group measures ECLs by determining the period over which it expects to be exposed to credit risk, taking into account the credit risk management actions that it expects to take once the credit risk has increased and that serve to mitigate losses.

Stage 3

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

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to deterioration in the borrower's condition is usually considered to be credit impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a loan that is overdue for 90 days or more is considered impaired.

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.

Financial assets which have been renegotiated or modified are no longer considered to be past due and are placed on performing status when all principal and interest payments are up to date and future payments are reasonably assured. Financial assets subject to individual impairment assessment and whose terms have been renegotiated, are subject to on-going review to determine whether they remain impaired or should be considered past due. All renegotiated or modified facilities are classified as stage 2 or stage 3 for a minimum period of 12 months from the date of renegotiation. The ECL on renegotiated financial instruments is measured based on whether the terms of renegotiation resulted in the derecognition of an existing asset.

In general, loans are transferred out of Stage 3 if they no longer meet the criteria of credit-impaired and after satisfying the curing criteria of the Bank.

Provisions for expected credit losses are recognised in the consolidated statement of income and are presented in the consolidated statement of financial position in an allowance account against loans and advances, investment securities, and placements (as a deduction from the gross carrying amount of the assets).

Financial assets are written off after all restructuring and collection activities have taken place and there is no realistic prospect of recovery. Subsequent recoveries are included in other income.

Notes to the Consolidated Financial Statements
For the year ended 31st December 2023

3. Material accounting policies (continued)

3.3 Offsetting financial assets and liabilities

Financial assets and financial liabilities are only offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

3.4 Revenue recognition

a) Interest income and interest expense

Interest income and interest expense for all interest-bearing financial assets and liabilities except those classified as FVTPL are recognised using the effective interest rate (EIR) method. The effective interest rate method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or interest expense over the expected life of the asset or liability. The effective interest rate is the rate that exactly discounts estimated future cash flows through the expected life of the financial asset or liability or, where appropriate, a shorter period, to the net carrying amount of the financial asset or liability. The application of the effective interest rate method has the effect of recognising interest income and interest expense evenly in proportion to the amount outstanding over the period to maturity or repayment.

In calculating the effective interest rate, cash flows are estimated taking into consideration all contractual terms of the financial asset or liability but excluding future credit losses. Fees, including loan origination fees and early redemption fees, are included in the calculation of the effective interest rate to the extent that they are considered to be an integral part of the effective interest rate.

Interest income is suspended when either interest or principal on a credit facility is overdue by more than 90 days whereupon all unpaid and accrued interest is reversed from income. Interest on non-accrual facilities is included in income only when received. Credit facilities are restored to accrual status only after all delinquent interest and principal payments have been brought current and future payments are reasonably assured.

b) Fees and commissions

Fees and commissions that are integral to the effective interest rate of a financial asset or liability are included in the calculation of the effective interest rate.

Other fees and commissions are recognised as the related services are performed or received, and are included in fee and commission income.

c) Trading and foreign exchange income

Trading and foreign exchange income arise from earnings generated from customer business and market making, and from changes in fair value resulting from movements in interest and exchange rates, equity prices and other market variables. Changes in fair value and gains and losses arising on the purchase and sale of trading instruments are included in trading income, together with the related interest income, interest expense and dividend income.

d) Dividend income

Dividend income is recognised as follows:

- dividends from equity instruments classified as FVTPL are recognised when the right to receive the dividend is established and are included in trading income.
- dividends from equity instruments classified as FVTOCI are recognised when the right to receive the dividend is established and are included in other income.

Notes to the Consolidated Financial Statements

For the year ended 31st December 2023

3. Material accounting policies (continued)

3.5 Repurchase and reverse repurchase agreements

Securities sold under agreements to repurchase at a specified future date are not derecognised from the statement of financial position as the Group retains substantially all of the risks and rewards of ownership. The corresponding cash received is recognised in the consolidated statement of financial position as an asset with a corresponding obligation to return it, including accrued interest as a liability within cash collateral on securities lent and repurchase agreements, reflecting the transaction's economic substance as a loan to the Group. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of agreement using the EIR. When the counterparty has the right to sell or re-pledge the securities, the Group reclassifies those securities in its statement of financial position to FVTPL financial assets pledged as collateral or to FVOCI financial investments pledged as collateral, as appropriate.

Conversely, securities purchased under agreements to resell at a specified future date are not recognised in the statement of financial position. The consideration paid, including accrued interest, is recorded in the statement of financial position, within cash collateral on securities borrowed and reverse repurchase agreements, reflecting the transaction's economic substance as a loan by the Bank. The difference between the purchase and resale prices is recorded in net interest income and is accrued over the life of the agreement using the EIR.

If securities purchased under an agreement to resell are subsequently sold to third parties, the obligation to return the securities is recorded as a short sale within financial liabilities held for trading and measured at fair value with any gains or losses included in net trading income.

3.6 Premises and equipment

Land is stated at cost. Other premises and equipment are stated at cost less accumulated depreciation. The residual values and useful lives of premises and equipment are reviewed at each balance sheet date, and adjusted where appropriate. Depreciation is calculated using the straight-line method over various periods. Where the carrying amount of premises or equipment is greater than the estimated recoverable amount, the carrying amount is reduced to the recoverable amount.

Generally, costs associated with the maintenance of existing computer software are recognised as an expense when incurred. However, expenditure that enhances and extends the benefits of computer software programs beyond their original specifications and lives is recognised as a capital improvement and capitalised as part of the original cost of the software.

3.7 Other provisions

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

3.8 Derivative financial instruments and hedge accounting

Derivative financial instruments are contracts, the value of which is derived from one or more underlying financial instruments or indices, and include futures, forwards, swaps and options in the interest rate, foreign exchange, equity and credit markets.

Derivative financial instruments are recognised in the consolidated statement of financial position at fair value. Fair values are derived from prevailing market prices, discounted cash flow models or option pricing models as appropriate.

In the consolidated statement of financial position, derivative financial instruments with positive fair values (unrealised gains) are included in other assets and derivative financial instruments with negative fair values (unrealised losses) are included in other liabilities.

The changes in the fair values of derivative financial instruments entered into for trading purposes or to hedge other trading positions are included in trading income.

The recognition of changes in the fair values of derivative financial instruments entered into for hedging purposes is determined by the nature of the hedging relationship. For the purposes of hedge accounting, derivative financial instruments are designated as a hedge of either: (i) the fair value of a recognised asset or liability (fair value hedge), or (ii) the future cash flows attributable to a recognised asset or liability or a firm commitment (cash flow hedge).

The Group's criteria for a derivative financial instrument to be accounted for as a hedge include:

- the hedging instrument, the related hedged item, the nature of the risk being hedged, and the risk management objective and strategy must be formally documented at the inception of the hedge,
- it must be clearly demonstrated that the hedge is expected to be highly effective in offsetting the changes in fair values or cash flows attributable to the hedged risk in the hedged item, including how the Group will address the hedge ratio,
- the effectiveness of the hedge must be capable of being reliably measured, and
- there is an economic relationship between the hedging instrument and the hedged item and the effect of credit risk does not dominate the fair value changes of that relationship.

Notes to the Consolidated Financial Statements

For the year ended 31st December 2023

3. Material accounting policies (continued)

3.8 Derivative financial instruments and hedge accounting (continued)

Changes in the fair values of derivative financial instruments that are designated, and qualify, as fair value hedges and that prove to be highly effective in relation to the hedged risk, are included in trading income together with the corresponding change in the fair value of the hedged asset or liability that is attributable to the risk that is being hedged. Unrealised gains and losses arising on hedged assets or liabilities which are attributable to the hedged risk are adjusted against the carrying amounts of the hedged assets or liabilities in the consolidated statement of financial position. If the hedge no longer meets the criteria for hedge accounting, any adjustment to the carrying amount of a hedged interest-bearing financial instrument is amortised to income over the remaining period to maturity.

Changes in the fair values of derivative financial instruments that are designated, and qualify, as cash flow hedges and that prove to be highly effective in relation to the hedged risk, are recognised in other comprehensive income. Unrealised gains or losses recognised in other comprehensive income (OCI) are transferred to the consolidated statement of income at the same time that the income or expense of the corresponding hedged item is recognised in the consolidated statement of income and are included in the same income or expense category as the hedged item. Unrealised gains or losses on any ineffective portion of cash flow hedging transactions are included in trading income.

The interest component of derivatives that are designated, and qualify, as fair value or cash flow hedges is included in interest income or interest expense relating to the hedged item over the life of the derivative instrument.

Hedge accounting is discontinued when the derivative hedging instrument either expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. Gains and losses arising on the termination of derivatives designated as cash flow hedges are recognised in interest income or interest expense over the original tenor of the terminated hedge transaction.

Some hybrid instruments contain both a derivative and non-derivative component. In such cases, the derivative is categorised as an embedded derivative. Embedded derivatives are separated from the host contract and accounted for separately if certain criteria are met. Where it is not practically possible to separate the embedded derivative, the entire hybrid instrument is categorised as a financial asset at FVTPL and measured at fair value. Changes in fair value are included in trading income.

3.9 Financial guarantees

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specific debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantees are issued to financial institutions and other counterparties on behalf of customers to secure loans, overdrafts and other banking facilities, and to other parties in relation to the performance of customers under obligations related to contracts, advance payments made by other parties, tenders and retentions.

Financial guarantees are initially recognised at fair value on the date the guarantee is issued. The guarantee liability is subsequently measured at the higher of the initial measurement, less amortisation to recognise the fee income earned over the period, or the present value of any expected payments to settle the liability when a payment under the contract has become probable. The expected loss on financial guarantees is measured at the expected payment to reimburse the holder less any amounts that the Group expects to recover.

3.10 Post retirement benefits

The majority of the Group's employees are eligible for post retirement benefits under either defined benefit or defined contribution pension plans which are provided through separate trustee-administered funds, insurance plans or are directly funded by the Group. The Group also pays contributions to government managed pension plans in accordance with the legal requirements in each location.

The Group's contributions to defined contribution pension plans are expensed in the year to which they relate.

The calculation of obligations in respect of the defined benefit pension plans are performed by qualified actuaries using the projected unit credit method. The Group's net obligation is calculated by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of the plan assets. When the calculation results in a potential asset for the Group, the recognised asset is limited to a ceiling so that it does not exceed the economic benefits available in the form of refunds from the plans or reductions in future contributions.

Remeasurements of the net defined benefit liability or asset, which comprise actuarial gains and losses, the return of plan assets (excluding interest) and the effect of the asset ceiling, are recognised immediately in the consolidated statement of other comprehensive income. The Group determines the net interest expense or income on the net defined benefit liability or asset for the year by applying the discount rate used to measure the defined benefit obligation at the beginning of the year to the opening net defined benefit liability or asset. Net interest expense and other expenses related to the defined benefit plans are recognised in the consolidated statement of income.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in the consolidated statement of income. The Group recognises gains and losses on the settlement of defined benefit plans when the settlement occurs.

Notes to the Consolidated Financial Statements

For the year ended 31st December 2023

3. Material accounting policies (continued)

3.11 Taxation and zakat

There is no tax on corporate income in the Kingdom of Bahrain. Taxation on income from foreign entities is provided for in accordance with the fiscal regulations of the countries in which the respective Group entities operate.

a) Current tax

Current taxation is the expected tax payable on the taxable income for the year, using tax rates enacted at the reporting date, and includes any adjustments to tax payable in respect of previous years.

b) Deferred tax

Deferred tax is provided, using the liability method, for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. A deferred tax asset is recognised only to the extent that it is probable that future taxable income will be available against which the unutilised tax losses and credits can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Deferred tax assets and liabilities are offset only if certain criteria are met. Currently enacted tax rates are used to determine deferred taxes.

The Group's entities operating in the Kingdom of Saudi Arabia are subject to Zakat in accordance with the regulations of the Zakat, Tax and Customs Authority ("ZATCA"). Zakat expense is charged to the statement of income. Zakat is not accounted for as income tax and as such no deferred tax is calculated relating to zakat.

3.12 Cash and cash equivalents

Cash and cash equivalents referred to in the consolidated statement of cash flows comprise of cash and non-restricted balances with central banks and deposits with banks with maturities of less than three months.

3.13 Trading securities

Trading securities are initially recorded at fair value. Subsequent to initial measurement, gains and losses arising from changes in fair values are included in the consolidated statement of income in the period in which they arise. Interest earned and dividends received are included in 'interest income' and 'other income' respectively, in the consolidated statement of income.

3.14 Placements

Placements are initially measured at fair value and subsequently remeasured at amortised cost, net of any amounts written off and provision for ECL. The carrying values of such assets which are being effectively hedged for changes in fair value are adjusted to the extent of the changes in fair value being hedged, with the resultant changes being recognised in the consolidated statement of income.

3.15 Deposits

All bank and customer deposits are initially measured at fair value and subsequently remeasured at amortised cost. An adjustment is made to these, if part of an effective fair value hedging strategy, to adjust the value of the deposit for the fair value being hedged with the resultant changes being recognised in the consolidated statement of income.

3.16 Leases

At inception, the Group assesses whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

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

Right-of-use assets

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

Lease liabilities

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

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

The Group discloses lease liabilities under other liabilities.

Notes to the Consolidated Financial Statements

For the year ended 31st December 2023

3. Material accounting policies (continued)

3.16 Leases (continued)

Short-term leases and leases of low-value assets

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

3.17 Segment reporting

An operating segment is a distinguishable component of the Group that is engaged in business activities from which revenues are earned and expenses are incurred, including revenues and expenses that relate to transactions with any of the Group's other operating segments. All segments have discrete financial information which is regularly reviewed by the Group's Management Committee, being the Group's chief operating decision maker, to make decisions about resources allocated to the segment and to assess its performance. The Group's Management Committee assesses the segments based on net interest income which accounts for the majority of the Group's revenues.

3.18 Foreign currencies

Transactions in foreign currencies are converted to US Dollars at the spot rate of exchange prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into US Dollars at market rates of exchange prevailing at the balance sheet date.

3.19 Fiduciary activities

The Group administers and manages assets owned by clients which are not reflected in the consolidated financial statements. Asset management fees are earned for providing investment management services and for managing mutual fund products. Asset administration fees are earned for providing custodial services. Fees are recognised as the services are provided and are included in fee and commission income.

3.20 Employee pension and other end of service benefits

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

3.21 Dividends

Dividends on issued shares are recognised as a liability and deducted from equity when they are approved by the Bank's shareholders.

3.22 Shariah-compliant banking

The Group offers various Shariah-compliant products to its customers. The Shariah-compliant activities are conducted in accordance with Shariah principles and are subject to the supervision and approval of the Group's Shariah Supervisory Board. The disclosures set out in the consolidated financial statements in relation to these activities are prepared in accordance with Financial Accounting Standard 18 issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI).

3.23 Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

3.24 Capital management

The Group uses regulatory capital ratios and its economic capital framework to monitor its capital base. The Group manages its capital structure and makes adjustments to the structure taking account of changes in economic conditions and strategic business plans.

4. New and amended standards and interpretations

4.1 New and amended standards and interpretations issued and effective for the year

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

Notes to the Consolidated Financial Statements

For the year ended 31st December 2023

4. New and amended standards and interpretations (continued)

4.1 New and amended standards and interpretations issued and effective for the year (continued)

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

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

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

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

- Qualitative information such as how an entity is affected by Pillar Two legislation and the main jurisdictions in which exposures to Pillar Two income taxes might exist, and
- Quantitative information such as an indication of the proportion of an entity's profits that might be subject to Pillar Two income taxes and the average effective tax rate applicable to those profits; or an indication of how the entity's overall effective tax rate would have changed if Pillar Two legislation had been effective.

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

In light of the introduction of Pillar Two Model Rules, the Group is currently assessing the expected impact on the jurisdictions in which it operates. The Bank has prepared a summary overview that provides insights into the key aspects of the Global Minimum Tax Framework and potential implications on the Group. As per the high-level assessment, the amendments will have no impact on the Group's consolidated financial statements at 31st December 2023.

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.

IFRS 17 Insurance Contracts

IFRS 17 Insurance Contracts (IFRS 17) is effective for reporting periods beginning on or after 1st January 2023. 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. Limited scope exceptions apply.

Other than the exceptions outlined below, the Group has not identified contracts that result in the transfer of significant insurance risk, and therefore it has concluded that IFRS 17 does not have a material impact on the financial statements for the year ended 31st December 2023.

As part of this determination, the Group assessed credit cards and similar products that include insurance coverage. IFRS 17 excludes from its scope credit card contracts (and other similar contracts that provide credit or payment arrangements) that meet the definition of an insurance contract if, and only if, the entity does not reflect an assessment of the insurance risk associated with an individual customer in setting the price of the contract with that customer. The Group has determined that insurance risk associated with an individual customer has not been assessed in setting the price of the contracts as these products are offered at the same price to all applicants, and therefore they are exempt from IFRS 17.

For loan contracts that meet the definition of an insurance contract, but limit the compensation for insured events to the amount otherwise required to settle the policyholder's obligation created by the contract, e.g., a loan with waiver on death, there is a choice to apply either IFRS 9 or IFRS 17 to such contracts. This choice is made at a portfolio level and is irrevocable. The Group has made an irrevocable choice to apply IFRS 9 to each portfolio of these products.

Other amendments and interpretations apply for the first time in 2023, but do not have an impact on the Group's consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31st December 2023

4. New and amended standards and interpretations (continued)

4.2 New and amended standards and interpretations issued but not yet effective

New and amended standards and interpretations that are issued but not yet effective will not have a material impact on the Group's consolidated financial statements.

5. Accounting judgements estimates and assumptions

The preparation of the consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of certain financial assets, liabilities, income and expenses.

The use of judgements, estimates and assumptions is principally limited to the determination of provisions for impairment, the valuation of financial instruments, the valuation of the Group's defined benefit pension plans, and in determining control relationships over investees, as explained in more detail below:

5.1 Provisions for expected credit losses

Financial assets are evaluated for impairment on the basis set out in note 3.2. In determining impairment of financial assets, judgement is required in the estimation of the amount and timing of future cash flows as well as an assessment of whether the credit risk on the financial asset has increased significantly since initial recognition and incorporation of forward-looking information in the measurement of ECL.

5.2 Fair value of financial assets and liabilities

Where the fair value of financial assets and liabilities cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is derived from observable markets where available, but where this is not feasible, a degree of judgement is required in determining assumptions used in the models. Changes in assumptions used in the models could affect the reported fair value of financial assets and liabilities.

5.3 Retirement benefit obligations

Management, in coordination with independent qualified actuaries, are required to make assumptions regarding the defined benefit pension plans. The principal actuarial assumptions for the defined benefit pension plans are set out in note 14 and include assumptions on the discount rate, return on pension plan assets, mortality, future salary increases, and inflation. Changes in the assumptions could affect the reported asset, service cost and return on pension plan assets.

5.4 Determination of control over investees

The Group acts as fund manager to a number of investment funds. The determination of whether the Group controls an investment fund is based on an assessment of the aggregate economic interests of the Group in the fund and includes an assessment of any carried interests, expected management fees, and the investors' rights to remove the Group as fund manager.

Management are required to conclude whether the Group acts as an agent for the investors in the fund, or if the underlying fund is controlled by the Group.

5.5 Going Concern

The Group's management has performed an assessment of the Group's ability to continue as a going concern and is satisfied that the Group has the resources to continue the business in the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt on the Group's ability to continue as a going concern. Therefore, these consolidated financial statements continue to be prepared on a going concern basis.

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For the year ended 31st December 2023

6. Classification of assets and liabilities

The classification of assets and liabilities by accounting categorisation was as follows:

	FVTPL	FVTOCI	Amortised cost	Non-financial assets, liabilities & equity	Total
	US$ millions	US$ millions	US$ millions	US$ millions	US$ millions
At 31st December 2023					
Cash and other liquid assets	-	-	17,006.5	-	17,006.5
Securities purchased under agreements to resell	-	-	743.9	-	743.9
Placements	-	-	7,077.4	-	7,077.4
Trading securities	270.8	-	-	-	270.8
Investment securities	-	23.2	6,693.0	-	6,716.2
Loans and advances	-	-	13,624.6	-	13,624.6
Other assets	860.7	58.6	469.5	241.7	1,630.5
Total assets	**1,131.5**	**81.8**	**45,614.9**	**241.7**	**47,069.9**
Deposits from banks	-	-	883.9	-	883.9
Deposits from customers	-	-	34,517.9	-	34,517.9
Securities sold under agreements to repurchase	-	-	743.1	-	743.1
Other liabilities	655.9	22.5	701.3	156.0	1,535.7
Senior term financing	-	-	5,620.7	-	5,620.7
Subordinated term financing	-	-	400.0	-	400.0
Equity	-	-	-	3,368.6	3,368.6
Total liabilities and equity	**655.9**	**22.5**	**42,866.9**	**3,524.6**	**47,069.9**
At 31st December 2022					
Cash and other liquid assets	-	-	6,329.0	-	6,329.0
Securities purchased under agreements to resell	-	-	195.8	-	195.8
Placements	-	-	6,988.3	-	6,988.3
Trading securities	175.4	-	-	-	175.4
Investment securities	-	92.5	5,693.0	-	5,785.5
Loans and advances	-	-	11,497.6	-	11,497.6
Other assets	1,041.4	55.2	319.4	234.0	1,650.0
Total assets	**1,216.8**	**147.7**	**31,023.1**	**234.0**	**32,621.6**
Deposits from banks			509.1	-	509.1
Deposits from customers			21,940.5	-	21,940.5
Securities sold under agreements to repurchase	-	-	537.4	-	537.4
Other liabilities	758.4	22.2	588.5	140.4	1,509.5
Senior term financing	-	-	4,940.9	-	4,940.9
Equity	-	-	-	3,184.2	3,184.2
Total liabilities and equity	**758.4**	**22.2**	**28,516.4**	**3,324.6**	**32,621.6**

Financial instruments classified as amortised cost include also financial instruments carried at fair value due to hedge accounting refer note 35.6.

The other assets and other liabilities classified as financial assets and liabilities at FVTPL comprise the fair values of derivative financial instruments. The fair value analysis of derivative financial instruments is set out in note 35.4.

Notes to the Consolidated Financial Statements

For the year ended 31st December 2023

7. Cash and other liquid assets

	31.12.23	31.12.22
	US$ millions	US$ millions
Cash and balances with central banks	14,692.6	5,088.4
Cash and balances with banks	1,571.2	799.7
Certificates of deposit with maturities of less than three months	50.0	-
Cash and cash equivalents	16,313.8	5,888.1
Statutory deposits with central banks	497.7	440.9
Certificates of deposit with maturities of three months and more	195.0	-
Cash and other liquid assets	17,006.5	6,329.0

Statutory deposits with central banks are subject to local regulations which provide for restrictions on the deployment of these funds.

8. Securities purchased under agreements to resell

The Group enters into collateralised lending transactions (reverse repurchase agreements) in the ordinary course of its operating activities. The collateral is in the form of highly rated debt securities. The collateralised lending transactions are conducted under standardised terms that are usual and customary for such transactions.

9. Placements

	31.12.23	31.12.22
	US$ millions	US$ millions
Placements with central banks	1,490.2	1,202.2
Placements with banks	5,506.1	5,719.2
Other placements	81.8	67.0
Provisions for expected credit losses	(0.7)	(0.1)
Net placements	7,077.4	6,988.3

The placements with central banks represented the placement of surplus liquid funds.

10. Trading securities

	31.12.23	31.12.22
	US$ millions	US$ millions
Managed funds	262.3	166.4
Equity securities	8.5	9.0
	270.8	175.4

Managed funds comprised funds placed for investment with specialist managers.

11. Investment securities

11.1 Composition

	31.12.23	31.12.22
	US$ millions	US$ millions
Debt securities	6,696.1	5,697.8
Equity investments	23.2	92.5
Provisions for expected credit losses	(3.1)	(4.8)
Net investment securities	6,716.2	5,785.5

Debt securities, except for hedged portion of debt securities (note 35.6), are classified as investment securities at amortised cost and equity investments are classified as FVTOCI (note 6).

Investment securities include securities that had been pledged as collateral under repurchase agreements (refer note 16).

Notes to the Consolidated Financial Statements

For the year ended 31st December 2023

11. Investment securities (continued)

11.1 Composition (continued)

	31st December 2023				31st December 2022			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	US$ millions	US$ millions	US$ millions	US$ millions	US$ millions	US$ millions	US$ millions	US$ millions
Gross investment securities	6,719.3	-	-	6,719.3	5,760.2	30.1	-	5,790.3
ECL allowances	(3.1)	-	-	(3.1)	(4.5)	(0.3)	-	(4.8)
Net investment securities	6,716.2	-	-	6,716.2	5,755.7	29.8	-	5,785.5

The credit rating profile of investment securities, based on the lowest rating assigned by the major international rating agencies, was as follows:

	31.12.23		31.12.22	
	US$ millions	%	US$ millions	%
AAA to A- / Aaa to A3	6,071.2	90.8	5,159.6	90.6
BBB+ to BBB- / Baa1 to Baa3	110.2	1.6	124.6	2.2
BB+ to B- / Ba1 to B3	511.6	7.6	408.8	7.2
Total debt securities	6,693.0	100.0	5,693.0	100.0
Equity investments	23.2		92.5	
	6,716.2		5,785.5	

Investment securities principally comprised investment-grade rated debt securities issued by major international financial institutions and government-related entities.

Investment securities rated BB+ to B- / Ba1 to B3 at 31st December 2023 and 31st December 2022 principally comprised GCC sovereign debt securities.

11.2 Provisions for expected credit losses

The movements in the provisions for credit impairment of investment securities were as follows:

	31st December 2023				31st December 2022			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	US$ millions	US$ millions	US$ millions	US$ millions	US$ millions	US$ millions	US$ millions	US$ millions
At 1st January	4.5	0.3	-	4.8	3.3	-	-	3.3
Transfer to stage 2	-	-	-	-	(0.2)	0.2	-	-
Net remeasurement of loss allowance	(1.4)	(0.3)	-	(1.7)	1.4	0.1	-	1.5
At 31st December	3.1	-	-	3.1	4.5	0.3	-	4.8

The stage 1 and stage 2 provisions reflect the probability-weighted estimate of expected credit losses. The provisions comprise both quantitative and qualitative information and analysis, based on the Group's historical experience and taking into consideration both internal and external indicators and including forward-looking information.

12. Loans and advances

12.1 Composition

	31.12.23	31.12.22
	US$ millions	US$ millions
Gross loans and advances	13,963.5	11,764.3
Provisions for expected credit losses	(338.9)	(266.7)
Net loans and advances	13,624.6	11,497.6

Notes to the Consolidated Financial Statements

For the year ended 31st December 2023

12. Loans and advances (continued)

12.1 Composition (continued)

	31st December 2023				31st December 2022			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	US$ millions	US$ millions	US$ millions	US$ millions	US$ millions	US$ millions	US$ millions	US$ millions
Gross loans and advances	13,231.0	485.7	246.8	13,963.5	10,729.1	841.3	193.9	11,764.3
ECL allowances	(91.3)	(68.2)	(179.4)	(338.9)	(68.0)	(81.2)	(117.5)	(266.7)
Net loans and advances	13,139.7	417.5	67.4	13,624.6	10,661.1	760.1	76.4	11,497.6

12.2 Provisions for expected credit losses

The movements in the provisions for expected credit losses during the year was as follows:

	31st December 2023				31st December 2022			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	US$ millions	US$ millions	US$ millions	US$ millions	US$ millions	US$ millions	US$ millions	US$ millions
At 1st January	68.0	81.2	117.5	266.7	45.8	82.9	166.4	295.1
Transfer to stage 1	4.4	(4.4)	-	-	0.7	(0.7)	-	-
Transfer to stage 2	(1.3)	1.3	-	-	(1.6)	3.0	(1.4)	-
Transfer to stage 3	(2.4)	(32.3)	34.7	-	(1.3)	(2.1)	3.4	-
Exchange rate movements	-	-	0.3	0.3	-	-	(0.4)	(0.4)
Net remeasurement of loss allowance	22.6	22.4	63.4	108.4	24.4	(1.9)	44.2	66.7
Write-offs	-	-	(36.5)	(36.5)	-	-	(94.7)	(94.7)
At 31st December	91.3	68.2	179.4	338.9	68.0	81.2	117.5	266.7

Amounts written-off during the years ended 31st December 2023 and 31st December 2022 mainly represented provisions on the transfer of the related loans to the memorandum records. Recovery efforts on these loans are still ongoing with the intention to maximise potential recoveries.

12.3 Industrial classification

	31.12.23	31.12.22
	US$ millions	US$ millions
Financial	2,538.3	2,219.6
Trading and services	2,434.7	1,928.2
Energy, oil and petrochemical	1,784.4	1,247.6
Government	1,764.9	901.5
Manufacturing	1,311.3	1,324.7
Transportation	1,032.3	984.2
Real estate	778.3	849.5
Utilities	563.5	465.5
Construction and Engineering	522.1	475.9
Agriculture and mining	193.0	215.9
Technology, media and telecommunication	192.7	193.5
Retail	340.9	380.3
Other	507.1	577.9
	13,963.5	11,764.3
Provisions for expected credit losses	(338.9)	(266.7)
	13,624.6	11,497.6

Notes to the Consolidated Financial Statements

For the year ended 31st December 2023

12. Loans and advances (continued)

12.4 Past due but not credit impaired loans and advances

Below is an age analysis of past due but not credit impaired loans and advances:

At 31st December 2023	Up to 30 days US$ millions	31 to 60 days US$ millions	61 to 89 days US$ millions	Total US$ millions
Corporates - gross	**144.7**	**4.1**	**52.6**	**201.4**
Retail banking - gross	**18.6**	**13.4**	**2.7**	**34.7**
	163.3	**17.5**	**55.3**	**236.1**

At 31st December 2022	Up to 30 days US$ millions	31 to 60 days US$ millions	61 to 89 days US$ millions	Total US$ millions
Corporates - gross	295.2	42.2	16.0	353.4
Retail banking - gross	23.2	6.6	2.0	31.8
	318.4	48.8	18.0	385.2

Gross past due loans at 31st December 2023 included exposures of US$97.9 million (2022: US$161.9 million) which were fully collateralised.

12.5 Credit impaired loans and advances

The gross and carrying amounts of loans for which either principal or interest was over 90 days past due were as follows:

	31.12.23		31.12.22	
	Gross	**Carrying Amount**	Gross	Carrying Amount
	US$ millions	**US$ millions**	US$ millions	US$ millions
Corporates	**239.2**	**65.2**	191.0	76.1
Retail banking	**7.6**	**2.2**	2.9	0.3
	246.8	**67.4**	193.9	76.4

12.6 Restructured and modified loans

During the years ended 31st December 2023 and 31st December 2022, the Group modified the contractual terms of a number of facilities for commercial purposes. Such modifications did not result in the derecognition of any assets or modification gains.

During the year ended 31st December 2023, the Group restructured and modified US$108.7 million gross loans (2022: US$26.9 million) with no significant additional impact on ECL during the year (2022: same).

12.7 Collateral

As at 31st December 2023, the Group held collateral relating to credit impaired loans and advances that are classified under Stage 3 amounting to US$81.5 million (2022: US$125.6 million).

The Group did not take possession of any collateral during the year ended 31st December 2023 and 31st December 2022.

13. Other assets

	31.12.23	31.12.22
	US$ millions	US$ millions
Derivative financial instruments	**860.7**	1,041.4
Accrued interest, fees and commissions	**404.8**	269.2
Right-of-use assets	**86.0**	75.8
Premises and equipment	**76.4**	63.9
Deferred items	**28.1**	38.0
Prepayments	**51.2**	56.3
Pension asset	**58.6**	55.2
Other, including accounts receivable	**64.7**	50.2
	1,630.5	1,650.0

Derivative financial instruments represent the positive fair values of derivative financial instruments entered into for trading purposes, or designated as fair value hedges. An analysis of the fair value of derivative financial instruments is set out in note 35.4.

Notes to the Consolidated Financial Statements
For the year ended 31st December 2023

13. Other assets (continued)

Below are the carrying amounts of the Group's right-of-use assets and movements during the year recognised in the consolidated statement of financial position and consolidated statement of income:

	31.12.23	31.12.22
	US$ millions	US$ millions
At 1st January	**75.8**	81.7
New leases - net	**19.2**	3.2
Depreciation	**(8.5)**	(9.1)
Others (including foreign exchange movements)	**(0.5)**	-
At 31st December	**86.0**	75.8

14. Post retirement benefits

The Group contributes to defined benefit and defined contribution pension plans which cover substantially all of its employees.

The Bank maintains pension plans for the majority of its employees. Contributions are based on a percentage of salary. The amounts to be paid as retirement benefits are determined by reference to the amounts of the contributions and investment earnings thereon. The total cost of contributions to defined benefit and defined contribution pension plans for the year ended 31st December 2023 amounted to US$15.0 million (2022: US$15.9 million).

The Bank's subsidiary, Gulf International Bank (UK) Limited (GIBUK), maintains a funded defined benefit scheme, whilst the Saudi Arabian subsidiaries, Gulf International Bank – Saudi Arabia (GIB KSA) and GIB Capital C.J.S.C. (GIB Capital), maintain unfunded defined benefit schemes. Both pension schemes are covered in more detail in this note.

14.1 Gulf International Bank (UK) Limited (GIBUK)

The Bank's UK-based subsidiary, Gulf International Bank (UK) Limited (GIBUK), maintains a funded defined benefit final salary pension plan for a number of its employees. The assets of the plan are held independently of the subsidiary's assets in a separate trustee administered fund. The fund is subject to the UK regulatory framework for pensions.

The fund exposes the Group to the risk of paying unanticipated contributions in times of adverse experience. Such events could be members living for longer than expected, higher than expected inflation or salary growth, and the risk that increases in the fund's obligations are not met by a corresponding improvement in the value of the fund's assets.

a) The amount recognised in the consolidated statement of financial position is analysed as follows:

	31.12.23	31.12.22
	US$ millions	US$ millions
Fair value of plan assets	**184.9**	172.9
Present value of fund obligations	**(126.3)**	(117.7)
Net asset in the consolidated statement of financial position	**58.6**	55.2

The net liability or asset is a valuation measure derived using an actuarial mathematical model. The modelling is performed by an independent actuary based upon the measurement criteria stipulated by the accounting standard IAS19 - Employee Benefits. A pension asset does not indicate a realisable receivable from the pension plan and a liability does not indicate a funding requirement to the pension plan in the short term.

The valuation measure indicates a point in time view of the fair value of the plan's assets less a discounted measure of the plan's future obligations over a duration of 19 years.

Notes to the Consolidated Financial Statements

For the year ended 31st December 2023

14. Post retirement benefits (continued)

14.1 Gulf International Bank (UK) Limited (GIBUK) (continued)

b) The movements in the fair value of plan assets were as follows:

	31.12.23	31.12.22
	US$ millions	US$ millions
At 1st January	**172.9**	249.1
Included in the consolidated statement of income:		
- Interest income on the plan assets	**8.5**	4.0
Included in the consolidated statement of other comprehensive income:		
- Remeasurements:		
- Return on plan assets excluding interest income	**(0.5)**	(51.5)
Other movements:		
- Exchange rate movements	**9.1**	(31.7)
- Contributions paid by the Group	**0.5**	8.9
- Benefits paid by the plan	**(5.6)**	(5.9)
At 31st December	**184.9**	172.9

The plan assets at 31st December 2023 comprised 13.5% (2022: 23.9%) exposure to multi-asset funds, 66.7% (2022: 22.7%) exposure to liability-driven investing (LDI) funds and 1.8% (2022: 19.1%) exposure to equity securities. The plan assets have a quoted price in an active market and the hedging funds are designed to hedge the majority of inflation and interest rate risk.

c) The movements in the present value of fund obligations were as follows:

	31.12.23	31.12.22
	US$ millions	US$ millions
At 1st January	**117.7**	202.8
Included in the consolidated statement of income:		
- Current service cost	**(0.4)**	0.5
- Interest cost on the fund obligations	**5.8**	3.3
Included in the consolidated statement of other comprehensive income:		
- Remeasurements due to changed actuarial assumptions:		
- Financial assumptions	**2.7**	(68.6)
- Demographic assumptions	**(2.2)**	0.2
- Experience	**1.8**	13.0
- Other adjustments	(1.7)	-
Other movements:		
- Exchange rate movements	**6.5**	(27.6)
- Benefits paid by the plan	**(5.6)**	(5.9)
- Prior year actuarial losses	**-**	-
- Other adjustments	**1.7**	-
At 31st December	**126.3**	117.7

d) The movements in the net asset recognised in the consolidated statement of financial position were as follows:

	31.12.23	31.12.22
	US$ millions	US$ millions
At 1st January	**55.2**	46.3
Net income included in consolidated statement of income	**3.1**	0.2
Remeasurement included in consolidated statement of comprehensive income	**(1.1)**	3.9
Contributions paid by the Group	**0.5**	8.9
Other adjustments	**(1.7)**	-
Exchange rate movements	**2.6**	(4.1)
At 31st December	**58.6**	55.2

The Group paid US$0.5 million (2022: US$8.9 million) in contributions to the plan during 2023 and does not expect to pay any further contributions to the Scheme in 2024.

Notes to the Consolidated Financial Statements

For the year ended 31st December 2023

14. Post retirement benefits (continued)

14.1 Gulf International Bank (UK) Limited (GIBUK) (continued)

e) The principal actuarial assumptions used for accounting purposes were as follows:

	31.12.23	31.12.22
Discount rate (per cent)	**4.6**	4.8
Retail price inflation (per cent)	**3.1**	3.2
Consumer price inflation (per cent)	**2.2**	2.3
Pension increase rate (per cent)	**2.2**	2.2
Salary growth rate (per cent)	**3.0**	3.0
Average life expectancy (years)	**89**	89

f) Sensitivity information

The present value of the fund's obligations, which has a weighted average duration of 14 years, was calculated based on certain actuarial assumptions. Should any one of the key assumptions change by an amount that is probable whilst holding the other assumptions constant, the present value of the fund's obligations would increase as follows:

	31.12.23	31.12.22
	US$ millions	US$ millions
Life expectancy increased by 1 year	**3.8**	3.0
Discount rate decreased by 0.5 per cent	**8.7**	6.8
Inflation increased by 0.5 per cent	**4.2**	3.5

14.2 Gulf International Bank - Saudi Arabia (GIB KSA)

Gulf International Bank - Saudi Arabia (GIB KSA) and GIB Capital C.J.S.C. (GIB Capital) maintain unfunded defined benefit schemes based on the prevailing Saudi Arabia Labour Laws.

The schemes expose the Group to the risk of paying unanticipated contributions in times of adverse experience. Such events include members living for longer than expected, higher than expected inflation or salary growth, and the risk that withdrawals may be higher than assumed.

a) The amount recognised in the consolidated statement of financial position is analysed as follows:

	31.12.23	31.12.22
	US$ millions	US$ millions
Present value of fund obligations	**22.5**	22.2
Net liability in the consolidated statement of financial position	**22.5**	22.2

The net liability or asset is a valuation measure derived using an actuarial mathematical model. The modelling is performed by an independent actuary based upon the measurement criteria stipulated by the accounting standard IAS19 - Employee Benefits. A pension liability does not indicate a funding requirement to the pension plan in the short term.

The valuation measure indicates a point in time view of the discounted measure of the plan's future obligations over a duration of 11 years for GIB KSA and 10 years for GIB Capital.

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For the year ended 31st December 2023

14. Post retirement benefits (continued)

14.2 Gulf International Bank - Saudi Arabia (GIB KSA) (continued)

b) The movements in the present value of fund obligations were as follows:

	31.12.23	31.12.22
	US$ millions	US$ millions
At 1st January	**22.2**	16.7
Included in the consolidated statement of income:		
- Current service cost	**3.4**	2.9
- Interest cost on the fund obligations	**1.0**	0.4
Included in the consolidated statement of other comprehensive income:		
- Remeasurements due to changed actuarial assumptions:		
- Demographic assumptions	**-**	(0.5)
- Financial assumptions	**-**	0.5
- Experience	**(1.6)**	2.7
Other movements:		
- Exchange rate movements	**(1.1)**	0.9
- Benefits paid by the plan	**(1.4)**	(1.5)
- Transferred to related parties	**-**	0.1
At 31st December	**22.5**	22.2

c) The principal actuarial assumptions used for accounting purposes were as follows:

	31.12.23	31.12.22
Discount rate	**4.3%**	4.7%
Salary growth rate	**4.2%**	4.25%-6%

d) Sensitivity information

The present value of the fund's obligations, which has a weighted average duration of 5.7 years (2022: 5.9 years), was calculated based on certain actuarial assumptions. Should any one of the key assumptions change by an amount that is probable whilst holding the other assumptions constant, the present value of the fund's obligations would increase / (decrease) as follows:

	31.12.23	31.12.22
	US$ millions	US$ millions
Discount rate increased by 0.5 per cent	**(0.7)**	(0.6)
Discount rate decreased by 0.5 per cent	**0.7**	0.6
Long term salary increased by 0.5 per cent	**0.5**	0.5
Long term salary decreased by 0.5 per cent	**(0.5)**	(0.5)

15. Deposits

The geographical composition of total deposits was as follows:

	31.12.23	31.12.22
	US$ millions	US$ millions
GCC countries	**25,956.2**	13,584.5
Other Middle East and North Africa countries	**425.8**	468.1
Other countries	**9,019.8**	8,397.0
	35,401.8	22,449.6

GCC deposits comprise deposits from the Gulf Cooperation Council (GCC) country governments and central banks and other institutions headquartered in the GCC states.

At 31st December 2023, GCC deposits represented 73.3% of total deposits (2022: 60.5%).

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For the year ended 31st December 2023

16. Securities sold under agreements to repurchase

The Group enters into collateralised borrowing transactions (repurchase agreements) in the ordinary course of its financing activities. Collateral is provided in the form of securities held within the investment securities portfolio. At 31st December 2023, the fair value of investment securities that had been pledged as collateral under repurchase agreements was US$838.8 million (2022: US$556.2 million). The collateralised borrowing transactions are conducted under standardised terms that are usual and customary for such transactions.

17. Other liabilities

	31.12.23	31.12.22
	US$ millions	US$ millions
Derivative financial instruments	655.9	758.4
Accrued interest	346.1	284.3
Deferred items	156.0	140.4
Lease liabilities	96.0	84.0
Contingent provisions	49.6	44.8
Pension liabilities	22.5	22.2
Other, including accounts payable and accrued expenses	209.6	175.4
	1,535.7	1,509.5

Below are the carrying amounts of the Group's lease liabilities and movements during the year recognised in the consolidated statements of financial position and profit or loss:

	31.12.23	31.12.22
	US$ millions	US$ millions
At 1st January	84.0	91.1
New leases - net	19.7	3.4
Interest expense	4.5	4.1
Payments	(11.6)	(8.3)
Others (including foreign exchange movements)	(0.6)	(6.3)
At 31st December	96.0	84.0

Derivative financial instruments represent the negative fair values of derivative financial instruments entered into for trading purposes, or designated as fair value hedges. An analysis of the fair value of derivative financial instruments is set out in note 35.4.

Deferred items represent amounts received, e.g. loan origination fees, that are being amortised to income over the period of the related financial asset.

An analysis of the pension liabilities is set out in note 14. Further, details of contingent provisions is set out in note 36.

18. Senior term financing

	Maturity	31.12.23	31.12.22
		US$ millions	US$ millions
Fixed rate loans	2024 - 2025	95.6	141.9
Floating rate loans	2023 - 2028	4,397.4	3,651.8
Floating rate repurchase agreements	2023 - 2028	498.6	518.1
Floating rate note	2025	129.1	129.1
Fixed rate note	2025	500.0	500.0
		5,620.7	4,940.9

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19. Subordinated term financing

	Maturity	31.12.23	31.12.22
		US$ millions	US$ millions
Floating rate loans	2033	400.0	-
		400.0	-

The subordinated term financing facilities represent unsecured obligations of the Group and are subordinated in right of payment to the claims of depositors and other creditors of the Group that are not also subordinated. The subordinated financing facilities have been issued under Tier 2 Sukuk programme which are restricted to qualified institutional clients maturing in ten years callable in five years.

20. Share capital

	31.12.23	31.12.22
	US$ millions	US$ millions
Authorised – 3,000 million shares of US$ 1 each (2022: 3,000 million shares of US$ 1 each)	3,000	3,000
Issued and fully paid – 2,000 million shares of US$ 1 each (2022: 2,500 million shares of US$ 1 each)	2,000	2,500

On 30th March 2023, the Group held an extra-ordinary general meeting (EGM) during which it was resolved to adjust the Group's capital against its accumulated losses as of 31st December 2022 after having received regulatory approvals. The Shareholders have approved the set-off of accumulated retained losses of US$729.0 million against capital and reserves. In doing so, the Bank has decreased its capital by US$500.0 million through a 20% reduction in shares as well as using its voluntary reserves and share premium in full, and the reduction of legal reserves by US$42.4 million. After the restructuring, total shareholders' equity remains unchanged. The Ministry of Industry and Commerce (MOIC) have published the announcement relating to capital reduction in the Official Gazette as part of their final approval process and was reflected in the Bank's Commercial Registration (CR) issued on 15th May 2023.

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21. Reserves

	Share premium	Compulsory reserve	Voluntary reserve	Investment securities revaluation reserve	Defined pension reserve	Deferred tax and other reserve	Total
	US$ millions	US$ millions	US$ millions	US$ millions	US$ millions	US$ millions	US$ millions
At 1st January 2023	**7.6**	**241.5**	**179.0**	**(10.1)**	**42.6**	**(10.0)**	**450.6**
Net fair value gains on equity investments classified as FVTOCI	-	-	-	6.3	-	-	6.3
Transfers from / to retained earnings	-	14.0	-	(5.3)	-	-	8.7
Share capital reduction (note 20)	(7.6)	(42.4)	(179.0)	-	-	-	(229.0)
Movement during the year	-	-	-	-	1.8	(1.1)	0.7
Net increase / (decrease)	(7.6)	(28.4)	(179.0)	1.0	1.8	(1.1)	(213.3)
At 31st December 2023	**-**	**213.1**	**-**	**(9.1)**	**44.4**	**(11.1)**	**237.3**
At 1st January 2022	7.6	233.6	171.1	(7.4)	40.0	(9.4)	435.5
Net fair value losses on equity investments classified as FVTOCI	-	-	-	(4.5)	-	-	(4.5)
Transfers from / to retained earnings	-	7.9	7.9	1.8	-	-	17.6
Movement during the year	-	-	-	-	2.6	(0.6)	2.0
Net increase / (decrease)	-	7.9	7.9	(2.7)	2.6	(0.6)	15.1
At 31st December 2022	7.6	241.5	179.0	(10.1)	42.6	(10.0)	450.6

In accordance with the Bank's articles of association, 10% of the Group's net profit attributable to the shareholders of the Bank for the year is required to be transferred to the compulsory reserve. Transfers to the compulsory reserve are required until such time as this reserve represents 50% of the issued share capital of the Bank and may be utilised as per the terms of the Bank's articles of association.

22. Dividends

No dividends were proposed in respect of the financial years ended 31st December 2023 and 31st December 2022.

23. Net interest income

	Year ended 31.12.23	Year ended 31.12.22
	US$ millions	US$ millions
Interest income		
Placements, securities purchased under agreements to resell and other liquid assets	**938.2**	304.3
Loans and advances	**926.1**	473.4
Investment securities	**334.6**	139.4
Total interest income	**2,198.9**	917.1
Interest expense		
Deposits from customers	**911.7**	292.3
Deposits from banks	**440.1**	116.4
Term financing	**308.2**	150.5
Securities sold under agreements to repurchase	**40.4**	12.1
Total interest expense	**1,700.4**	571.3
Net interest income	**498.5**	345.8

Interest income on loans and advances includes loan origination fees that form an integral part of the effective interest rate of the loan.

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24. Net fee and commission income

	Year ended 31.12.23	Year ended 31.12.22
	US$ millions	US$ millions
Fee and commission income		
Commissions on letters of credit and guarantee	40.8	33.9
Investment banking and management fees	32.3	31.9
Loan agency, underwriting and distribution fees	12.6	18.6
Loan commitment fees	11.7	8.8
Retail banking fees	3.9	3.5
Other fee and commission income	8.4	8.9
Total fee and commission income	109.7	105.6
Fee and commission expense	(6.5)	(4.2)
Net fee and commission income	103.2	101.4

Investment banking and management fees comprise fees relating to the provision of investment management and financial services, including asset and fund management, underwriting activities, and services relating to structured financing, privatisations, initial public offerings, and mergers and acquisitions.

Investment banking and management fees for the year ended 31st December 2023 included fee income relating to the Group's fiduciary activities amounting to US$17.0 million (2022: US$ 12.0 million).

Fee and commission expense principally comprises security custody fees and bank charges and commissions.

25. Trading income / (loss)

	Year ended 31.12.23	Year ended 31.12.22
	US$ millions	US$ millions
Managed funds	33.6	(7.9)
FX arbitrage	16.4	(6.2)
Interest rate derivatives	10.5	6.8
Commodity options	0.4	0.2
Debt securities	-	0.3
	60.9	(6.8)

Trading income comprises gains and losses arising both on the purchase and sale, and from changes in the fair value of trading instruments, together with the related interest income, interest expense and dividend income. Trading income accordingly incorporates all income and expenses related to the Group's trading activities.

Interest rate derivatives income / expense principally comprises customer-initiated contracts which have been offset in the market with matching contracts. There is no remaining market risk associated with these contracts.

26. Foreign exchange income

Foreign exchange income principally comprises customer-initiated foreign exchange contracts which have been offset in the market with matching contracts. There is no remaining market risk associated with these offset customer-related foreign exchange contracts.

Foreign exchange includes spot and forward foreign exchange contracts, and currency futures and options.

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27. Other income

	Year ended 31.12.23	Year ended 31.12.22
	US$ millions	US$ millions
Recoveries on previously written off assets	8.5	35.4
Dividends on equity investments classified as FVTOCI	1.2	3.2
Net realised (loss) / gain on investment debt securities	(0.2)	1.9
Sundry (loss) / income	(1.0)	4.3
	8.5	44.8

Recoveries on previously written off assets comprise recoveries on assets that had previously been either written off or transferred to the memorandum records.

Net realised gains on investment debt securities principally relates to the sale of securities for liquidity management.

Sundry (loss) / income for the years ended 31st December 2023 and 31st December 2022 principally comprised of lease liabilities FX revaluation.

28. Provision for expected credit losses

	31st December 2023			
	Stage 1	Stage 2	Stage 3	Total
	US$ millions	US$ millions	US$ millions	US$ millions
Loans and advances (note 12.2)	22.6	22.4	63.4	108.4
Investment securities (note 11.1)	(1.4)	(0.3)	-	(1.7)
Placements (note 9)	0.6	-	-	0.6
Credit-related contingent items (note 36)	(0.6)	-	5.3	4.7
	21.2	22.1	68.7	112.0

	31st December 2022			
	Stage 1	Stage 2	Stage 3	Total
	US$ millions	US$ millions	US$ millions	US$ millions
Loans and advances (note 12.2)	24.4	(1.9)	44.2	66.7
Investment securities (note 11.1)	1.4	0.1	-	1.5
Credit-related contingent items (note 36)	0.9	4.2	(1.9)	3.2
Other assets	-	-	0.2	0.2
	26.7	2.4	42.5	71.6

Provision charge for other assets during the year ended 31st December 2022 represented provision in relation to other receivables.

29. Taxation and zakat

	31.12.23	31.12.22
	US$ millions	US$ millions
Consolidated statement of financial position		
Current tax asset	-	1.2
Deferred tax asset	2.4	8.8
	2.4	10.0
Current tax liability	19.3	7.0
Deferred tax liability	14.5	13.6
	33.8	20.6

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29. Taxation and zakat (continued)

	31.12.23 US$ millions	31.12.22 US$ millions
Consolidated statement of income		
Current tax charge on foreign operations	**16.8**	1.7
Zakat expense arising from subsidiary operations	**12.6**	5.9
	29.4	7.6

30. Segmental information

Segmental information is presented in respect of the Group's business and geographical segments. The primary reporting format, business segments, reflects the manner in which financial information is evaluated by the Board of Directors and the Group Management Committee.

30.1 Business segments

For financial reporting purposes, the Group is organised into four main operating segments:

- Wholesale banking: the provision of wholesale commercial financing and other credit facilities for corporate and institutional customers.
- Treasury: the provision of a broad range of treasury and capital market products and services to corporate and financial institution clients, money market, proprietary investment and trading activities and the management of the Group's balance sheet, including funding.
- Asset management and investment banking: the provision of asset and fund management services, and of financial advisory services relating to structured financing, privatisations, initial public offerings, and mergers and acquisitions.
- Head office and support units: income arising on the investment of the Group's trading securities and net free capital funds and expenses incurred by support units.

The results reported for the business segments are based on the Group's internal financial reporting systems, which report interest revenue and interest expense on a net basis. The accounting policies of the segments are the same as those applied in the preparation of these consolidated financial statements and are set out in note 3. Transactions between business segments are conducted on normal commercial terms and conditions. Transfer pricing between the business units is based on the market cost of funds.

Segment results, assets and liabilities comprise items directly attributable to the business segments. Liabilities reported for head office and support units comprise retail-related deposits and senior term finance facilities and related accrued interest, the cost of which is recharged to the relevant operating business segments.

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For the year ended 31st December 2023

30. Segmental information (continued)

The business segment analysis is as follows:

	Wholesale banking	Treasury	Asset management and investment banking	Head office and support units	Total
	US$ millions	US$ millions	US$ millions	US$ millions	US$ millions
For the year ended 31st December 2023					
Net interest income	**268.3**	**154.7**	**1.0**	**74.5**	**498.5**
Total income	**346.0**	**216.0**	**43.5**	**102.8**	**708.3**
Segment result	**191.9**	**197.8**	**17.6**	**(208.5)**	**198.8**
Taxation and zakat charges					**(29.4)**
Net income after tax					**169.4**
At 31st December 2023					
Segment assets	**13,457.4**	**32,712.5**	**135.8**	**764.2**	**47,069.9**
Segment liabilities	**12,705.4**	**23,335.2**	**6.0**	**7,654.7**	**43,701.3**
Total equity					**3,368.6**
Total liabilities and equity					**47,069.9**
For the year ended 31st December 2022					
Net interest income	209.8	112.3	0.7	23.0	345.8
Total income	311.9	152.8	33.6	23.5	521.8
Segment result	204.3	137.7	8.7	(247.0)	103.7
Taxation and zakat charges					(7.6)
Net income after tax					96.1
At 31st December 2022					
Segment assets	11,211.0	20,483.4	89.6	837.6	32,621.6
Segment liabilities	11,782.3	11,512.5	3.1	6,139.5	29,437.4
Total equity					3,184.2
Total liabilities and equity					32,621.6

30.2 Geographical segments

Although the Group's four main business segments are managed on a worldwide basis, they are considered to operate in two geographical markets: the GCC and the rest of the world.

The geographical composition of total income and total assets based on the location in which transactions are booked and income is recorded was as follows:

	At 31st December 2023		At 31st December 2022	
	Total income	**Total assets**	Total income	Total assets
	US$ millions	**US$ millions**	US$ millions	US$ millions
GCC	**593.1**	**24,333.0**	453.4	21,627.8
Other countries	**115.2**	**22,736.9**	68.4	10,993.8
	708.3	**47,069.9**	521.8	32,621.6

The geographical analyses of deposits and risk assets are set out in notes 15 and 32 respectively.

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31. Risk management

The principal risks associated with the Group's businesses are credit risk, market risk, liquidity risk and operational risk. The Group has a comprehensive risk management framework in place for managing these risks which is constantly evolving as the business activities change in response to credit, market, product and other developments. The risk management framework is guided by a number of overriding principles including the formal definition of risk management governance, an evaluation of risk appetite expressed in terms of formal risk limits, risk oversight independent of business units, disciplined risk assessment and measurement including portfolio stress testing and risk diversification. The Board of Directors set the Group's overall risk parameters and risk tolerances, and the significant risk management policies. A Board Risk Policy Committee reviews and reports to the Board of Directors on the Group's risk profile and risk taking activities, including approving obligor limits by rating, industry and geography, and the review of rating back-testing exercises. A Management Committee, chaired by the Group Chief Executive Officer, has the primary responsibility for sanctioning risk taking activities and risk management policies within the overall risk parameters and tolerances defined by the Board of Directors. A Group Risk Committee, under the chairmanship of the Chief Risk Officer and comprising the Group's most senior risk professionals, provides a forum for the review and approval of risk measurement methodologies, risk control processes and the approval of new products, including approval of LGDs and eligible collateral for ECL calculations. The Group Risk Committee also reviews all risk policies and limits that require the formal approval of the Management Committee. The risk management control process is based on a detailed structure of policies, procedures and limits, and comprehensive risk measurement and management information systems for the control, monitoring and reporting of risks. The Provisioning Committee approves the categorisation of an exposure as stage 1, stage 2 or stage 3. Periodic reviews by internal auditors and regulatory authorities subject the risk management processes to additional scrutiny which help to further strengthen the risk management environment.

The principal risks associated with the Group's businesses and the related risk management processes are described in detail in the Basel 3 Pillar 3 disclosure report in the Annual Report, and are summarised below together with additional quantitative analyses:

31.1 Credit risk

Credit risk is the risk that counterparties will be unable to meet their obligations to the Group. Credit risk arises principally from the Group's lending and investment activities in addition to other transactions involving both on- and off-balance sheet financial instruments, including the specific risk for equity instruments. Disciplined processes are in place at both the business unit and corporate level that are intended to ensure that risks are accurately assessed and properly approved and monitored. Formal credit limits are applied at the individual transaction, counterparty, country and portfolio levels. Overall exposures are also evaluated to ensure a broad diversification of credit risk. The credit management process involves the monitoring of concentrations by product, industry, single obligor, risk grade and geography, and the regular appraisal of counterparty credit quality through the analysis of qualitative and quantitative information.

Credit risk is actively managed and rigorously monitored in accordance with well-defined credit policies and procedures. Prior to the approval of a credit proposal, a detailed credit risk assessment is carried out which includes an analysis of the obligor financial condition, market position, business environment and quality of management. The risk assessment generates an internal credit risk rating for each exposure, which affects the credit approval decision and the terms and conditions of the transaction. For cross border transactions an analysis of country risk is also conducted. The Group bases its credit decision for an individual counterparty on the aggregate Group exposure to that counterparty and all its related entities. Groupwide credit limit setting and approval authorisation requirements are conducted within Board approved guidelines, and the measurement, monitoring and control of credit exposures are done on a Groupwide basis in a consistent manner.

The Group also mitigates its credit exposures on foreign exchange and derivative financial instruments through the use of master netting agreements and collateral arrangements.

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and taking into consideration both internal and external indicators and expert credit assessment and inclusion of forward-looking information.

The Group considers all counterparties internally rated 2 and above, between 2- and 3+, between 3 and 4+, between 4 and 5-, between 6+ and 6 and 6- to be significantly deteriorated where they have been downgraded 6 notches, 5 notches, 4 notches, 3 notches, 2 notches and 1 notch respectively since initial recognition, and where the current pricing has not been adjusted to reflect the new risk profile of the counterparty.

Debt investment securities are considered to have low credit risk when their credit risk rating is equivalent to an investment grade rating or a debt investment security with similar credit risk characteristics.

The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative and qualitative factors, including whether the exposure has been watch-listed, whether the exposure is more than 30 days past due and as a backstop based on delinquency.

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31. Risk management (continued)

31.1 Credit risk (continued)

Definitions of default and curing

The Group considers a financial asset to be in default when the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as liquidating collateral; or the borrower is past due more than 90 days on any credit obligation to the Group. In assessing whether a borrower is in default, the Group considers both qualitative factors such as breaches of covenants and quantitative factors such as overdue status and non-payment on another obligation of the same issuer to the Group.

The Group considers a financial asset to be cured, and accordingly reclassified from stage 3 to stage 2 when none of the default criteria have been present for a period of at least 12 consecutive months. The financial asset is then transferred from stage 2 to stage 1 after a cure period of a further six months. However, if the payment frequency is semi-annual or annual, curing period will be 12 months for movement from Stage 2 to Stage 1.

Incorporation of forward-looking information

The Group incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. The Group takes into consideration the economic forecasts published by the IMF and the Group formulates a fundamental view of the future direction of relevant economic variables as well as a reasonable range of possible scenarios and its weights.

Given the nature of the Group's exposures and availability of historical information, the Group derives the point-in-time (PIT) probability of default (PD) using the through-the-cycle (TTC) PD data for each rating category. The Group uses the Regression based model for the Wholesale Corprate Loans portfolio and Vasicek models for the Investments securities and placements portfolio to link the TTC PDs with forward looking economic factors to derive PIT PD estimates for each rating category. The Regression as well as the Vasicek models takes into consideration forward looking economic forecasts under three scenarios (base case, negative case, and positive case), historical economic data and TTC PDs for deriving PIT PDs. The relationship between the economic factors and default and loss rates have been developed using historical default data and relevant macroeconomic data.

Measurement of ECL

The key input parameters into the measurement of ECL are the probability of default (PD), loss given default (LGD) and exposure at default (EAD). These parameters are derived from internally developed statistical models, historical data or benchmarks using both internal and external factors, and incorporates forward-looking information.

PD estimates are estimates at a certain date., For corporate exposures, corporate TTC PD estimates are internally derived using the Bank's central default tendency for the Corporate portfolio, For Banks/FIs exposures, the Bank applies a separate set of TTC PDs that are developed based on external rating data of global financial institutions. Furthermore, for Sovereign exposures, the Bank applies a separate set of TTC PDs that are based on external rating data of Sovereigns rated by Standard & Poor's (S&P).

The TTC PD estimates are converted to PIT PDs using the Regression model for the Loans portfolio and Vasicek model for the Investments securities and placements portfolio. For exposures that have tenors in excess of one year and that are assessed on lifetime PDs, Cumulative lifetime PDs are calculated by compounding the 12-month PIT PDs.

LGD is the magnitude of the likely loss if there is a default. The Group estimates LGD parameters based on the regulatory estimates.

EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amounts allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the EAD is converted to balance sheet equivalents.

Subject to a maximum of 12-month PD for financial assets for which credit risk has not significantly increased, the Group measures ECL considering the risk of default over the maximum contractual period over which it is exposed to credit risk.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics including instrument type, credit risk ratings and geographic location of the borrower.

The Group calculates PIT PD estimates under three scenarios, a base case, negative case and positive case. A probability weighted ECL is then calculated by assigning probabilities, based on current market conditions, to each scenario. The probabilities assigned to the base case, negative case and positive case scenarios are 50:45:5, respectively (2022: 50:35:15).

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31. Risk management (continued)

31.1 Credit risk (continued)

Modified financial assets

The contractual terms of a loan may be modified for a number of reasons including changing market conditions, and other factors not related to the current or potential credit deterioration of a customer. When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects a comparison of its remaining lifetime PD at the reporting date based on modified terms, with the remaining lifetime PD estimated based on data at initial recognition and the original contractual terms.

The Group renegotiates loans to customers in financial difficulties to maximise collection opportunities and minimise the risk of default. The Group grants forbearance on a selective basis if there is evidence that the customer has made all reasonable efforts to honour the original contractual terms and the customer is expected to be able to meet the revised terms. Forbearance is a qualitative indicator of a significant increase in credit risk, and a customer would need to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be credit-impaired, or in default, or the PD has decreased such that the provision for credit-impairment reverts to being measured at an amount equal to the 12-month ECL.

a) Maximum exposure to credit risk

The gross maximum exposure to credit risk before applying collateral, guarantees and other credit enhancements was as follows:

	31.12.23	31.12.22
Balance sheet items:	**US$ millions**	US$ millions
Cash and other liquid assets	**17,006.5**	6,329.0
Securities purchased under agreements to resell	**743.9**	195.8
Placements	**7,077.4**	6,988.3
Investment securities	**6,693.0**	5,693.0
Loans and advances	**13,624.6**	11,497.6
Accrued interest, fees and commissions	**404.8**	269.2
Total on-balance sheet credit exposure	**45,550.2**	30,972.9
Off-balance sheet items:		
Credit-related contingent items	**8,322.2**	6,595.1
Foreign exchange-related items	**117.9**	146.9
Derivative-related items	**1,111.6**	1,506.6
Equity and commodity contracts	**12.8**	2.5
Total off-balance sheet credit exposure	**9,564.5**	8,251.1
Total gross credit exposure	**55,114.7**	39,224.0

Financial instruments recorded at fair value balances included above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

b) Credit risk profile

The Group monitors, manages and controls credit risk exposures based on an internal credit rating system that rates individual obligors based on a rating scale from 1 to 10, subject to positive (+) and negative (-) modifiers for rating grades 2 to 6. The internal credit rating is a measure of the credit-worthiness of a single obligor, based on an assessment of the credit risk relating to senior unsecured, long-term, foreign currency credit exposure. The primary objectives of the internal credit rating system are the maintenance of a single uniform standard for credit quality measurement, and to serve as the primary basis for Board-approved risk parameters and delegated credit authority limits.

The internal credit rating system also serves as a key input into the Group's risk-adjusted performance measurement system.

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31. Risk management (continued)

31.1 Credit risk (continued)

b) Credit risk profile (continued)

The internal ratings map directly to the external rating grades used by the international credit rating agencies as follows:

Internal rating grade	Internal classification	Fitch and Standard & Poor's	Moody's
Investment grade			
Rating grade 1	Standard	AAA	Aaa
Rating grade 2	Standard	AA	Aa
Rating grade 3	Standard	A	A
Rating grade 4	Standard	BBB	Baa
Sub-investment grade			
Rating grade 5	Standard	BB	Ba
Rating grade 6	Standard	B	B
Rating grade 7	Standard	CCC	Caa
Classified			
Rating grade 8	Substandard	CC	Ca
Rating grade 9	Doubtful	C	C
Rating grade 10	Loss	D	-

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For the year ended 31st December 2023

31. Risk management (continued)

31.1 Credit risk (continued)

b) Credit risk profile (continued)

	Placements, reverse repos & other liquid assets	Securities	Loans and advances	31.12.23 Credit-related contingent items
	US$ millions	US$ millions	US$ millions	US$ millions
Stage 1				
Rating grades 1 to 4-	24,424.2	6,181.4	8,651.0	5,453.7
Rating grades 5+ to 5-	385.4	511.6	4,028.8	647.8
Rating grades 6+ to 6-	18.2	-	459.9	16.2
Carrying amount (net)	24,827.8	6,693.0	13,139.7	6,117.7
Stage 2				
Rating grade 4-	-	-	4.9	27.1
Rating grades 5+ to 5-	-	-	220.1	653.5
Rating grades 6+ to 6-	-	-	137.9	21.1
Rating grade 7	-	-	54.6	0.8
Carrying amount (net)	-	-	417.5	702.5
Stage 3				
Rating grade 8	-	-	39.3	9.9
Rating grade 9	-	-	28.1	28.8
Rating grade 10	-	-	-	0.5
Carrying amount (net)	-	-	67.4	39.2
Other credit risk exposures				
Performance bonds	-	-	-	1,462.8
Carrying amount	-	-	-	1,462.8
	24,827.8	6,693.0	13,624.6	8,322.2

The above on-balance sheet exposures analysis is reported net of the following provisions for impairment, whereas provisions for off-balance sheet items are recorded in other liabilities:

Stage 1	(0.7)	(3.1)	(91.3)	(6.9)
Stage 2	-	-	(68.2)	(6.2)
Stage 3	-	-	(179.4)	(36.5)
Total	(0.7)	(3.1)	(338.9)	(49.6)

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31. Risk management (continued)

31.1 Credit risk (continued)

b) Credit risk profile (continued)

				31.12.22
	Placements, reverse repos & other liquid assets	Securities	Loans and advances	Credit-related contingent items
	US$ millions	US$ millions	US$ millions	US$ millions
Stage 1				
Rating grades 1 to 4-	13,148.5	5,254.4	7,635.2	3,689.3
Rating grades 5+ to 5-	342.3	408.8	2,695.6	629.0
Rating grades 6+ to 6-	22.3	-	330.3	70.4
Carrying amount (net)	13,513.1	5,663.2	10,661.1	4,388.7
Stage 2				
Rating grade 4-	-	29.8	-	73.3
Rating grades 5+ to 5-	-	-	303.5	261.8
Rating grades 6+ to 6-	-	-	271.8	417.7
Rating grade 7	-	-	184.8	-
Carrying amount (net)	-	29.8	760.1	752.8
Stage 3				
Rating grade 8	-	-	42.8	11.5
Rating grade 9	-	-	33.6	28.9
Rating grade 10	-	-	-	2.6
Carrying amount (net)	-	-	76.4	43.0
Other credit risk exposures				
Performance bonds	-	-	-	1,410.6
Carrying amount	-	-	-	1,410.6
	13,513.1	5,693.0	11,497.6	6,595.1

The above analysis is reported net of the following provisions for expected credit losses:

Stage 1	(0.1)	(4.5)	(68.0)	(7.1)
Stage 2	-	(0.3)	(81.2)	(6.6)
Stage 3	-	-	(117.5)	(31.1)
Total	(0.1)	(4.8)	(266.7)	(44.8)

Stage 3 financial assets represent assets for which there is objective evidence that the Group will not collect all amounts due, including both principal and interest, in accordance with the contractual terms of the obligation.

The Group holds collateral against loans and advances in the form of physical assets, cash deposits, securities and guarantees. The amount and type of collateral is dependent upon the assessment of the credit risk of the counterparty. The market / fair value of the collateral is actively monitored on a regular basis and requests are made for additional collateral in accordance with the terms of the underlying agreements. Collateral is not usually held against securities or placements and no such collateral was held at either 31st December 2023 or 31st December 2022.

An analysis of the credit risk in respect of foreign exchange and derivative financial instruments is set out in note 35 while the notional and risk-weighted exposures for off-balance sheet credit-related contingent items are set out in note 36.

c) Credit risk concentration

The Group monitors concentrations of credit risk by sector and by geographic location. The industrial classification of loans and advances is set out in note 12.3. The geographical distribution of risk assets is set out in note 32. An analysis of the credit risk in respect of foreign exchange and derivative financial instruments is set out in note 35.

Notes to the Consolidated Financial Statements

For the year ended 31st December 2023

31. Risk management (continued)

31.1 Credit risk (continued)

d) Settlement risk

Settlement risk is the risk of loss due to the failure of a counterparty to honour its obligations to deliver cash, securities, or other assets as contractually agreed.

For certain types of transactions, the Group mitigates this risk by conducting settlements through a settlement or clearing agent to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations. Settlement limits form part of the credit approval and limit monitoring process.

31.2 Market risk

Market risk is the risk of loss due to adverse changes in interest rates, foreign exchange rates, equity prices and market conditions, such as liquidity. The principal market risks to which the Group is exposed are interest rate risk, foreign exchange risk and equity price risk associated with its trading, investment and asset and liability management activities. The portfolio effects of holding a diversified range of instruments across a variety of businesses and geographic areas contribute to a reduction in the potential negative impact on earnings from market risk factors.

a) Trading market risk

The Group's trading activities principally comprise trading in debt and equity securities, foreign exchange and derivative financial instruments. Derivative financial instruments include futures, forwards, swaps and options in the interest rate, foreign exchange, equity, credit and commodity markets.

IBOR reform

Following the decision by global regulators to phase out IBORs and replace them with alternative reference rates, the Bank has transitioned the IBOR benchmark interest rates during the year 2023 to RFRs successfully.

Derecognition of financial instruments in the context of IBOR reform

The Bank derecognises financial assets and financial liabilities if there has been a substantial modification of their terms and conditions. In the context of IBOR reform, all of the financial instruments have already been amended during 2023 as they transitioned from IBORs to ARRs.

b) Non-trading market risk

Structural interest rate risk arises in the Group's core balance sheet as a result of mismatches in the repricing of interest rate sensitive financial assets and liabilities. The associated interest rate risk is managed through the use of models to evaluate the sensitivity of earnings to movements in interest rates. The repricing profile and related interest rate sensitivity of the Group's financial assets and liabilities are set out in note 34. The Group does not maintain material foreign currency exposures. In general, the Group's policy is to match financial assets and liabilities in the same currency or to mitigate currency risk through the use of currency swaps. Details of significant foreign currency net open positions are set out in note 35.5. Movements in the fair value of equity investment securities are accounted for in other comprehensive income. At 31st December 2023, a 5.0% change in the market price of equity investments accounted for at FVTOCI would have resulted in an increase/decrease in equity of US$1.2 million (2022: US$4.6 million).

The more significant market risk-related activities of a non-trading nature undertaken by the Group, the related risks associated with those activities, and the types of derivative financial instruments used to manage and mitigate such risks are summarised as follows:

Activity	Risk	Risk mitigant
Management of the return on variable rate assets funded by shareholders' funds	Reduced profitability due to a fall in short-term interest rates	Receive fixed interest rate swaps
Fixed rate assets funded by floating rate liabilities	Sensitivity to increases in short-term interest rates	Pay fixed interest rate swaps
Investment in foreign currency assets	Sensitivity to strengthening of US$ against other currencies	Currency swaps
Profits generated in foreign currencies	Sensitivity to strengthening of US$ against other currencies	Forward foreign exchange contracts and purchased currency options

Notes to the Consolidated Financial Statements
For the year ended 31st December 2023

31. Risk management (continued)

31.3 Liquidity risk

Liquidity risk is the risk that sufficient funds are not available to meet the Group's financial obligations on a punctual basis as they fall due.

Liquidity management policies are designed to ensure that funds are available at all times to meet the funding requirements of the Group, even in adverse conditions. In normal conditions the objective is to ensure that there are sufficient funds available not only to meet current financial commitments but also to facilitate business expansion. These objectives are met through the application of prudent liquidity controls. These controls provide security of access to funds without undue exposure to increased costs from the liquidation of assets or the aggressive bidding for deposits. The Group's liquidity controls ensure that, over the short-term, the future profile of cash flows from maturing assets is adequately matched to the maturity of liabilities. Liquidity controls also provide for the maintenance of a stock of liquid and readily realisable assets and a diversified deposit base in terms of both maturities and range of depositors.

The management of liquidity and funding is primarily conducted in the Group's individual geographic entities within limits set and approved by the Board of Directors. The limits take account of the depth and liquidity of the market in which the entity operates. It is the Group's general policy that each geographic entity should be self-sufficient in relation to funding its own operations.

The Group's liquidity management policies include the following:

- the monitoring of (i) future contractual cash flows against approved limits, and (ii) the level of liquid resources available in a stress event;
- the monitoring of balance sheet liquidity ratios;
- the monitoring of the sources of funding in order to ensure that funding is derived from a diversified range of sources;
- the monitoring of depositor concentrations in order to avoid undue reliance on individual depositors;
- the maintenance of a satisfactory level of term financing;
- the maintenance of appropriate standby funding arrangements; and
- the maintenance of liquidity and funding contingency plans. These plans identify early indicators of stress conditions and prescribe the actions to be taken in the event of systemic or other crisis, while minimising adverse long-term implications for the Group's business activities.

The Group has established approved limits which restrict the volume of liabilities maturing in the short-term. An independent risk management function monitors the future cash flow maturity profile against approved limits on a daily basis. The cash flows are monitored against limits applying to both daily and cumulative cash flows occurring over a 30 day period. The liquidity limits ensure that the net cash outflows over a 30 day period do not exceed the eligible stock of available liquid resources. The cash flow analysis is also monitored on a weekly basis by the Assets and Liabilities Committee (ALCO).

Customer deposits form a significant part of the Group's funding. The Group places considerable importance on maintaining the stability of both its customer and interbank deposits. The stability of deposits depends on maintaining confidence in the Group's financial strength and financial transparency.

The Group is also required to comply with Basel 3 liquidity ratio requirements as stipulated by its lead regulator, the Central Bank of Bahrain (CBB). The LCR is calculated as a ratio of the stock of High Quality Liquid Assets (HQLA) to the net outflows over the next 30 calendar days. The NSFR is calculated as a ratio of 'available stable funding' to 'required stable funding'. At 31st December 2023, the Group's LCR and NSFR were 137.8% and 143.0% respectively, (2022: 299.3% and 161.5% respectively). The Group's total capital adequacy as of 31st December 2023 was 18.9% (2022:17.3%).

The maturity profile of assets and liabilities is set out in note 33. An analysis of debt investment securities by rating classification is set out in note 31.1.

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For the year ended 31st December 2023

31. Risk management (continued)

31.3 Liquidity risk (continued)

The below table provides the Group's disclosure of its consolidated NSFR as at 31st December 2023 in the manner prescribed by the CBB:

	No specified maturity	Within 6 months	6 months to 1 year	Over 1 year	Total unweighted value	Total weighted value
	US$ millions	US$ millions	US$ millions	US$ millions	US$ millions	US$ millions
At 31st December 2023						
Available Stable Funding (ASF):						
Capital:	3,368.6	-	-	-	3,368.6	3,368.6
Retail deposits and deposits from small business customers:						
Stable deposits	-	-	-	-	-	-
Less stable deposits	118.9	895.6	202.4	-	1,216.9	1,095.3
Wholesale funding:						
Operational deposits	-	-	-	-	-	-
Other wholesale funding	19,873.3	12,031.3	4,862.5	4,441.9	41,209.0	15,197.2
Other liabilities:						
NSFR derivative liabilities	-	-	-	-	-	-
All other liabilities not included in the above categories	-	-	-	-	-	-
Total ASF						19,661.1
Required Stable Funding (RSF):						
Total NSFR high-quality liquid assets (HQLA)	-	-	-	-	-	1,255.3
Deposits held at other financial institutions for operational purposes	-	-	-	-	-	-
Performing loans and securities:						
Performing loans to financial institutions secured by Level 1 HQLA	-	-	-	-	-	-
Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	1,333.2	3,919.8	818.3	391.8	6,463.1	1,588.9
Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which:	-	6,485.4	956.1	4,854.6	12,296.1	7,847.1
- With a risk weight of less than or equal to 35% as per the CBB Capital Adequacy Ratio guidelines	-	-	-	2,029.9	2,029.9	1,319.4
Performing residential mortgages, of which:						
- With a risk weight of less than or equal to 35% under the CBB Capital Adequacy Ratio Guidelines	-	-	-	-	-	-
Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	161.4	2.5	11.9	280.8	456.6	445.3
Other assets:						
Physical traded commodities, including gold	-	-	-	-	-	-
Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs	-	91.9	-	-	91.9	78.1
NSFR derivative assets	-	335.0	-	-	335.0	335.0
NSFR derivative liabilities before deduction of variation margin posted	-	75.6	-	-	75.6	75.6
All other assets not included in the above categories	290.3	-	-	-	290.3	290.3
OBS items	-	2,341.5	2,079.4	5,918.5	10,339.4	517.0
Total RSF						13,752.0
NSFR (%)						143.0%
At 31st December 2022						
NSFR (%)						161.5%

Notes to the Consolidated Financial Statements

For the year ended 31st December 2023

31. Risk management (continued)

31.4 Operational risk

Operational risk is the risk of unexpected losses resulting from inadequate or failed internal controls or procedures, systems failures, fraud, business interruption, compliance breaches, human error, management failure or inadequate staffing.

A framework and methodology has been developed to identify and control the various operational risks. While operational risk cannot be entirely eliminated, it is managed and mitigated by ensuring that the appropriate infrastructure, controls, systems, procedures, and trained and competent people are in place throughout the Group. A strong internal audit function makes regular, independent appraisals of the control environment in all identified risk areas. Adequately tested contingency arrangements are also in place to support operations in the event of a range of possible disaster scenarios.

31.5 Capital management

The Group's lead regulator, the Central Bank of Bahrain (CBB), sets and monitors capital requirements for the Group as a whole. The parent company and individual banking operations are directly supervised by their local regulators.

As referred to in more detail in note 38, the Group adopted the Basel 3 capital adequacy framework with effect from 1st January 2015 as required by the CBB.

In applying current capital requirements, the CBB requires the Group to maintain a prescribed minimum ratio of total regulatory capital to total risk-weighted assets. The CBB's minimum risk asset ratio is 12.5 per cent compared to a minimum ratio of 8 per cent prescribed by the Basel Committee on Banking Supervision. The Group calculates regulatory capital requirements for general market risk in its trading portfolios using the standardised approach and uses the CBB's prescribed risk-weightings under the standardised approach to determine the risk-weighted amounts for credit risk and specific market risk. Operational risk is calculated in accordance with the standardised approach as well. The regulatory capital requirement for operational risk is calculated by applying the CBB's prescribed range of beta coefficients, ranging from 12 to 18 per cent, to the average gross income for the preceding three financial years for each of eight predefined business lines.

The Group's regulatory capital is analysed into two tiers:

- Tier 1 capital, comprising issued share capital, share premium, retained earnings and reserves, adjusted to exclude revaluation gains and losses arising on the remeasurement to fair value of derivative cash flow hedging transactions.
- Tier 2 capital, comprising eligible subordinated term debt and expected credit losses stage 1 and stage 2 impairment provisions, after applicable haircuts and ceiling limitations.

The CBB applies various limits to elements of the regulatory capital base including the contributions of innovative tier 1 securities and qualifying tier 2 capital towards the minimum total capital ratios.

The Group's risk exposures are categorised as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures.

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain the future development of the business. The impact of the level of capital on shareholders' return is also recognised as well as the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position. The Group manages its capital structure and makes adjustments to the structure taking account of changes in economic conditions and strategic business plans. The capital structure may be adjusted through the dividend payout and the issue of new shares.

The Group complied with all externally imposed capital requirements throughout the years ended 31st December 2023 and 31st December 2022.

A new Tier 2 subordinated term debt of US$400 million in the Group arose during the twelve months ended 31st December 2023. The Tier 2 arose on the issuance of Sukuk by way of a private placement in the Kingdom of Saudi Arabia by the Bank's subsidiary, Gulf International Bank – Saudi Arabia in December 2023. Under the CBB capital adequacy framework, subsidiaries reporting under a Basel 3 framework in other regulatory jurisdictions may, at the bank's discretion, be consolidated based on that jurisdiction's Basel 3 framework, rather than based on the CBB's guidelines. Under this aggregation consolidation methodology, the capital and risk-weighted assets of subsidiaries are consolidated with those of the rest of the Group based on the guidelines of their respective regulator to determine the Group's total capital adequacy ratio.

There have been no material changes in the Group's management of capital during the years ended 31st December 2023 and 31st December 2022.

The capital adequacy ratio calculation is set out in note 38.

Notes to the Consolidated Financial Statements

For the year ended 31st December 2023

32. Geographical distribution of assets

The distribution of assets and contingent liabilities on behalf of customers by geographic region was as follows:

	Placements, reverse repos & other liquid assets	**Securities**	**Loans and advances**	**Credit-related contingent items**	**31.12.23 Total**
	US$ millions	**US$ millions**	**US$ millions**	**US$ millions**	**US$ millions**
GCC	**5,263.3**	**5,192.9**	**12,794.5**	**7,575.5**	**30,826.2**
Other Middle East & North Africa	**14.7**	**-**	**381.1**	**75.0**	**470.8**
Europe	**7,521.9**	**293.6**	**215.4**	**183.3**	**8,214.2**
North America	**11,706.5**	**749.5**	**231.8**	**473.0**	**13,160.8**
Asia (excluding GCC)	**321.4**	**751.0**	**1.8**	**15.4**	**1,089.6**
	24,827.8	**6,987.0**	**13,624.6**	**8,322.2**	**53,761.6**

	Placements, reverse repos & other liquid assets	Securities	Loans and advances	Credit-related contingent items	31.12.22 Total
	US$ millions	US$ millions	US$ millions	US$ millions	US$ millions
GCC	4,004.5	4,279.8	10,840.0	5,845.7	24,970.0
Other Middle East & North Africa	16.5	-	362.9	69.6	449.0
Europe	7,356.6	238.5	13.0	184.9	7,793.0
North America	1,497.7	625.6	158.2	432.9	2,714.4
Asia (excluding GCC)	637.8	817.0	123.5	62.0	1,640.3
	13,513.1	5,960.9	11,497.6	6,595.1	37,566.7

At 31st December 2023, on-balance sheet risk exposures to customers and counterparties in the GCC represented 51.2% (2022: 61.7%) of total risk assets. The risk asset profile reflects the Group's strategic focus on wholesale banking activities in the GCC states.

An analysis of derivative and foreign exchange instruments is set out in note 35.

Notes to the Consolidated Financial Statements

For the year ended 31st December 2023

33. Maturities of assets and liabilities

The maturity profile of the carrying amount of assets, liabilities and equity, based on the contractual maturity dates, was as follows:

	Within 3 months	4 months to 1 year	Years 2 and 3	Years 4 and 5	Over 5 years and undated	Total
	US$ millions	US$ millions	US$ millions	US$ millions	US$ millions	US$ millions
At 31st December 2023						
Cash and other liquid assets	**16,313.8**	**195.0**	**-**	**-**	**497.7**	**17,006.5**
Securities purchased under agreements to resell	**343.9**	**400.0**	**-**	**-**	**-**	**743.9**
Placements	**5,206.4**	**1,538.1**	**331.1**	**1.8**	**-**	**7,077.4**
Trading securities	**-**	**-**	**-**	**-**	**270.8**	**270.8**
Investment securities	**722.6**	**1,568.3**	**718.9**	**1,360.6**	**2,345.8**	**6,716.2**
Loans and advances	**4,773.9**	**2,451.6**	**3,675.8**	**1,523.7**	**1,199.6**	**13,624.6**
Other assets	**354.4**	**331.3**	**120.9**	**130.8**	**693.1**	**1,630.5**
Total assets	**27,715.0**	**6,484.3**	**4,846.7**	**3,016.9**	**5,007.0**	**47,069.9**
Deposits	**29,223.2**	**6,170.2**	**8.4**	**-**	**-**	**35,401.8**
Securities sold under agreements to repurchase	**316.1**	**427.0**	**-**	**-**	**-**	**743.1**
Other liabilities	**316.5**	**266.0**	**92.1**	**99.7**	**761.4**	**1,535.7**
Term financing	**525.3**	**1,395.1**	**2,407.1**	**1,293.2**	**-**	**5,620.7**
Subordinated term financing	**-**	**-**	**-**	**-**	**400.0**	**400.0**
Equity	**-**	**-**	**-**	**-**	**3,368.6**	**3,368.6**
Total liabilities and equity	**30,381.1**	**8,258.3**	**2,507.6**	**1,392.9**	**4,530.0**	**47,069.9**
Net liquidity gap	**(2,666.1)**	**(1,774.0)**	**2,339.1**	**1,624.0**	**477.0**	
Cumulative liquidity gap	**(2,666.1)**	**(4,440.1)**	**(2,101.0)**	**(477.0)**	**-**	

	Within 3 months	4 months to 1 year	Years 2 and 3	Years 4 and 5	Over 5 years and undated	Total
	US$ millions	US$ millions	US$ millions	US$ millions	US$ millions	US$ millions
At 31st December 2022						
Cash and other liquid assets	5,888.1	-	-	-	440.9	6,329.0
Securities purchased under agreements to resell	195.8	-	-	-	-	195.8
Placements	5,614.8	1,371.7	1.8	-	-	6,988.3
Trading securities	-	-	-	-	175.4	175.4
Investment securities	236.3	944.5	1,079.8	1,221.1	2,303.8	5,785.5
Loans and advances	4,159.8	2,163.4	2,678.4	1,762.1	733.9	11,497.6
Other assets	334.3	327.8	88.3	163.4	736.2	1,650.0
Total assets	16,429.1	4,807.4	3,848.3	3,146.6	4,390.2	32,621.6
Deposits	17,085.2	5,364.4	-	-	-	22,449.6
Securities sold under agreements to repurchase	253.0	-	284.4	-	-	537.4
Other liabilities	320.9	274.2	64.3	119.0	731.1	1,509.5
Term financing	51.6	254.3	3,640.6	949.2	45.2	4,940.9
Equity	-	-	-	-	3,184.2	3,184.2
Total liabilities and equity	17,710.7	5,892.9	3,989.3	1,068.2	3,960.5	32,621.6
Net liquidity gap	(1,281.6)	(1,085.5)	(141.0)	2,078.4	429.7	
Cumulative liquidity gap	(1,281.6)	(2,367.1)	(2,508.1)	(429.7)	-	

The asset and liability maturities presented in the table above are based on contractual repayment arrangements and as such do not take account of the effective maturities of deposits as indicated by the Group's deposit retention records. Formal liquidity controls are nevertheless based on contractual asset and liability maturities.

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For the year ended 31st December 2023

33. Maturities of assets and liabilities (continued)

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted repayment obligations:

	Within 3 months	4 months to 1 year	Years 2 and 3	Years 4 and 5	Over 5 years and undated
	US$ millions	US$ millions	US$ millions	US$ millions	US$ millions
At 31st December 2023					
Deposits	**29,519.4**	**6,706.3**	**8.8**	**-**	**-**
Securities sold under agreements to repurchase	**326.5**	**436.4**	**-**	**-**	**-**
Term financing	**535.8**	**1,430.0**	**2,503.4**	**1,396.7**	**-**
Subordinated term financing	**-**	**-**	**-**	**-**	**440.0**
Total non-derivative financial liabilities	**30,381.7**	**8,572.7**	**2,512.2**	**1,396.7**	**440.0**
Derivative financial instruments	**68.3**	**145.1**	**95.8**	**107.7**	**281.0**
Credit-related contingent items	**4,782.0**	**2,132.0**	**1,189.7**	**168.6**	**279.3**

	Within 3 months	4 months to 1 year	Years 2 and 3	Years 4 and 5	Over 5 years and undated
At 31st December 2022					
Deposits	17,276.8	5,687.8	-	-	-
Securities sold under agreements to repurchase	255.7	-	284.4	-	-
Term financing	52.6	260.7	3,786.2	1,025.1	49.7
Total non-derivative financial liabilities	17,585.1	5,948.5	4,070.6	1,025.1	49.7
Derivative financial instruments	1.7	23.2	3.6	162.6	599.1
Credit-related contingent items	3,558.5	1,995.4	817.0	185.2	222.9

The figures in the table above do not agree directly to the carrying amounts in the consolidated statement of financial position as they incorporate all cash flows, on an undiscounted basis, related to both principal as well as those associated with future coupon and interest payments. Coupons and interest payments for periods for which the interest rate has not yet been determined have been calculated based on the relevant forward rates of interest prevailing at the balance sheet date.

A maturity analysis of derivative and foreign exchange instruments based on notional amounts is set out in note 35.3.

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34. Interest rate risk

The repricing profile of assets and liabilities categories and equity were as follows:

	Within 3 months	Months 4 to 6	Months 7 to 12	Over 1 year	Non-interest bearing items	Total
	US$ millions	US$ millions	US$ millions	US$ millions	US$ millions	US$ millions
At 31st December 2023						
Cash and other liquid assets	16,806.8	-	195.0	-	4.7	17,006.5
Securities purchased under agreements to resell	343.9	-	400.0	-	-	743.9
Placements	5,540.4	798.0	739.0	-	-	7,077.4
Trading securities	-	-	-	-	270.8	270.8
Investment securities						
- Fixed rate	761.9	411.4	909.3	1,386.4	-	3,469.0
- Floating rate	3,164.0	46.7	-	13.3	-	3,224.0
- Equities	-	-	-	-	23.2	23.2
Loans and advances	8,232.3	1,951.3	3,441.0	-	-	13,624.6
Other assets	-	-	-	-	1,630.5	1,630.5
Total assets	34,849.3	3,207.4	5,684.3	1,399.7	1,929.2	47,069.9
Deposits	28,781.0	1,759.8	3,132.8	-	1,728.2	35,401.8
Securities sold under agreements to repurchase	582.2	92.4	68.5	-	-	743.1
Other liabilities	-	-	-	-	1,535.7	1,535.7
Term financing	5,130.6	-	73.7	416.4	-	5,620.7
Subordinated term financing	400.0	-	-	-	-	400.0
Equity	-	-	-	-	3,368.6	3,368.6
Total liabilities & equity	34,893.8	1,852.2	3,275.0	416.4	6,632.5	47,069.9
Interest rate sensitivity gap	(44.5)	1,355.2	2,409.3	983.3	(4,703.3)	-
Cumulative interest rate sensitivity gap	(44.5)	1,310.7	3,720.0	4,703.3	-	-

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34. Interest rate risk (continued)

	Within 3 months	Months 4 to 6	Months 7 to 12	Over 1 year	Non-interest bearing items	Total
	US$ millions	US$ millions	US$ millions	US$ millions	US$ millions	US$ millions
At 31st December 2022						
Cash and other liquid assets	6,322.9	-	-	-	6.1	6,329.0
Securities purchased under agreements to resell	195.8	-	-	-	-	195.8
Placements	5,616.4	788.5	583.4	-	-	6,988.3
Trading securities	-	-	-	-	175.4	175.4
Investment securities						
- Fixed rate	500.4	417.9	304.1	1,561.7	-	2,784.1
- Floating rate	2,854.3	46.6	-	8.0	-	2,908.9
- Equities	-	-	-	-	92.5	92.5
Loans and advances	8,148.0	1,793.3	1,556.3	-	-	11,497.6
Other assets	-	-	-	-	1,650.0	1,650.0
Total assets	23,637.8	3,046.3	2,443.8	1,569.7	1,924.0	32,621.6
Deposits	15,418.5	3,901.4	1,150.7	-	1,979.0	22,449.6
Securities sold under agreements to repurchase	537.4	-	-	-	-	537.4
Other liabilities	-	-	-	-	1,509.5	1,509.5
Term financing	4,086.7	-	19.3	834.9	-	4,940.9
Equity	-	-	-	-	3,184.2	3,184.2
Total liabilities & equity	20,042.6	3,901.4	1,170.0	834.9	6,672.7	32,621.6
Interest rate sensitivity gap	3,595.2	(855.1)	1,273.8	734.8	(4,748.7)	-
Cumulative interest rate sensitivity gap	3,595.2	2,740.1	4,013.9	4,748.7	-	-

The repricing profile is based on the remaining period to the next interest repricing date. Derivative financial instruments that have been used for asset and liability management purposes to hedge exposure to interest rate risk are incorporated in the repricing profiles of the related hedged assets and liabilities.

The substantial majority of assets and liabilities reprice within one year. Accordingly, there is limited exposure to interest rate risk. The interest rate risk beyond one year, as set out in the asset and liability repricing profile, mainly represents the investment of the Group's net free capital in fixed rate government securities. At 31st December 2023, the modified duration of these fixed rate securities was 4.92 (2022: 4.43). Modified duration represents the approximate percentage change in the portfolio value resulting from a 100 basis point change in yield. More precisely in dollar terms, the price value of a basis point of the fixed rate securities was US$653,665 (2022: US$667,271). The Bank also has US$400 million of unhedged term finance maturing in September 2025 contributing to a DV01 of US$63,905.

Based on the repricing profile at 31st December 2023, and assuming that the financial assets and liabilities were to rollover upon maturity or settlement with while maintaining a constant balance sheet, an immediate and sustained two per cent increase in interest rates across all maturities would result in an increase in net income before tax for the following year by approximately US$68 million (2022: US$61.1 million) and a decrease in the Group's equity by US$102.1 million (2022: US$84.7 million). The impact on the Group's equity represents the cumulative effect of the increase in interest rates over the entire duration of the mismatches in the repricing profile of the interest rate sensitive financial assets and liabilities.

The Value-at-Risk by risk class for the Group's trading positions is set out in note 31. The market risk relating to derivative and foreign exchange instruments classified as FVTPL is set out in note 35.

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35. Derivatives and foreign exchange instruments

The Group utilises derivative and foreign exchange instruments to meet the needs of its customers, to generate trading revenues and as part of its asset and liability management (ALM) activity to hedge its own exposure to market risk. Derivative instruments are contracts whose value is derived from one or more financial instruments or indices. They include futures, forwards, swaps and options in the interest rate, foreign exchange, equity, credit and commodity markets. Derivatives and foreign exchange are subject to the same types of credit and market risk as other financial instruments. The Group has appropriate and comprehensive Board-approved policies and procedures for the control of exposure to both market and credit risk from its derivative and foreign exchange activities.

In the case of derivative transactions, the notional principal typically does not change hands. It is simply a quantity which is used to calculate payments. While notional principal is a volume measure used in the derivative and foreign exchange markets, it is neither a measure of market nor credit risk. The Group's measure of credit exposure is the cost of replacing contracts at current market rates should the counterparty default prior to the settlement date. Credit risk amounts represent the gross unrealised gains on non-margined transactions before taking account of any collateral held or any master netting agreements in place.

The Group participates in both exchange traded and over-the-counter (OTC) derivative markets. Exchange traded instruments are executed through a recognised exchange as standardised contracts and primarily comprise futures and options. OTC contracts are executed between two counterparties who negotiate specific agreement terms, including the underlying instrument, notional amount, maturity and, where appropriate, exercise price. In general, the terms and conditions of these transactions are tailored to the requirements of the Group's customers although conform to normal market practice. Industry standard documentation is used, most commonly in the form of a master agreement. The existence of a master netting agreement is intended to provide protection to the Group in the event of a counterparty default.

The Group's principal foreign exchange transactions are forward foreign exchange contracts, currency swaps and currency options. Forward foreign exchange contracts are agreements to buy or sell a specified quantity of foreign exchange on a specific future date at an agreed rate. A currency swap involves the exchange, or notional exchange, of equivalent amounts of two currencies and a commitment to exchange interest periodically until the principal amounts are re-exchanged on a specified future date. Currency options provide the buyer with the right, but not the obligation, either to purchase or sell a fixed amount of a currency at a specified exchange rate on or before a specified future date. As compensation for assuming the option risk, the option seller (or writer) receives a premium at the start of the option period.

The Group's principal interest rate-related derivative transactions are interest rate swaps, forward rate agreements, futures and options. An interest rate swap is an agreement between two parties to exchange fixed rate and floating rate interest by means of periodic payments based upon a notional principal amount and the interest rates defined in the contract. Certain agreements combine interest rate and foreign currency swap transactions, which may or may not include the exchange of principal amounts. In a forward rate agreement, two parties agree a future settlement of the difference between an agreed rate and a future interest rate, applied to a notional principal amount for an agreed period. The settlement, which generally occurs at the start of the contract period, is the discounted present value of the payment that would otherwise be made at the end of that period. An interest rate future is an exchange traded contract for the delivery of a standardised amount of a fixed income security or time deposit at a future specified date. Interest rate options, including caps, floors and collars, provide the buyer with the right, but not the obligation, either to purchase or sell an interest rate financial instrument at a specified price or rate on or before a specified future date.

The Group's principal equity-related derivative transactions are equity and stock index options. An equity option provides the buyer with the right, but not the obligation, either to purchase or sell a specified stock or index at a specified price or level on or before a specified future date.

The Group buys and sells credit protection through credit default swaps. Credit default swaps provide protection against the decline in value of a referenced asset as a result of credit events such as default or bankruptcy. It is similar in structure to an option whereby the purchaser pays a premium to the seller of the credit default swap in return for payment related to the deterioration in value of the referenced asset. Credit default swaps purchased and sold by the Group are classified as derivative financial instruments.

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35. Derivatives and foreign exchange instruments (continued)

35.1 Product analysis

The table below summarises the aggregate notional and credit risk amounts of foreign exchange, interest rate and commodity contracts.

	Trading	Hedging	Notional amounts total	Credit risk amounts
	US$ millions	US$ millions	US$ millions	US$ millions
At 31st December 2023				
Foreign exchange contracts:				
Unmatured spot, forward and futures contracts	6,616.7	-	6,616.7	117.9
Options purchased	383.2	-	383.2	-
Options written	383.2	-	383.2	-
	7,383.1	-	7,383.1	117.9
Interest rate contracts:				
Interest rate swaps	15,461.1	6,908.4	22,369.5	1,021.5
Cross currency swaps	492.5	-	492.5	8.5
Futures	101.7	-	101.7	-
Options, caps and floors purchased	2,436.5	-	2,436.5	81.6
Options, caps and floors written	2,436.5	-	2,436.5	-
	20,928.3	6,908.4	27,836.7	1,111.6
Equity and commodity contracts:				
Options and swaps purchased	51.0	-	51.0	12.8
Options and swaps written	51.0	-	51.0	-
	102.0	-	102.0	12.8
Credit default swaps:				
Protection purchased	41.9	-	41.9	-
Protection sold	41.9	-	41.9	-
	83.8	-	83.8	-
	28,497.2	6,908.4	35,405.6	1,242.3

Notes to the Consolidated Financial Statements

For the year ended 31st December 2023

35. Derivatives and foreign exchange instruments (continued)

35.1 Product analysis (continued)

	Trading	Hedging	Notional amounts total	Credit risk amounts
	US$ millions	US$ millions	US$ millions	US$ millions
At 31st December 2022				
Foreign exchange contracts:				
Unmatured spot, forward and futures contracts	5,872.4	-	5,872.4	146.9
Options purchased	339.0	-	339.0	-
Options written	339.0	-	339.0	-
	6,550.4	-	6,550.4	146.9
Interest rate contracts:				
Interest rate swaps	15,501.5	8,879.8	24,381.3	1,076.8
Cross currency swaps	151.9	-	151.9	3.8
Futures	63.4	-	63.4	-
Options, caps and floors purchased	3,358.6	-	3,358.6	426.0
Options, caps and floors written	3,358.6	-	3,358.6	-
	22,434.0	8,879.8	31,313.8	1,506.6
Equity and commodity contracts:				
Options and swaps purchased	35.8	-	35.8	2.5
Options and swaps written	35.8	-	35.8	-
	71.6	-	71.6	2.5
Credit default swaps:				
Protection purchased	29.9	-	29.9	-
Protection sold	29.9	-	29.9	-
	59.8	-	59.8	-
	29,115.8	8,879.8	37,995.6	1,656.0

There is no credit risk in respect of options written as they represent obligations of the Group.

At 31st December 2023, the Value-at-Risk of the foreign exchange, interest rate and equity trading contracts analysed in the table above was US$0.75 million, US$0.70 million and US$5.54 million respectively (2022: US$0.55 million, US$3.82 million and US$8.41 million, respectively). Value-at-Risk is a measure of market risk exposure and represents an estimate, with a 99 per cent level of confidence, of the potential loss that might arise if the positions were to be held unchanged for ten consecutive business days. The estimate is based on a twelve-month historical observation period of unweighted data.

35.2 Counterparty analysis

	Financial sector	**Corporates**	**31.12.23 Total**
	US$ millions	**US$ millions**	**US$ millions**
OECD countries	**510.3**	**72.3**	**582.6**
GCC countries	**547.5**	**107.3**	**654.8**
Other countries	**4.9**	**-**	**4.9**
	1,062.7	**179.6**	**1,242.3**

	Financial sector	Corporates	31.12.22 Total
	US$ millions	US$ millions	US$ millions
OECD countries	1,149.1	252.2	1,401.3
GCC countries	250.9	-	250.9
Other countries	3.0	0.8	3.8
	1,403.0	253.0	1,656.0

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For the year ended 31st December 2023

35. Derivatives and foreign exchange instruments (continued)

35.3 Maturity analysis

	Year 1	Years 2 & 3	Years 4 & 5	Over 5 years	Total
	US$ millions	US$ millions	US$ millions	US$ millions	US$ millions
At 31st December 2023					
Foreign exchange contracts	**7,145.8**	**237.3**	**-**	**-**	**7,383.1**
Interest rate contracts	**3,970.2**	**4,719.1**	**5,357.3**	**13,790.1**	**27,836.7**
Equity and commodity contracts	**102.0**	**-**	**-**	**-**	**102.0**
Credit default swaps	**43.3**	**16.5**	**24.0**	**-**	**83.8**
	11,261.3	**4,972.9**	**5,381.3**	**13,790.1**	**35,405.6**

	Year 1	Years 2 & 3	Years 4 & 5	Over 5 years	Total
	US$ millions	US$ millions	US$ millions	US$ millions	US$ millions
At 31st December 2022					
Foreign exchange contracts	6,199.6	350.8	-	-	6,550.4
Interest rate contracts	7,624.6	2,812.0	5,962.6	14,914.6	31,313.8
Equity and commodity contracts	71.6	-	-	-	71.6
Credit default swaps	-	59.8	-	-	59.8
	13,895.8	3,222.6	5,962.6	14,914.6	37,995.6

The Group's derivative and foreign exchange activities are predominantly short-term in nature. Transactions with maturities over one year principally represent either fully offset trading transactions or transactions that are designated, and qualify, as fair value hedges.

35.4 Fair value analysis

	31.12.23 Positive fair value	31.12.23 Negative fair value	31.12.22 Positive fair value	31.12.22 Negative fair value
	US$ millions	US$ millions	US$ millions	US$ millions
Derivatives held for trading:				
Foreign exchange contracts	**10.1**	**(11.6)**	23.9	(21.6)
Interest rate contracts	**655.8**	**(640.0)**	737.7	(723.4)
Equity and commodity contracts	**1.1**	**(1.0)**	1.1	(1.0)
	667.0	**(652.6)**	762.7	(746.0)
Derivatives held as fair value hedges:				
Interest rate contracts	**193.7**	**(3.3)**	278.7	(12.4)
Amount included in other assets / (other liabilities)	**860.7**	**(655.9)**	1,041.4	(758.4)

35.5 Significant net open positions

There were no significant derivative trading or foreign currency net open positions at either 31st December 2023 or at 31st December 2022.

35.6 Hedge accounting

The Group offers fixed rate liability and asset products to clients in the normal course of business. The interest rate received or paid is fixed for the term of the transaction, exposing the Group to interest rate risk during the life of the transaction.

In order to mitigate this interest rate market risk exposure, the Group uses interest rate swaps in one-to-one, one-to-many and many-to-many relationships. The derivative products effectively tie a floating interest rate to the fixed rate client transaction. The hedging item is executed at the same time that the client-related transaction, the hedged item, is booked.

Generally, the hedging item executed exactly matches the critical terms of the hedged item, that being the nominal value, currency, trade date and maturity date and hence the hedge ratio is expected to remain close to 100 per cent. The hedging relationship is generally highly effective because the critical terms of the instruments match at inception and will remain effective throughout the contractual term of the derivative until maturity. The critical terms are reviewed every reporting date to ensure that the match persists.

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35. Derivatives and foreign exchange instruments (continued)

35.6 Hedge accounting (continued)

The Group's derivative instruments are also subject to credit risk. Credit risk can arise on both the hedging instrument and the hedged item in the form of counterparty credit risk or the Group's own credit risk. The Group mitigates its credit exposure through the use of master netting arrangements and collateral arrangements as set out in note 31.1 and credit risk is therefore, unlikely to dominate the change in fair value of such hedging instruments.

The hedging relationship is tested at each reporting date by comparing the fair value of the hedging instrument with that of the hedged instrument. If, as a result of the testing, there is a deviation to the hedge ratio then ineffectiveness is recognised in the consolidated statement of income. The hedging relationship is subsequently either rebalanced or discontinued in accordance with the Group's Board-approved policies and procedures.

The hedging instruments comprise hedges of fixed rate asset and fixed rate liability products with the following maturity profile:

	Year 1	Years 2 and 3	Years 4 and 5	Over 5 years	Total
	US$ millions	US$ millions	US$ millions	US$ millions	US$ millions
Notional amounts					
At 31st December 2023					
Fixed rate asset products	**1,595.2**	**1,088.3**	**1,078.9**	**1,521.5**	**5,283.9**
Fixed rate liability products	**1,476.1**	**148.4**	**-**	**-**	**1,624.5**
At 31st December 2022					
Fixed rate asset products	1,598.1	614.6	1,554.7	1,542.3	5,309.7
Fixed rate liability products	3,430.2	139.9	-	-	3,570.1

Gains and losses recognised in the consolidated statement of income relating to fair value hedging relationships were as follows:

	31.12.23	31.12.22
	US$ millions	US$ millions
Net (loss) / gain on derivatives fair value hedging instruments	**(72.9)**	353.3
Net gain / (loss) on hedged items attributable to the hedged risk	**72.9**	(353.3)

The notional amount, fair values, and changes in fair values of hedging instruments for the year ended 31st December 2023 used as the basis for recognising hedge ineffectiveness were as follows:

	Notional amount	Fair value	Changes in fair value
	US$ millions	US$ millions	US$ millions
At 31st December 2023			
Financial assets			
Interest rate contracts	**5,582.5**	**201.3**	**(80.6)**
Financial liabilities			
Interest rate contracts	**1,325.9**	**(9.7)**	**7.7**
	6,908.4	**191.6**	**(72.9)**
At 31st December 2022			
Financial assets			
Interest rate contracts	5,994.8	281.9	275.9
Financial liabilities			
Interest rate contracts	2,885.0	(17.4)	77.4
	8,879.8	264.5	353.3

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35. Derivatives and foreign exchange instruments (continued)

35.6 Hedge accounting (continued)

The carrying amount, accumulative changes in fair values, and changes in fair values of hedging instruments for the years ended 31st December 2023 and 31st December 2022 used as the basis for recognising hedge ineffectiveness were as follows:

	Notional amount	Fair value	Changes in fair value
	US$ millions	US$ millions	US$ millions
At 31st December 2023			
Financial assets			
Placements and securities purchased under agreement to resell	**1,643.6**	**0.7**	**11.2**
Loans and advances	**229.2**	**(7.4)**	**5.5**
Investment securities	**3,411.1**	**(190.8)**	**63.0**
	5,283.9	**(197.5)**	**79.7**
Financial liabilities			
Deposits and securities sold under agreement to repurchase	**1,484.5**	**(0.3)**	**(4.0)**
Senior term financing	**140.0**	**6.3**	**(2.8)**
	1,624.5	**6.0**	**(6.8)**
	6,908.4	**(191.5)**	**72.9**
At 31st December 2022			
Financial assets			
Placements and securities purchased under agreement to resell	1,949.7	(10.5)	(10.3)
Loans and advances	288.0	(12.9)	(16.5)
Investment securities	3,072.0	(253.8)	(342.2)
	5,309.7	(277.2)	(369.0)
Financial liabilities			
Deposits and securities sold under agreement to repurchase	3,430.2	3.7	3.0
Senior term financing	139.9	9.1	12.7
	3,570.1	12.8	15.7
	8,879.8	(264.4)	(353.3)

There were no ineffective portions of derivative fair value or cash flow hedging transactions recognised in the consolidated statement of income in either the years ended 31st December 2023 or 31st December 2022.

36. Credit-related contingent items

Credit-related contingent items include commitments to extend credit, standby letters of credit and guarantees which are designed to meet the financing requirements of customers. The credit risk on these transactions is generally less than the contractual amount. The notional principal amounts of outstanding credit-related contingent items and the risk-weighted exposures calculated in accordance with the CBB's Basel 3 guidelines were as follows:

	Notional principal amount	31.12.23 Risk-weighted exposure	Notional principal amount	31.12.22 Risk-weighted exposure
	US$ millions	US$ millions	US$ millions	US$ millions
Direct credit substitutes	**840.1**	**744.2**	774.8	766.2
Transaction-related contingent items	**3,369.8**	**1,392.6**	2,991.4	1,279.5
Short-term self-liquidating trade-related contingent items	**853.3**	**155.6**	741.0	145.2
Commitments, including undrawn loan commitments and underwriting commitments under note issuance and revolving facilities	**3,259.0**	**1,639.3**	2,087.9	873.3
	8,322.2	**3,931.7**	6,595.1	3,064.2

The notional principal amounts reported above are stated gross before applying credit risk mitigants, such as cash collateral, guarantees and counter-indemnities. At 31st December 2023, the Group held cash collateral, guarantees, counter-indemnities or other high quality collateral in relation to credit-related contingent items amounting to US$429.0 million (2022: US$406.5 million).

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For the year ended 31st December 2023

36. Credit-related contingent items (continued)

Direct credit substitutes at 31st December 2023 included financial guarantees amounting to US$498.3 million (2022: US$342.9 million). Financial guarantees may be called on demand.

Provisions in relation to credit-related contingent items at 31st December 2023 amounted to US$49.6 million (2022: US$44.8 million). The movement in the provisions for expected credit losses during the year is as follows:

	31st December 2023				31st December 2022			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	Stage 1	Stage 2	Stage 3	Total
	US$ millions	**US$ millions**	**US$ millions**	**US$ millions**	US$ millions	US$ millions	US$ millions	US$ millions
At 1st January	**7.1**	**6.6**	**31.1**	**44.8**	6.1	2.5	32.9	41.5
Transfer to stage 1	**0.5**	**(0.5)**	**-**	**-**	0.1	(0.1)	-	-
Transfer to stage 2	**(0.1)**	**0.1**	**-**	**-**	-	-	-	-
Exchange rate movements	**-**	**-**	**0.1**	**0.1**	-	-	0.1	0.1
Net remeasurement of ECL allowance	**(0.6)**	**-**	**5.3**	**4.7**	0.9	4.2	(1.9)	3.2
At 31st December	**6.9**	**6.2**	**36.5**	**49.6**	7.1	6.6	31.1	44.8

37. Contingent liabilities and commitments

In addition to the credit-related contingent items outlined in note 36, the Group has an irrevocable commitment of US$10.4 million as of 31st December 2023 (2022: nil).

The Bank and its subsidiaries are engaged in litigation in various jurisdictions. Such litigation involves claims by and against Group companies which have arisen in the ordinary course of business. The management of the Bank, after reviewing the claims pending against the Group companies and based on the advice of relevant professional legal advisors, are satisfied that the outcome of these claims will not have a material adverse effect on the financial position of the Group.

38. Capital adequacy

The Group adopted the Basel 3 capital adequacy framework with effect from 1st January 2015. The CBB's Basel 3 guidelines became effective on 1st January 2015 as the common framework for the implementation of the Basel Committee on Banking Supervision's (Basel Committee) Basel 3 capital adequacy framework for banks incorporated in the Kingdom of Bahrain. The Group complied with all externally imposed capital requirements for the years ended 31st December 2023 and 31st December 2022.

	31.12.23	31.12.22
	US$ millions	US$ millions
Regulatory capital base		
CET 1	**3,316.8**	2,539.9
Total Tier 1 capital	**3,316.8**	2,539.9
Tier 2 capital	**576.4**	433.4
Total capital base	**3,893.2**	2,973.3
Risk-weighted exposure		
Credit risk-weighted exposure	**18,993.5**	16,192.1
Market risk-weighted exposure	**744.7**	190.0
Operational risk-weighted exposure	**818.1**	805.7
Total risk-weighted exposure	**20,556.3**	17,187.8
Tier 1 risk asset ratio	**16.1%**	14.8%
Total risk asset ratio	**18.9%**	17.3%

As at 31st December 2023, all banks incorporated in Bahrain are required to maintain a minimum capital adequacy ratio of 12.5% and a tier 1 ratio of 10.5%.

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38. Capital adequacy (continued)

In accordance with the capital adequacy guidelines of the CBB, revaluation gains and losses arising on the remeasurement to fair value of derivative cash flow hedging transactions are excluded from tier 1 capital, while unrealised gains and losses arising on the remeasurement to fair value of equity investment securities classified as fair value through other comprehensive income (FVTOCI) are included in tier 1 capital.

The regulatory capital requirement for operational risk is calculated by the Group in accordance with the standardised approach. The regulatory capital requirement is calculated based on a range of beta coefficients, ranging from 12 to 18 per cent, applied to the average gross income for the preceding three financial years for each of eight predefined business lines.

39. Fiduciary activities

The Group conducts investment management and other fiduciary activities on behalf of clients. Assets held in trust or in a fiduciary capacity are not assets of the Group and accordingly have not been included in the consolidated financial statements. The aggregate amount of the funds concerned at 31st December 2023 was US$ 8,114.9 million (2022: US$12,615.7 million).

The Group acts as fund manager to a number of investment funds. In its capacity as fund manager, the Group is entitled to performance and management fees. The Group maintains an investment in the funds.

The maximum exposure to loss is equal to the carrying amount of the investment in the funds, which at 31st December 2023 amounted to US$262.3 million (2022: US$166.4 million).

40. Related party transactions

The Group enters into transactions with major shareholders, senior management and companies which are controlled, jointly controlled or significantly influenced by such parties in the ordinary course of business at arm's length. All the loans and advances to related parties are performing and are subject to ECL assesments.

The income, expense and the period end balances in respect of related parties included in the consolidated financial statements were as follows:

	Shareholders	Affiliates	Directors and senior management	Total
	US$ millions	US$ millions	US$ millions	US$ millions
As at 31 December 2023				
Cash and other liquid assets	-	0.1	-	0.1
Placements	-	1,547.8	-	1,547.8
Investment securities	-	375.7	-	375.7
Loans and advances	-	773.1	12.5	785.6
Other assets	2.2	135.6	-	137.8
Deposits	1,596.9	3,273.3	10.4	4,880.6
Other liabilities	1.2	64.3	-	65.5
Senior term financing	-	960.0	-	960.0
Commitments and contingent liabilities	46.1	1,582.7	1.9	1,630.7
For the year ended 31 December 2023				
Net interest expense	(75.4)	(119.0)	-	(194.4)
Fee and commission income	2.7	7.7	-	10.4
Trading and foreign exchange gain	-	4.5	-	4.5
Other income	-	1.1	-	1.1
Short term employee benefits	-	-	(31.9)	(31.9)
Post-employment benefits	-	-	(1.9)	(1.9)
Directors' fees and related expenses	-	-	(4.2)	(4.2)

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40. Related party transactions (continued)

	Shareholders	Affiliates	Directors and senior management	Total
	US$ millions	US$ millions	US$ millions	US$ millions
As at 31 December 2022				
Cash and other liquid assets	-	2.2	-	2.2
Placements	-	1,122.9	-	1,122.9
Trading securities	-	0.2	-	0.2
Investment securities	-	381.6	-	381.6
Loans and advances	-	667.4	13.2	680.6
Other assets	6.1	77.2	-	83.3
Deposits	1,043.5	3,224.1	6.2	4,273.8
Other liabilities	0.8	55.8	-	56.6
Senior term financing	-	844.7	-	844.7
Commitments and contingent liabilities	45.7	741.6	1.7	789.0
For the year ended 31 December 2022				
Net interest expense	(37.0)	(48.6)	-	(85.6)
Fee and commission income	5.5	4.6	-	10.1
Trading income	-	(12.3)	-	(12.3)
Other income	-	3.1	-	3.1
Short term employee benefits	-	-	(30.4)	(30.4)
Post-employment benefits	-	-	(1.6)	(1.6)
Directors' fees and related expenses	-	-	(3.6)	(3.6)

Senior management personnel comprise the Group Chief Executive Officer and other executive officers of the Group.

Post-employment benefits principally comprise compensation paid to personnel on retirement or resignation from the services of the Group.

41. Fair value of financial instruments

The Group's financial instruments are accounted for under the historical cost method with the exception of trading securities, equity investment securities, derivative financial instruments and financial instruments hedged for fair value, which are accounted for at fair value. The fair value represents 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. Differences therefore can arise between book values under the historical cost method and fair value estimates. Underlying the definition of fair value is the presumption that the Group is a going concern without any intention or requirement to curtail materially the scale of its operation or to undertake a transaction on adverse terms. Generally accepted methods of determining fair value include reference to quoted prices (level 1 measurement) or to the pricing prevailing for similar financial instruments (level 2 measurement) and the use of unobservable inputs in estimation techniques such as discounted cash flow analysis (level 3 measurement).

The valuation methodologies applied are outlined below.

41.1 Trading securities

The fair values of trading securities are based on quoted prices (level 1) or valuation techniques (level 2 or 3).

41.2 Investment securities

The fair values of equity investment securities are based on quoted prices (level 1) or valuation techniques (level 2 or 3). The fair values of debt investment securities that are hedged are based on valuation based on observable market data (level 2) and approximate the carrying values.

41.3 Loans and advances

The fair values (level 2) of loans on a floating interest rate basis are principally estimated at book value. The fair values (level 3) of impaired loans are estimated at the recoverable amount, measured as the present value of expected future cash flows discounted based on the Group's weighted average discount rate. The fair values of fixed rate loans are estimated on a discounted cash flow basis utilising discount rates equal to prevailing market rates of interest in the respective currencies for loans of similar residual maturity and credit quality. The fair values (level 2) approximate the carrying values.

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For the year ended 31st December 2023

41. Fair value of financial instruments (continued)

41.4 Term financing

The fair value of term financing is based on observable market data, including quoted market prices for debt instruments issued by similarly rated financial institutions and with similar maturities, or estimated on a discounted cash flow basis utilising currently prevailing spreads for borrowings with similar maturities. The fair values (level 2) of senior term financing at 31st December 2023 approximate the carrying values.

41.5 Other on-balance sheet items

The fair values of foreign exchange and derivative financial instruments are based on market prices, discounted cash flow techniques or option pricing models as appropriate. The fair values of all other on-balance sheet assets and liabilities approximate their respective book values due to their short-term nature.

41.6 Credit-related contingent items

There was no material fair value excess or shortfall in respect of credit-related off-balance sheet financial instruments, which include commitments to extend credit, standby letters of credit and guarantees, as the related future income streams reflected contractual fees and commissions actually charged at the balance sheet date for agreements of similar credit standing and maturity. Impairment provisions made in respect of individual transactions where a potential for loss has been identified are included in other liabilities.

41.7 Valuation basis

The valuation basis for financial assets and financial liabilities carried at fair value was as follows:

	Quoted prices (level 1)	Valuation based on observable market data (level 2)	Other valuation techniques (level 3)
	US$ millions	US$ millions	US$ millions
At 31st December 2023			
Financial assets:			
Trading securities	**270.1**	**0.7**	**-**
Investment securities - equities	**7.1**	**-**	**16.1**
Derivative financial instruments	**-**	**860.7**	**-**
Financial liabilities:			
Derivative financial instruments	**-**	**655.9**	**-**
At 31st December 2022			
Financial assets:			
Trading securities	172.1	3.3	-
Investment securities - equities	77.0	-	15.5
Derivative financial instruments	-	1,041.4	-
Financial liabilities:			
Derivative financial instruments	-	758.4	-

Financial instruments in level 1

The fair value of financial instruments traded in active markets is based on quoted market prices at the consolidated statement of financial position date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in Level 1.

Financial instruments in level 2

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Notes to the Consolidated Financial Statements

For the year ended 31st December 2023

41. Fair value of financial instruments (continued)

Transfers between level 1 and level 2

There were no transfers between level 1 and level 2 during the year ended 31st December 2023 (2022: nil).

Sensitivity of the movement in the fair value of financial instruments in the level 3 category is assessed as not significant to other comprehensive income or total equity.

The movements in the level 3 category is as follows:

	31.12.23	31.12.22
	US$ millions	US$ millions
At 1st January	**15.5**	18.8
Purchases	-	1.0
Sales \ write-off	(0.1)	(1.8)
Fair value movement	0.7	(2.5)
At 31st December	**16.1**	15.5

42. Earnings per share

Basic earnings per share are calculated by dividing the net income attributable to the shareholders by the weighted average number of shares in issue during the year.

	31.12.23	31.12.22
	US$ millions	US$ millions
Net income attributable to shareholders of the Bank (US$ millions)	140.0	78.7
Weighted average number of shares in issue (millions)	2,125	2,500
Basic earnings per share (US cents)	**6.59**	3.15

The diluted earnings per share is equivalent to the basic earnings per share set out above.

During the year ended 31st December 2023, the Shareholders have approved the set-off of accumulated retained losses against capital and reserves (refer note 20).

43. Principal subsidiaries

The principal subsidiary companies were as follows:

	Principal activities	Country of incorporation	Ownership interest 31.12.23	Ownership interest 31.12.22
Gulf International Bank - Saudi Arabia C.J.S.C.	Wholesale commercial and retail banking	Saudi Arabia	**50%**	50%
Gulf International Bank (UK) Limited	Asset management and treasury	United Kingdom	**100%**	100%
GIB Markets Limited	Treasury-related	Cayman Islands	**100%**	100%

Notes to the Consolidated Financial Statements

For the year ended 31st December 2023

44. Non-controlling interest

The non-controlling interest arose on the purchase by the Bank's majority shareholder, the Public Investment Fund, of 50 per cent of the shares issued on the incorporation of Gulf International Bank – Saudi Arabia on 3rd April 2019, a new subsidiary of the Bank.

The activities of the Bank in the Kingdom of Saudi Arabia were previously conducted through a foreign branch of the Bank. On 3rd April 2019, the foreign branch was converted to a Saudi closed joint stock company, Gulf International Bank – Saudi Arabia. Upon the incorporation of the Saudi closed joint stock company, the net assets of the foreign branch were converted to Gulf International Bank – Saudi Arabia. Gulf International Bank - Saudi Arabia was incorporated with an issued and fully paid share capital of SAR 7.5 billion that was equally subscribed by the Bank, and the Bank's majority shareholder, the Public Investment Fund (PIF). PIF's investment in the share capital of Gulf International Bank – Saudi Arabia is designated as a non-controlling interest in the Group.

The summarised financial information of the subsidiary is provided below. The information is based on amounts before inter-company eliminations.

Summarised statement of financial position

	31.12.23	31.12.22
	US$ millions	US$ millions
Total assets	**12,427.4**	11,294.4
Total liabilities	**10,427.4**	9,369.2
Total equity	**2,000.0**	1,925.2
Equity attributable to non-controlling interest	**1,000.0**	962.6

	31.12.23	31.12.22
	US$ millions	US$ millions
Total income	**359.9**	265.7
Total operating expenses	**(237.6)**	(199.5)
Provision charge	**(50.9)**	(25.5)
Zakat charge	**(12.6)**	(5.9)
Net income	**58.8**	34.8
Net income attributable to non-controlling interest	**29.4**	17.4
Total comprehensive income	**74.8**	30.0
Total comprehensive income attributable to non-controlling interest	**37.4**	15.0

Notes to the Consolidated Financial Statements

For the year ended 31st December 2023

45. Average consolidated statement of financial position

The average consolidated statement of financial position was as follows:

	31.12.23	31.12.22
	US$ millions	US$ millions
ASSETS		
Cash and other liquid assets	**12,356.5**	10,062.1
Securities purchased under agreements to resell	**647.9**	198.0
Placements	**6,936.3**	6,685.0
Trading securities	**235.5**	157.9
Investment securities	**6,490.0**	5,670.5
Loans and advances	**12,399.6**	10,900.4
Other assets	**1,803.6**	1,324.2
Total assets	**40,869.4**	34,998.1
LIABILITIES		
Deposits from banks	**1,234.6**	641.4
Deposits from customers	**28,713.7**	24,516.7
Securities sold under agreements to repurchase	**741.7**	773.0
Other liabilities	**1,676.0**	1,201.2
Senior term financing	**5,165.5**	4,702.6
Subordinated term financing	**33.3**	-
Total liabilities	**37,564.8**	31,834.9
Total equity	**3,304.6**	3,163.2
Total liabilities & equity	**40,869.4**	34,998.1

46. Shariah compliant assets and liabilities

The Islamic banking activities of the group are conducted in accordance with Islamic Shari'a principles, as approved by the Shari'a Supervisory Board. The consolidated financial statements extracts relating to these activities are prepared in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI), IFRS and Central Bank of Bahrain regulations, as applicable. The principal accounting policies are set out below:

Investments - sukuk (Debt-type instruments at amortised cost)

Debt-type instruments which are managed on a contractual yield basis and are not held for trading and has not been designated at fair value through statement of income are classified as debt-type instruments at amortised cost. Such investments are carried at amortised cost, less provision for impairment in value. Amortised cost is calculated by taking into account any premium or discount on acquisition. Any gain or loss on such investment is recognised in the consolidated statement of income, when the investment is de-recognised or impaired.

Wakala

An agreement whereby one party provides a certain sum of money to an agent who invests it according to specific conditions in return for a certain fee (a lump sum of money or a percentage of the amount invested). The agent is obliged to return the invested amount in the case of default, negligence or violation of any of the terms and conditions of the Wakala.

Commodity Murabaha

These are sales transaction agreements for commodities stated net of deferred profits and provision for impairment. The Group considers the promise made in the murabaha to the purchase order as obligatory.

Revenue recognition

Revenue is recognised on the above Islamic products as follows:

Estimated income from Wakala is recognised on an accrual basis over the period, adjusted by actual income when received. Losses are accounted for on the date of declaration by the agent.

Income from investments is recognised when earned.

Notes to the Consolidated Financial Statements

For the year ended 31st December 2023

46. Shariah compliant assets and liabilities (continued)

The Shariah compliant assets and liabilities included in the consolidated statement of financial position were as follows:

	31.12.23	31.12.22
	US$ millions	US$ millions
ASSETS		
Placements	1,134.6	293.2
Investment securities	2,079.1	1,003.2
Financing facilities	5,238.4	5,310.8
LIABILITIES		
Deposits from banks and customers	3,589.6	4,034.8
Term financing	1,020.1	653.4

The Group reviews its Sharia Compliant assets and liabilities gap on a monthly basis and ensures at all times that there is sufficient sharia compliant assets that cover sharia compliant liabilities. The Group does not commingle funds relating to Islamic financial services with funds relating to conventional financial services.

Total provisions at 31st December 2023 of US$126.6 million (2022: US$127.0 million) included US$19.8 million of provisions for stage 1 Islamic financing (2022: US$22.4 million), US$11.6 million of provisions for stage 2 Islamic financing (2022: US$16.5 million) and US$95.2 million of provisions against non-performing Islamic financing (2022: US$88.1 million).

	31.12.23	31.12.22
	US$ millions	US$ millions
Income from financing activities		
Net profit from Islamic financing	188.4	111.8
Net fee and commission income	5.4	5.5
Other profit	1.2	0.5

47. Comparatives

The below comparatives have been reclassified in order to conform with the presentation for the current year. Such reclassifications do not affect previously reported profit for the year and total equity of the Group.

	Previously reported 31.12.22	Reclassified 31.12.22	Reclassified 1.1.22
	US$ millions	US$ millions	US$ millions
Statement of financial position			
Other assets	1,674.6	1,650.0	709.4
Total assets	32,646.2	32,621.6	31,788.2
Other liabilities	1,534.1	1,509.5	923.8
Total liabilities	29,462.0	29,437.4	28,695.2

Risk Management and Capital Adequacy Report

31st December 2023

Contents

Risk Management and Capital Adequacy Report

31st December 2023

Executive summary

The Central Bank of Bahrain (CBB) Basel 3 guidelines prescribe the capital adequacy framework for banks incorporated in the Kingdom of Bahrain. Gulf International Bank B.S.C. ("the Bank" or "GIB") and its subsidiaries (together "the Group") adopted Basel 3 from 1st January 2015 as required by the CBB.

This Risk Management and Capital Adequacy report encompasses the Pillar 3 disclosure requirements prescribed by the CBB based on the Basel Committee's Pillar 3 guidelines. The report contains a description of GIB's risk management and capital adequacy policies and practices, including detailed information on the capital adequacy process.

For regulatory reporting purposes, GIB has adopted the standardised approach for credit risk, market risk and operational risk.

The disclosed tier 1 and total capital adequacy ratios comply with the minimum capital requirements under the CBB's Basel 3 framework.

GIB's total risk-weighted assets as at 31st December 2023 amounted to US$20,556.3 million (31st December 2022: US$17,187.8 million). GIB's credit risk accounted for 92.4% (31st December 2022: 94.2%), market risk accounted for 3.6% (31st December 2022: 1.1%) and operational risk accounted for 4.0% (31st December 2022: 4.7%) of the total risk-weighted assets. Tier 1 and total regulatory capital were US$3,316.8 million (31st December 2022: US$2,539.9 million) and US$3,893.2 million (31st December 2022: US$2,973.3 million), respectively.

As at 31st December 2023, GIB's tier 1 and total capital adequacy ratios were 16.1% (31st December 2022: 14.8%) and 18.9% (31st December 2022: 17.3%), respectively. GIB's internal target is to maintain a tier 1 capital adequacy ratio above 11.5% and a total capital adequacy ratio in excess of 15.0%.

GIB views the Pillar 3 disclosures as an important contribution to increased risk transparency within the banking industry, and particularly important during market conditions characterised by high uncertainty. In this regard, GIB has provided more disclosure in this report than is required in accordance with the CBB's Pillar 3 guidelines in order to provide the level of transparency that is believed to be appropriate and relevant to the Group's various stakeholders and market participants.

All figures presented in this report are as at 31st December 2023 unless otherwise stated.

Risk Management and Capital Adequacy Report
31st December 2023

1. The Basel 3 framework

The CBB's Basel 3 framework is based on three pillars, consistent with the Basel 3 framework developed by the Basel Committee, as follows:

- Pillar 1: the calculation of the risk-weighted assets (RWAs) and capital requirement.
- 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.

1.1 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.

With the introduction of Pillar 2, the CBB implemented a minimum ratio threshold to be determined for each institution individually, as described in more detail in the Pillar 2 section of this report. As at 31st December 2023, all banks incorporated in Bahrain are required to maintain a minimum capital adequacy ratio of 12.5% and a tier 1 ratio of 10.5%.

In the event that the capital adequacy ratio falls below 12.5%, additional prudential reporting requirements apply and a formal action plan setting out the measures to be taken to restore the ratio above the target level is to be formulated and submitted to the CBB.

The table below summarises the approaches available for calculating RWAs 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**
Standardised approach	Standardised approach	Standardised approach

The approach applied by GIB for each risk type is as follows:

a) Credit risk

For regulatory reporting purposes, GIB applies the standardised 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 reporting purposes, GIB applies the standardised approach for market risk.

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 unless approval is granted by the CBB to use the standardised approach. The CBB's Basel 3 guidelines do not permit the use of the advanced measurement approach (AMA) for operational risk. The standardised approach for the calculation of regulatory operational risk capital has been approved by the CBB.

Under the standardised approach, the regulatory capital requirement is calculated based on a range of beta coefficients, ranging from 12% to 18%, applied to the average gross income for the preceding three financial years for each of the eight Basel predefined business lines.

Risk Management and Capital Adequacy Report

31st December 2023

1. The Basel 3 framework (continued)

1.2 Pillar 2

Pillar 2 defines the process of supervisory review of an institution's risk management framework and, ultimately, its capital adequacy.

Under the CBB's Pillar 2 guidelines, each bank is to be individually assessed by the CBB and an individual minimum capital adequacy ratio is to be determined for each bank. All banks incorporated in Bahrain are required to maintain a 12.5% minimum capital adequacy ratio and a tier 1 ratio of 10.5%.

Pillar 2 comprises two processes:

- an Internal Capital Adequacy Assessment Process (ICAAP), and
- a supervisory review and evaluation process.

The ICAAP incorporates a review and evaluation of risk management and capital relative to the risks to which the bank is exposed. GIB's capital assessment has been developed around its economic capital framework which is designed to ensure that the Group has sufficient capital resources available to meet regulatory and internal capital requirements, even during periods of economic or financial stress. The capital assessment addresses all components of GIB's risk management, from the daily management of more material risks to the strategic capital management of the Group.

The supervisory review and evaluation process represents the CBB's review of the Group's capital management and an assessment of internal controls and corporate governance. The supervisory review and evaluation process is designed to ensure that institutions 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)
- pension obligation risk
- reputational risk
- information technology risk
- macroeconomic risk
- legal risk
- strategic risk

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

1.3 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 toward more advanced forms of risk management.

Under the current regulations, partial disclosure 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, GIB's 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 International Financial Reporting Standards (IFRS).

Risk Management and Capital Adequacy Report

31st December 2023

2. Group structure, overall risk and capital management

This section sets out the consolidation principles and the capital base of GIB as calculated in accordance with the Pillar 1 guidelines, and describes the principles and policies applied in the management and control of risk and capital.

2.1 Group structure

The Group's financial statements are prepared and published on a full consolidation basis, with all subsidiaries being consolidated in accordance with IFRS. For capital adequacy purposes, all subsidiaries are included within the Gulf International Bank B.S.C. Group structure. However, the CBB's capital adequacy methodology accommodates both normal and aggregation forms of consolidation.

Under the CBB capital adequacy framework, subsidiaries reporting under a Basel 3 framework in other regulatory jurisdictions may, at the bank's discretion, be consolidated based on that jurisdiction's Basel 3 framework, rather than based on the CBB's guidelines. Under this aggregation consolidation methodology, the capital and risk-weighted assets of subsidiaries are consolidated with those of the rest of the Group based on the guidelines of their respective regulator to determine the Group's total capital adequacy ratio.

GIB's subsidiary, Gulf International Bank – Saudi Arabia (GIB-KSA), is regulated by the Saudi Central Bank (SAMA) and has calculated its risk-weighted assets in accordance with SAMA's guidelines which consolidates the balances of GIB Capital (regulated by Capital Market Authority).

GIB's subsidiary, Gulf International Bank (UK) Limited (GIBUK), is regulated by the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA) of the United Kingdom and has calculated its risk-weighted assets in accordance with the PRA's guidelines.

The principal subsidiaries and basis of consolidation for capital adequacy purposes are as follows:

Subsidiary	Domicile	Ownership	Consolidation basis
Gulf International Bank – Saudi Arabia	Saudi Arabia	50%	Aggregation
Gulf International Bank (UK) Limited	United Kingdom	100%	Aggregation
GIB Markets Limited	Cayman Islands	100%	Full Consolidation

No investments in subsidiaries are treated as a deduction from the Group's regulatory capital.

2.2 Risk and capital management

GIB 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 risk it faces.

The Board of Directors has created from among its members a Board Risk Policy Committee to review the Group's risk-taking activities and report to the Board in this regard. The Board has the ultimate responsibility for setting the overall risk parameters and tolerances within which the Group conducts its activities, including responsibility for setting the capital ratio targets. The Board reviews the Group's overall risk profile and significant risk exposures as well as the Group's major risk policies, processes and controls.

The Management Committee, chaired by the Chief Executive Officer (CEO), has the primary responsibility for sanctioning risk taking policies and activities within the tolerances defined by the Board. The Group Risk Committee assists the Management Committee in performing its risk related functions.

The Group Risk Committee, under the management of the Chief Risk Officer (CRO) and comprising the Group's most senior risk professionals, provides a forum for the review and approval of new products, risk measurement methodologies and risk control processes. The Group Risk Committee also reviews all risk policies and limits that require approval by the Management Committee. The Assets and Liabilities Committee (ALCO), chaired by the Chief Financial Officer (CFO), provides a forum for the review of asset and liability activities within GIB. It co-ordinates the asset and liability functions and serves as a link between the funding sources and usage in the different business areas.

Risk Management and Capital Adequacy Report

31st December 2023

2. Group structure, overall risk and capital management (continued)

2.2 Risk and capital management (continued)

From a control perspective, the process of risk management is facilitated through a set of independent functions, which report directly to senior management. These functions include Credit Risk, Market Risk, Operational Risk, Financial Control and Internal Audit. This multi-faceted approach aids the effective management of risk by identifying, measuring and monitoring risks from a variety of perspectives.

Internal Audit is responsible for carrying out a risk-based programme of work designed to provide assurance that assets are being safeguarded. This involves ensuring that controls are in place and working effectively in accordance with Group policies and procedures as well as with laws and regulations. The work carried out by Internal Audit includes providing assurance on the effectiveness of the risk management functions, as well as that of controls operated by the business units. The Board Audit Committee approves the annual audit plan and also receives regular reports of the results of audit work.

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future business development. The Group manages its capital structure and adjusts the structure taking account of changes in economic conditions and strategic business plans. The capital structure may be adjusted through the dividend pay-out or the issue of new shares.

The CFO is responsible for the capital planning process. Capital planning includes capital adequacy reporting and the Internal Capital Adequacy Assessment Process (ICAAP). The CFO is also responsible for the balance sheet management framework.

The governance structure for risk and capital management is set out in the table below:

<table>
<tr><th colspan="3">Board of Directors</th></tr>
<tr><td>Board Audit Committee</td><td colspan="2">Board Risk Policy Committee</td></tr>
<tr><th colspan="3">Chief Executive Officer</th></tr>
<tr><td>Management Committee
(Chairman: CEO)</td><td>Group Risk Committee
(Chairman: CRO)</td><td>Assets and Liabilities Committee
(Chairman: CFO)</td></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><td>Chief Financial Officer
(CFO)</td><td>Chief Risk Officer
(CRO)</td></tr>
<tr><td>Balance sheet management framework
Capital management framework</td><td>Risk management framework and policies
Group credit control
Credit risk
Market risk
Operational risk
Liquidity risk</td></tr>
</table>

2.3 Risk types

The major risks associated with the Group's business activities are credit, market, operational and liquidity risk. These risks together with a commentary on the way in which the risks are managed and controlled are set out in the following sections, based on the Basel 3 Pillar 1 which the risks are addressed.

2.4 Risk in Pillar 1

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

Risk Management and Capital Adequacy Report
31st December 2023

2. Group structure, overall risk and capital management (continued)

2.4 Risk in Pillar 1 (continued)

a) Credit risk

Credit risk is the risk that a customer, counterparty or an issuer of securities or other financial instruments fails to perform under its contractual payment obligations thus causing the Group to suffer a loss in terms of cash flow or market value. Credit risk is the predominant risk type faced by the Group in its banking, investment and treasury activities, both on- and off-balance sheet. Where appropriate, the Group seeks to minimise its credit exposure using a variety of techniques including, but not limited to, the following:

- entering netting agreements with counterparties that permit the offsetting of receivables and payables
- obtaining collateral
- seeking third party guarantees of the counterparty's obligations
- imposing restrictions and covenants on borrowers

Credit risk is actively managed and rigorously monitored in accordance with well-defined credit policies and procedures. Prior to the approval of a credit proposal, a detailed credit risk assessment is undertaken which includes an analysis of the obligor's financial condition, market position, business environment and quality of management. The risk assessment generates an internal credit risk rating for each counterparty, which affects the credit approval decision and the terms and conditions of the transaction. For cross-border transactions, an analysis of country risk is also conducted. The credit decision for an individual counterparty is based on the aggregate Group exposure to that counterparty and all its related entities. Groupwide credit limit setting and approval authorisation requirements are conducted within Board approved guidelines, and the measurement, monitoring and control of credit exposures are done on a Groupwide basis in a consistent manner. Overall exposures are evaluated to ensure broad diversification of credit risk. Potential concentration risks by product, industry, single obligor, credit risk rating and geography are regularly assessed with a view to improving overall portfolio diversification. Established limits and actual levels of exposure are regularly reviewed by the Chief Risk Officer (CRO), Chief Credit Officer (CCO) and other members of senior management. All credit exposures are reviewed at least once a year. Credit policies and procedures are designed to identify, at an early stage, exposures which require more detailed monitoring and review. The credit risk associated with foreign exchange and derivative instruments is assessed in a manner similar to that associated with on-balance sheet activities. The Group principally utilises derivative transactions to facilitate customer transactions and for the management of interest and foreign exchange risks associated with the Group's longer-term lending, borrowing and investment activities. Unlike on-balance sheet products, where the principal amount and interest generally represent the maximum credit exposure, the notional amount relating to a foreign exchange or derivative transaction typically exceeds the credit exposure by a substantial margin. The measure of credit exposure for foreign exchange and derivative instruments is therefore more appropriately considered to be the replacement cost at current market rates plus an add-on amount commensurate with the position's size, volatility and remaining life. Derivative contracts may also carry legal risk; the Group seeks to minimise these risks by the use of standard contract agreements.

b) Market risk

Market risk is the risk of loss of value of a financial instrument or a portfolio of financial instruments as a result of adverse changes in market prices and rates, and market conditions such as liquidity. Market risk arises from the Group's trading, asset and liability management, and investment activities.

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. The credit spread risk is the risk that the interest yield for a security will increase, with a reduction in the security price, relative to benchmark yields as a result of the general market movements for that rating and class of security. Interest rate risk is the principal market risk faced by the Group and arises from the Group's investment activities in debt securities, asset and liability management, and the trading of debt and off-balance sheet derivative instruments.

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 forward and derivative trading activities.

Equity risk arises from exposures to changes in the price and volatility of individual equities or equity indices.

The Group seeks to manage exposure to market risk through the diversification of exposures across dissimilar markets and the establishment of hedges in related securities or off-balance sheet derivative instruments. To manage the Group's exposures, in addition to the exercise of business judgement and management experience, the Group utilises limit structures including those relating to positions, portfolios, maturities and maximum allowable losses.

Risk Management and Capital Adequacy Report

31st December 2023

2. Group structure, overall risk and capital management (continued)

2.4 Risk in Pillar 1 (continued)

b) Market risk (continued)

The Group is exposed to equity risk in its trading position and investment portfolio, primarily in its core international and GCC markets.

Equity position	Amount
	US$ millions
Quoted equities	270.3
Unquoted equities	16.8
	287.1

c) Operational risk

Operational risk is the risk of loss arising from inadequate or failed internal processes, people and systems or from external events, whether intentional, unintentional or natural. It is an inherent risk faced by all businesses and covers a large number of potential operational risk events including business interruption and systems failures, internal and external fraud, employment practices and workplace safety, customer and business practices, transaction execution and process management, and damage to physical assets.

Operational risk is a distinct risk category which the Group manages within acceptable levels through sound operational risk management practices that are part of the day-to-day responsibilities of management at all levels. Whilst operational risk cannot be eliminated in its entirety, the Group endeavours to minimise it by ensuring that a strong control infrastructure is in place throughout the organisation.

The objective in managing operational risk is to ensure control of the Group's resources by protecting the assets of the Group and minimising the potential for financial loss. The Group's risk management approach involves identifying, assessing, managing, mitigating, monitoring and measuring the risks associated with all areas of the Group. Control assessments are performed on all services of the Group with the participation of representatives from the relevant businesses, internal audit, legal and the risk and finance departments. Various policies, procedures and processes are used to manage operational risk and include effective staff training, appropriate controls to safeguard assets and records, regular reconciliation of accounts and transactions, appropriate budgeting, target setting and performance review, compliance to regulations, close monitoring of risk limits, segregation of duties, and financial management and reporting. In addition, policies have been put in place to manage other control mitigation strategies for business continuity planning, insurance and legal risk (which includes regular reporting to management on legal matters).

Qualitative and quantitative methodologies and tools are used to identify and assess operational risk and to provide management with information for determining appropriate mitigating factors. These tools include a database of operational risk events categorised according to business lines and operational risk event types; a record of key risk indicators, which can provide an early warning of possible risk; and a risk and control assessment 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. There is a dedicated Operational Risk function for the Group which reports into the Operational Risk Management Committee and Group Risk Committee. The Board meets on a quarterly basis and is updated on all relevant aspects of the business including operational risk management matters. High impact risks and issues of critical importance are reported to the Board.

2.5 Risk in Pillar 2

Other risk types are measured and assessed in Pillar 2. GIB measures and manages these risk types although they are not included in the calculation of the regulatory capital adequacy ratio. Most of the Pillar 2 risks are included in GIB's calculation of internal economic capital. Pillar 2 risk types include liquidity risk, interest rate risk in the banking book, concentration risk, pension obligation risk, and reputational risk.

a) Liquidity risk

Liquidity risk is the risk that sufficient funds are not available to meet the Group's financial obligations on a punctual basis as they fall due. The risk arises from the timing differences between the maturity profiles of the Group's assets and liabilities. It includes the risk of losses arising from the following:

- forced sale of assets at below normal market prices
- raising of deposits or borrowing funds at excessive rates
- the investment of surplus funds at below market rates

Risk Management and Capital Adequacy Report
31st December 2023

2. Group structure, overall risk and capital management (continued)

2.5 Risk in Pillar 2 (continued)

a) Liquidity risk (continued)

Liquidity management policies are designed to ensure that funds are available at all times to meet the funding requirements of the Group, even in adverse conditions. In normal conditions, the objective is to ensure that there are sufficient funds available not only to meet current financial commitments but also to facilitate business expansion. These objectives are met through the application of prudent liquidity controls. These controls provide access to funds without undue exposure to increased costs from the liquidation of assets or the aggressive bidding for deposits.

The Group's liquidity controls ensure that, over the short-term, the future profile of cash flows from maturing assets is adequately matched to the maturity of liabilities. Liquidity controls also provide for the maintenance of a stock of liquid and readily realisable assets and a diversified deposit base in terms of both maturities and range of depositors.

The management of liquidity and funding is primarily conducted in the Group's individual geographic entities within approved limits. The limits ensure that contractual net cash flows occurring over the following 30-day period do not exceed the eligible stock of available liquid resources.

It is the Group's general policy that each geographic entity should be self-sufficient in relation to funding its own operations.

The Group's liquidity management policies include the following:

- the monitoring of (i) future contractual cash flows against approved limits, and (ii) the level of liquid resources available in a stress event
- the monitoring of balance sheet liquidity ratios
- the monitoring of the sources of funding in order to ensure that funding is derived from a diversified range of sources
- the monitoring of depositor concentrations in order to avoid undue reliance on individual depositors
- the maintenance of a satisfactory level of term financing; and
- the maintenance of liquidity and funding contingency plans. These plans identify early indicators of stress conditions and prescribe the actions to be taken in the event of a systemic or other crisis, while minimising adverse long-term implications for the Group's business activities.

b) Interest rate risk in the banking book

Structural interest rate risk arises in the Group's core balance sheet as a result of mismatches in the repricing of interest rate sensitive financial assets and liabilities. The associated interest rate risk is managed through the use of models to evaluate the sensitivity of earnings to movements in interest rates. Interest rate risk in the banking book is captured in GIB's Pillar 2 capital framework by gauging the impact of stress tests on the Group's interest rate exposure in the banking book.

c) Concentration risk

Concentration risk is the risk related to the degree of diversification in the credit portfolio, i.e. the risk inherent in doing business with large customers or not being equally exposed across industries and regions.

Concentration risk is captured in GIB's Pillar 2 capital framework which considers single-name concentrations and sector concentrations in the credit portfolio.

Potential concentration risks by product, single obligor, and geography are regularly assessed with a view to improving overall portfolio diversification. Established limits and actual levels of exposure are regularly reviewed by senior management and the Board of Directors.

d) Pension obligation risk

Pension obligation risk is the risk that there may be a shortfall with respect to pension benefits due to employees/former employees within the funded defined benefit scheme of the Group's wholly owned subsidiary.

As part of GIB's ICAAP framework, an adverse scenario is applied to the scheme's assets and liabilities on a level of severity expected no more than once in every 200 years, i.e., a 99.5% one-year confidence level.

e) Reputational risk

Reputational risk is the risk of losses resulting from adverse perceptions about the Group, its brand and franchise by its various stakeholders that is caused by a variety of internal and external factors. Preventive measures, including controls and processes have been deployed to manage reputational risk. These include a robust and comprehensive governance structure, which is based on set of well-defined policies and procedures.

The Group uses a reputational risk scorecard to quantify the amount of capital required for reputational risk under the ICAAP framework.

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Risk Management and Capital Adequacy Report

31st December 2023

2. Group structure, overall risk and capital management (continued)

2.5 Risk in Pillar 2 (continued)

f) Information Technology (IT) risk

Technology continues to play a critical role in the Bank's operations and in the fulfilment of its strategic objectives. The Group has in place a sound IT and Information Security governance framework that aligns its IT strategy and Information & Cyber Security Strategy with its overall business objectives.

g) Macroeconomic risk

Macroeconomic risk relates to the risk of increasing stress levels in the principal economies in which the Group operates. These risks can be triggered by political uncertainties, social unrests, high/low commodity prices, excessive leverage in the financial system or an uncompetitive business environment. Due to the systemic nature of these macroeconomic triggers there will be an adverse impact on the Group's profitability and capital positions and the extent of loss would depend on the severity of the stress event.

Macroeconomic risk is captured in GIB's ICAAP framework through the use of stressed macroeconomic forecast to gauge the impact of potential losses that the Group could incur.

h) Legal risk

In the ordinary course of its business, as a participant in the financial services industry, the Group may pursue litigation claims against third parties and may also have litigation claims and/or regulatory proceedings filed against it. The Bank has an in-house legal department comprising of qualified legal professionals. The department has put in place adequate policies & procedures and uses assistance of professional legal firms on need basis, to ensure effective and efficient management of legal risk.

i) Strategic risk

Strategic risk refers to 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.

Strategic risk is identified, managed, mitigated and monitored jointly by the business (as the 1st line of defence) and the Economics and Strategy Management Unit. The Economics and Strategy Management Unit is responsible for the monitoring and reporting of the Group's strategic initiatives and provides the Management Committee, Board Risk Policy Committee (BRPC), and the Board of Directors a regular update on all the Group's strategic initiatives, including the strategic risks facing the Group. The Management Committee, the BRPC, and the Board review the strategic risks of the Group and ensure that adequate mitigating strategies are in place for the Group's strategic initiatives to be successfully implemented.

Strategic risk is identified, managed, mitigated and monitored jointly by the business (as the 1st line of defence) and the Financial Planning Unit. A strategy refresh is currently underway, and the Financial Planning Unit will be responsible for monitoring and reporting on the Group's and divisional strategic initiatives and providing the Management Committee and Board with regular updates on strategic risks facing the Group. The Management Committee and Board will review the strategic risks of the Group and ensure that adequate mitigating strategies are in place for the Group's strategic initiatives to be successfully implemented.

2.6 Monitoring and reporting

The monitoring and reporting to risk is conducted on a daily basis for market and liquidity risk, and on a monthly or quarterly basis for credit and operational risk.

Risk reporting is regularly made to senior management and the Board of Directors. The Board of Directors receives internal risk reports covering market, credit, operational and liquidity risks.

Capital management, including regulatory and internal economic capital ratios, is reported to senior management and the Board of Directors on a monthly basis.

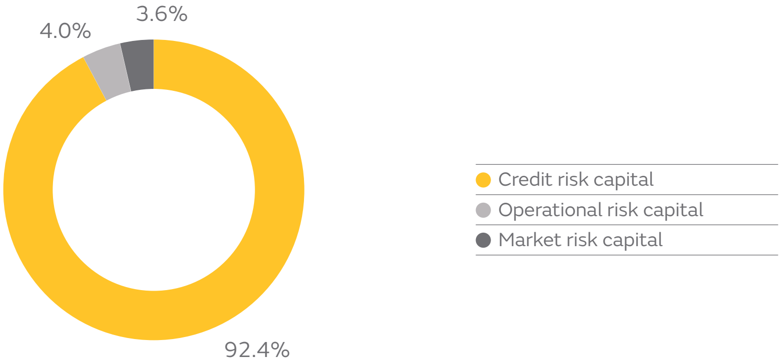
Risk Management and Capital Adequacy Report

31st December 2023

3. Regulatory capital requirements and the capital base

This section describes the Group's regulatory capital requirements and capital base.

The composition of the total regulatory capital requirement was as follows:



Group's total capital adequacy ratio as at 31st December 2023 was 18.9% compared with the minimum regulatory requirement of 12.5%. The Tier 1 ratio was 16.1% for the Group. The composition of the total regulatory capital requirement was as follows:

Risk Weighted Assets (RWA)	Amount
	US$ millions
Credit Risk	18,993.5
Market Risk	744.7
Operational Risk	818.1
Total risk-weighted exposure	20,556.3
Tier 1 ratio	16.1%
Capital adequacy ratio	**18.9%**

3.1 Capital requirements for credit risk

For regulatory reporting purposes, GIB calculates the capital requirements for credit risk based on the standardised approach. Under the standardised approach, on and off-balance sheet credit exposures are assigned to exposure categories based on the type of counterparty or underlying exposure. The exposure categories are referred to in the CBB's Basel 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 standardised approach, the risk-weightings are provided by the CBB and are determined based on the counterparty's external credit rating. The external credit ratings are derived from eligible external rating agencies approved by the CBB. GIB uses ratings assigned by Standard & Poor's, Moody's and Fitch.

An overview of the exposures, RWAs and capital requirements for credit risk analysed by standard portfolio is presented in the table below:

	Rated exposure	Unrated exposure	Total exposure	Average risk weight	RWA	Capital requirement
	US$ millions	US$ millions	US$ millions	%	US$ millions	US$ millions
Sovereigns	23,419.4	151.2	23,570.6	2.1%	499.8	62.5
PSEs	295.3	-	295.3	17.2%	50.7	6.3
Banks	9,900.3	66.2	9,966.4	25.0%	2,486.9	310.9
Corporates	4,089.4	13,728.9	17,818.3	82.3%	14,655.9	1,832.0
Equities	212.9	23.2	236.0	115.0%	271.5	33.9
Past due loans	-	65.0	65.0	78.9%	51.3	6.4
Other assets	63.8	975.3	1,039.1	94.1%	977.4	122.2
	37,981.1	**15,009.8**	**52,990.7**	**35.8%**	**18,993.5**	**2,374.2**

Exposures are stated after taking account of credit risk mitigants where applicable. The treatment of credit risk mitigation is explained in more detail in section 4.4(g) of this report.

The definitions of each standard portfolio and the related RWA requirements are set out in section 4 of this report.

Risk Management and Capital Adequacy Report
31st December 2023

3. Regulatory capital requirements and the capital base (continued)

3.2 Capital requirements for market risk

The Group computes the regulatory capital for general market risk and specific market risk based on the standardised approach. The RWAs and capital requirements for market risk are presented in the table below:

	RWA	Capital requirement	Capital requirement minimum*	Capital requirement - maximum*
	US$ millions	US$ millions	US$ millions	US$ millions
Interest rate risk	0.8	0.1	0.1	0.6
Equities	695.1	86.9	61.9	86.9
Foreign exchange risk	48.8	6.1	1.5	17.7
	744.7	**93.1**	**63.5**	**105.2**

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

3.3 Sensitivity analysis – interest rate risk

The impact of a 200bps interest rate shock on the value of assets, liabilities and equity as of 31st December 2023 is presented in the table below:

	Assets	Liabilities	Equity
	US$ millions	US$ millions	US$ millions
At 200bps - increase (+)	(244.6)	142.5	(102.1)
At 200bps - decrease (-)	244.6	(142.5)	102.1

3.4 Capital requirements for operational risk

For regulatory reporting purposes, the capital requirement for operational risk is calculated in accordance with the standardised approach. Under this approach, the Group's average gross income over the preceding three financial years is multiplied by a range of beta coefficients. The beta coefficients are determined based on the business line generating the gross income and are prescribed in the Basel 3 capital adequacy framework. The capital requirement for operational risk at 31st December 2023 amounted to US$102.3 million.

3.5 Capital base

The Group's regulatory capital base and risk weighted assets are set out in the table below:

	Total
	US$ millions
Regulatory capital base	
Tier 1 capital:	
CET	3,316.8
Tier 1 capital	3,316.8
Tier 2 capital	576.4
Total regulatory capital base	**3,893.2**
Risk-weighted exposure	
Credit risk-weighted exposure	18,993.5
Market risk-weighted exposure	744.7
Operational risk-weighted exposure	818.1
Total risk-weighted exposure	**20,556.3**
Tier 1 risk asset ratio	**16.1%**
Total risk asset ratio	**18.9%**

Common equity tier 1 (CET 1) and tier 1 capital is defined as capital of the same or close to the character of paid-up capital and comprises share capital, share premium, retained earnings and eligible reserves. Eligible reserves exclude revaluation gains and losses arising on the remeasurement to fair value of derivative cash flow hedging transactions, although include unrealised gains and losses arising on the remeasurement to fair value of equity investment securities classified as fair value through other comprehensive income (FVTOCI). Regulatory capital deductions are applied to tier 1 and tier 2 capital with respect to investment exposures for entities where the Group does not own more than 10% of the issued share capital of the entity, and to tier 1 capital to exclude any outstanding cash flow hedge reserves.

Risk Management and Capital Adequacy Report

31st December 2023

3. Regulatory capital requirements and the capital base (continued)

3.5 Capital base (continued)

The issued and paid-up share capital of the bank is US$2,000 million at 31st December 2023, comprising 2,000 million shares of US$1 each.

Tier 2 capital, comprising eligible subordinated term debt and expected credit losses stage 1 and stage 2 impairment provisions, after applicable haircuts and ceiling limitations.

The CBB applies various limits to elements of the regulatory capital base. The amount of innovative tier 1 securities cannot exceed 15% of total tier 1 capital; qualifying tier 2 capital cannot exceed tier 1 capital; and qualifying subordinated term finance cannot exceed 50% of tier 1 capital. There are also restrictions on the amount of collective impairment provisions that may be included as part of tier 2 capital.

There are no impediments on the transfer of funds or regulatory capital within the Group other than restrictions over transfers of statutory deposits with central banks and safeguards to ensure minimum regulatory capital requirements are met for subsidiary companies.

4. 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.

4.1 Definition of exposure classes

GIB 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 standardised approach for credit risk. A high-level description of the counterparty exposure classes, referred to as standard portfolios in the CBB's Basel 3 capital adequacy framework, and the generic treatments, i.e. the risk weights to be used to derive the RWAs, are as follows:

Sovereigns portfolio

The sovereigns portfolio comprises exposures to governments and their respective central banks. The risk weights are 0% for exposures in the relevant domestic currency, or in any currency for exposures to GCC governments. Foreign currency claims on other sovereigns are risk-weighted based on their external credit ratings.

Certain multilateral development banks as determined by the CBB may be included in the sovereigns portfolio and treated as exposures with a 0% risk-weighting.

PSE portfolio

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% risk weight by their respective country regulator.

Banks portfolio

Claims on banks are risk-weighted based on their external credit ratings. A preferential risk weight treatment is available for qualifying short-term exposures. Short-term exposures are defined as exposures with an original tenor of three months or less.

The Banks portfolio also includes claims on investment firms, which are risk-weighted based on their external credit ratings although without any option for preferential treatment for short-term exposures. A regulatory deduction is applied to investment exposures for entities where the Group does not own more than 10% of the issued share capital of the bank.

Corporates portfolio

Claims on corporates are risk-weighted based on their external credit ratings. A 100% risk weight is assigned to unrated corporate exposures. A preferential risk weight treatment is available for certain corporates owned by the Government of Bahrain, as determined by the CBB, which are assigned a 0% risk weight.

Equities portfolio

The equities portfolio comprises equity investments in the banking book, i.e. in the investment securities portfolio and non-qualifying equities and funds in the trading portfolio. The credit (specific) risk for qualifying equities in the trading book is included in market risk RWAs for regulatory capital adequacy calculation purposes. A regulatory deduction is applied to investment exposures for entities where the Group does not own more than 10% of the issued share capital of the entity.

A 100% risk weight is assigned to listed equities and funds. Unlisted equities and funds are risk-weighted at 150%. Investments in rated funds are risk-weighted according to their external credit rating.

In addition to the standard portfolios, other exposures are assigned to the following exposure classes:

Risk Management and Capital Adequacy Report

31st December 2023

4. Credit risk – Pillar 3 disclosures (continued)

4.1 Definition of exposure classes (continued)

Past due exposures

All past due loan exposures, irrespective of the categorisation of the exposure if it were performing, are classified separately under the past due exposures asset class. A risk-weighting of either 100% or 150% is applied depending on the level of provision maintained against the loan.

Other assets and holdings of securitisation tranches

Cash balances are risk-weighted at 0%, other assets are risk-weighted at 100%. A credit valuation adjustment (CVA) is applied to applicable derivative exposures.

Securitisation tranches are risk-weighted based on their external credit ratings and tenor. Risk-weightings range from 20% to 1250%.

4.2 External rating agencies

GIB uses ratings issued by Standard & Poor's, Moody's and Fitch to derive the risk-weightings under the CBB's Basel 3 capital adequacy framework. Where ratings vary between rating agencies, the highest rating from the lowest two ratings is used to derive the risk-weightings for regulatory capital adequacy purposes.

4.3 Credit risk presentation under Basel 3

The credit risk exposures presented in this report may differ from the credit risk exposures reported in the consolidated financial statements. Differences arise due to the application of different methodologies, as illustrated below:

- Under the CBB's Basel 3 framework, off-balance sheet exposures are converted into credit exposure equivalents by applying a credit conversion factor (CCF). The off-balance sheet exposure is multiplied by the relevant CCF applicable to the off-balance sheet exposure category. Subsequently, the exposure is treated in accordance with the standard portfolios referred to in section 4.1 of this report in the same manner as on-balance sheet exposures.
- Credit risk exposure reporting under Pillar 3 is frequently reported by standard portfolios based on the type of counterparty. The financial statement presentation is based on asset class rather than the relevant counterparty. For example, a loan to a bank would be classified in the Banks standard portfolio under the capital adequacy framework although is classified in loans and advances in the consolidated financial statements.
- Certain eligible collateral is applied to reduce exposure under the Basel 3 capital adequacy framework, whereas no such collateral netting is applicable in the consolidated financial statements.
- Based on the CBB's Basel 3 guidelines, certain exposures are either included in, or deducted from, regulatory capital rather than treated as an asset as in the consolidated financial statements.
- Under the CBB's Basel 3 capital adequacy framework, external rating agency ratings are based on the highest rating from the lowest two ratings, while for internal credit risk management purposes the Group uses the lowest rating.

4.4 Credit exposure

a) Gross credit exposure

The gross and average gross exposure to credit risk before applying collateral, guarantees, and other credit enhancements was as follows:

	Gross credit exposure US$ millions	Average gross credit exposure US$ millions
Balance sheet items:		
Cash and other liquid assets (including cash balances)	17,006.5	12,356.5
Securities purchased under agreements to resell	743.9	647.9
Placements	7,077.4	6,936.3
Trading securities	270.8	235.5
Investment securities	6,716.2	6,490.0
Loans and advances	13,624.6	12,399.6
Accrued interest and fees receivable	404.8	352.3
Total on-balance sheet credit exposure	**45,844.2**	**39,418.1**
Off-balance sheet items:		
Credit-related contingent items	8,322.2	7,603.3
Derivative and foreign exchange instruments	1,242.3	1,379.4
Total off-balance sheet credit exposure	**9,564.5**	**8,982.7**
Total gross credit exposure	**55,408.7**	**48,400.8**

The average gross credit exposure is based on monthly averages during the year ended 31st December 2023.

Risk Management and Capital Adequacy Report

31st December 2023

4. Credit risk – Pillar 3 disclosures (continued)

4.4 Credit exposure (continued)

a) Gross credit exposure (continued)

The gross credit exposure for derivative and foreign exchange instruments is the replacement cost (current exposure) representing the cost of replacing the contracts at current market rates should the counterparty default prior to the settlement date. The gross credit exposure reported in the table above does not include potential future exposure. Further details on the counterparty credit risk relating to off-balance sheet exposures are set out in section 7.3(a) of this report.

b) Credit exposure by geography

The classification of credit exposure by geography, based on the location of the counterparty, was as follows:

	Placements, reverse repos & other liquid assets	Securities	Loans and advances	Accrued interest-fees receivable	Off-balance sheet items	Total
	US$ millions	US$ millions	US$ millions	US$ millions	US$ millions	US$ millions
GCC	5,263.3	5,192.9	12,794.5	235.7	7,938.7	31,425.1
Europe	14.7	-	381.1	142.1	704.3	1,242.2
North America	7,521.9	293.6	215.4	14.2	817.0	8,862.1
Asia	11,706.5	749.5	231.8	9.8	28.2	12,725.8
MENA (excluding GCC)	321.4	751.0	1.8	3.0	76.3	1,153.5
	24,827.8	**6,987.0**	**13,624.6**	**404.8**	**9,564.5**	**55,408.7**

The MENA region comprises the Middle East and North Africa.

c) Credit exposure by industrial sector

The classification of credit exposure by industrial sector was as follows:

	Placements, reverse repos & other liquid assets	Securities	Loans and advances	Accrued interest-fees receivable	Off-balance sheet items	Total
	US$ millions	US$ millions	US$ millions	US$ millions	US$ millions	US$ millions
Government	17,852.7	5,653.0	1,722.1	92.6	129.7	25,450.1
Financial	6,963.9	436.3	2,476.6	201.5	1,890.1	11,968.4
Trading and services	-	-	2,375.6	31.2	990.3	3,397.1
Energy, oil and petrochemical	-	134.7	1,741.1	18.7	741.0	2,635.5
Manufacturing	-	-	1,279.4	14.2	1,260.3	2,553.9
Utilities	-	133.1	549.9	5.8	209.5	898.3
Construction and Engineering	-	-	509.4	6.3	2,769.8	3,285.5
Transportation	-	13.3	1,007.3	8.0	855.6	1,884.2
Real estate	-	72.9	759.4	11.6	68.5	912.4
Agriculture and mining	-	-	188.3	2.3	377.1	567.7
Retail	-	-	332.7	0.5	-	333.2
Technology, media and telecommunication	-	249.7	188.1	4.3	43.4	485.5
Equity and trading securities	-	294.0	-	-	-	294.0
Other	11.2	-	494.7	7.8	229.2	742.9
	24,827.8	**6,987.0**	**13,624.6**	**404.8**	**9,564.5**	**55,408.7**

Risk Management and Capital Adequacy Report
31st December 2023

4. Credit risk – Pillar 3 disclosures (continued)

4.4 Credit exposure (continued)

d) Credit exposure by internal rating

The credit risk profile based on internal credit ratings and presented based on the International Financial Reporting Standards (IFRS) 9 – Financial Instruments classification was as follows:

	Placements, reverse repos & other liquid assets	Securities	Loans and advances	Accrued interest-fees receivable	Off-balance sheet items	Total
	US$ millions	US$ millions	US$ millions	US$ millions	US$ millions	US$ millions
Stage 1						
Rating grades 1 to 4-	24,424.2	6,181.4	8,651.0	342.2	6,661.8	46,260.6
Rating grades 5+ to 5-	385.4	511.6	4,028.8	48.2	655.8	5,629.8
Rating grades 6+ to 6-	18.2	-	459.9	4.2	16.2	498.5
Carrying amount (net)	24,827.8	6,693.0	13,139.7	394.6	7,333.8	52,388.9
Stage 2						
Rating grades 1 to 4-	-	-	4.9	0.9	40.2	46.0
Rating grades 5+ to 5-	-	-	220.1	5.1	653.8	879.0
Rating grades 6+ to 6-	-	-	137.9	1.4	33.9	173.2
Rating grade 7	-	-	54.6	2.8	0.8	58.2
Carrying amount (net)	-	-	417.5	10.2	728.7	1,156.4
Stage 3						
Rating grade 8	-	-	39.3	-	9.9	49.2
Rating grade 9	-	-	28.1	-	28.8	56.9
Rating grade 10	-	-	-	-	0.5	0.5
Carrying amount (net)	-	-	67.4	-	39.2	106.6
Other credit risk exposures						
Equity and trading securities	-	294.0	-	-	-	294.0
Performance bonds	-	-	-	-	1,462.8	1,462.8
Carrying amount	-	294.0	-	-	1,462.8	1,756.8
	24,827.8	**6,987.0**	**13,624.6**	**404.8**	**9,564.5**	**55,408.7**
The above on-balance sheet exposures analysis is						
Stage 1	(0.7)	(3.1)	(91.3)	-	(6.9)	(102.0)
Stage 2	-	-	(68.2)	-	(6.2)	(74.4)
Stage 3	-	-	(179.4)	-	(36.5)	(215.9)
	(0.7)	**(3.1)**	**(338.9)**	**-**	**(49.6)**	**(392.3)**

Following the adoption of IFRS 9 – Financial Instruments, the Group has classified credit exposures in the following prescribed stages:

- Stage 1: for financial instruments where there has not been a significant increase in credit risk since initial recognition and that are not credit-impaired on origination, the Group recognises an allowance based on 12-month expected credit losses.
- Stage 2: for financial instruments where there has been a significant increase in credit risk since initial recognition, but they are not credit-impaired, the Group recognises an allowance for the lifetime expected credit losses.
- Stage 3: for credit-impaired financial instruments, the Group recognises the lifetime expected credit losses.

The analysis is presented prior to the application of credit risk mitigation techniques.

The Group's internal credit rating system is commented on in more detail in section 4.9 of this report.

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4. Credit risk – Pillar 3 disclosures (continued)

4.4 Credit exposure (continued)

e) Credit exposure by maturity

The maturity profile of funded credit exposures based on contractual maturity dates was as follows:

	Placements, reverse repos & other liquid assets	Securities	Loans and advances	Accrued interest-fees receivable	Off-balance sheet items	Total
	US$ millions	US$ millions	US$ millions	US$ millions	US$ millions	US$ millions
Within 3 months	21,864.1	722.6	4,773.9	259.4	4,828.8	32,448.8
4 months to 1 year	2,133.1	1,568.3	2,451.6	145.4	2,098.2	8,396.6
Years 2 to 5	332.9	2,079.5	5,199.5	-	1,633.5	9,245.4
Years 6 to 10	-	2,229.9	1,014.5	-	934.8	4,179.2
Years 11 to 20	-	92.7	125.4	-	40.8	258.9
Over 20 years and undated	497.7	294.0	59.7	-	28.4	879.8
	24,827.8	**6,987.0**	**13,624.6**	**404.8**	**9,564.5**	**55,408.7**

Securities exposure over 20 years comprises equity investments.

f) Equities held in the banking book

Equity investments included in investment securities in the consolidated balance sheet are included in the equities standard portfolio in the Pillar 1 credit risk capital adequacy framework. Such equity investment securities principally comprise investments of a private equity nature and investments in funds managed by specialist managers.

At 31st December 2023, equity investment securities held in the banking book amounted to US$23.2 million, of which US$5.8 million comprised managed funds.

During the year ended 31st December 2023, US$5.3 million of gains were realised on equity investments. At 31st December 2023, net unrealised loss on equity investment securities amounted to US$9.1 million.

g) Credit risk mitigation

The credit exposure information presented in section 4 of this report represents gross exposures prior to the application of any credit risk mitigants. Collateral items and guarantees which can be used for credit risk mitigation under the capital adequacy framework are referred to as eligible collateral. Only certain types of collateral and some issuers of guarantees are eligible for preferential risk weights for regulatory capital adequacy purposes. Furthermore, the collateral management process and the terms in the collateral agreements have to fulfil the CBB's prescribed minimum requirements (such as procedures for the monitoring of market values, insurance and legal certainty) set out in their capital adequacy regulations.

The reduction of the capital requirement attributable to credit risk mitigation is calculated in different ways, depending on the type of credit risk mitigation, as follows:

- Adjusted exposure amount: GIB uses the comprehensive method for financial collateral such as cash, bonds and shares. The exposure amount is adjusted with regard to the financial collateral. The size of the adjustment depends on the volatility of the collateral and the exposure. GIB uses volatility adjustments specified by the CBB, known as supervisory haircuts, to reduce the benefit of collateral and to increase the magnitude of the exposure.
- Substitution of counterparty: The substitution method is used for guarantees, whereby the rating of the counterparty is substituted with the rating of the guarantor. This means that the credit risk in respect of the counterparty is substituted by the credit risk of the guarantor and the capital requirement is thereby reduced. Hence, a fully guaranteed exposure will be assigned the same capital treatment as if the exposure was to the guarantor rather than to the counterparty.

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4. Credit risk – Pillar 3 disclosures (continued)

4.4 Credit exposure (continued)

g) Credit risk mitigation (continued)

Description of the main types of credit risk mitigation

GIB uses a variety of credit risk mitigation techniques in several different markets which contribute to risk diversification and credit protection. The different credit risk mitigation techniques such as collateral, guarantees, credit derivatives, netting agreements and covenants are used to reduce credit risk. All credit risk mitigation activities are not necessarily recognised for capital adequacy purposes as they are not defined as eligible under the CBB's Basel 3 capital adequacy framework, e.g. covenants and non-eligible tangible collateral such as unquoted equities. The recognised credit risk mitigation activities are undertaken with various counterparties to ensure no additional credit or market risk concentrations occur.

Exposures secured by eligible financial collateral, guarantees and credit derivatives, presented by standard portfolio were as follows:

	Exposure before credit risk mitigation	Eligible collateral	Of which secured by: Eligible guarantees or credit derivatives
	US$ millions	US$ millions	US$ millions
Sovereigns	4,466.8	7.5	98.5
Banks	5,928.8	2,320.8	507.5
Corporates	7,624.5	757.6	-

Guarantees and credit derivatives

Only eligible providers of guarantees and credit derivatives may be recognised in the standardised approach for credit risk. Guarantees issued by corporate entities may only be taken into account if their rating corresponds to A- or higher. The guaranteed exposures receive the risk weight of the guarantor.

GIB uses credit derivatives as credit risk protection only to a limited extent as the credit portfolio is considered to be well diversified.

Collateral and valuation principles

The amount and type of collateral is dependent upon the assessment of the credit risk of the counterparty. The market/fair value of the collateral is actively monitored on a regular basis and requests are made for additional collateral in accordance with the terms of the facility agreements. In general, lending is based on the customer's repayment capacity rather than the collateral value. However, collateral is considered the secondary alternative if the repayment capacity proves inadequate. Collateral is not usually held against securities or placements.

Types of eligible collateral commonly accepted

The Group holds collateral against loans and advances in the form of physical assets, cash deposits, securities and guarantees.

4.5 Movement in provisions for expected credit losses

Provisions for expected credit losses (ECL) 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.

For the purposes of ECL calculation, the Group categorises its financial instruments that are not measured at FVTPL into Stage 1, Stage 2 and Stage 3, based on the applied impairment methodology. The Group calculates 12-month ECL for its Stage 1 exposures and lifetime ECL for its stage 2 and stage 3 exposures.

Provisions for expected credit losses are recognised in the consolidated statement of income and are reflected in an allowance account against the respective financial asset.

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4. Credit risk – Pillar 3 disclosures (continued)

4.5 Movement in provisions for expected credit losses (continued)

a) Loans and advances

The movements in the provisions for expected credit losses of loans and advances were as follows:

	Stage 1	Stage 2	Stage 3	Total
	US$ millions	US$ millions	US$ millions	US$ millions
At 1st January 2023	68.0	81.2	117.5	**266.7**
Transfer to stage 1	4.4	(4.4)	-	**-**
Transfer to stage 2	(1.3)	1.3	-	**-**
Transfer to stage 3	(2.4)	(32.3)	34.7	**-**
Exchange rate movements	-	-	0.3	**0.3**
Net remeasurement of loss allowance	22.6	22.4	63.4	**108.4**
Write-offs	-	-	(36.5)	**(36.5)**
At 31st December 2023	**91.3**	**68.2**	**179.4**	**338.9**

b) Investment securities

The movements in the provisions for expected credit losses of investment securities were as follows:

	Stage 1	Stage 2	Stage 3	Total
	US$ millions	US$ millions	US$ millions	US$ millions
At 1st January 2023	4.5	0.3	-	**4.8**
Net remeasurement of loss allowance	(1.4)	(0.3)	-	**(1.7)**
At 31st December 2023	**3.1**	**-**	**-**	**3.1**

c) Credit related financial instruments

The movements in the provisions for expected credit losses of credit related financial instruments were as follows:

	Stage 1	Stage 2	Stage 3	Total
	US$ millions	US$ millions	US$ millions	US$ millions
At 1st January 2023	7.1	6.6	31.1	**44.8**
Transfer to stage 1	0.5	(0.5)	-	**-**
Transfer to stage 2	(0.1)	0.1	-	**-**
Exchange rate movements	-	-	0.1	**0.1**
Net remeasurement of loss allowance	(0.6)	-	5.3	**4.7**
At 31st December 2023	**6.9**	**6.2**	**36.5**	**49.6**

4.6 Credit impaired exposures

Impaired financial assets represent assets for which there is objective evidence that the Group will not collect all amounts due, including both principal and interest, in accordance with the contractual terms of the obligation. Objective evidence that a financial asset is impaired may include: a breach of contract, such as default or delinquency in interest or principal payments, the granting of a concession that, for economic or legal reasons relating to the borrower's financial difficulties, would not otherwise be considered, indications that it is probable that the borrower will enter bankruptcy or other financial re-organisation, the disappearance of an active market, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

In accordance with guidelines issued by the CBB, credit facilities are placed on non-accrual status and interest income suspended when either principal or interest is overdue by 90 days whereupon unpaid and accrued interest is reversed from income. Interest on non-accrual facilities is included in income only when received. Credit facilities classified as past due are assessed for impairment in accordance with the IFRS guidelines as set out in section 4.5 of this report.

Risk Management and Capital Adequacy Report
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4. Credit risk – Pillar 3 disclosures (continued)

4.6 Credit impaired exposures (continued)

a) Loans and advances

The gross and carrying amounts of credit impaired loans and advances were as follows:

	Gross exposure	Expected credit losses	Net exposure
	US$ millions	US$ millions	US$ millions
Corporates	239.2	(174.0)	65.2
Retail banking	7.6	(5.4)	2.2
	246.8	**(179.4)**	**67.4**

The overdue status of credit impaired loans and advances based on original contractual maturities was as follows:

	Less than 1 year	Years 2 and 3	Over 3 years	Total
	US$ millions	US$ millions	US$ millions	US$ millions
Corporates	76.6	36.2	126.4	239.2
Retail banking	7.1	0.5	-	7.6
	83.7	**36.7**	**126.4**	**246.8**

The net charges for expected credit losses and write-offs for credit impaired facilities during the year were as follows:

	Net charges	Write-offs	Expected credit losses
	US$ millions	US$ millions	US$ millions
Corporates	52.7	28.6	174.0
Retail banking	10.7	7.9	5.4
	63.4	**36.5**	**179.4**

Credit impaired facilities were all to counterparties in the GCC.

b) Investment securities

There were no debt investment securities for which either principal or interest was over 90 days past due.

4.7 Past due facilities

Exposures are classified as past due but not credit impaired when principal or interest on the facility is overdue by 1 day up to 89 days.

The gross and carrying amounts of past due but not credit impaired loans were as follows:

	Gross exposure	Expected credit losses	Net exposure
	US$ millions	US$ millions	US$ millions
Corporates	201.4	28.8	172.6
Retail banking	34.7	1.4	33.3
	236.1	**30.2**	**205.9**

The age analysis of past due but not credit impaired facilities was as follows:

	Up to 30 days	31 to 60 days	61 to 89 days	Total
	US$ millions	US$ millions	US$ millions	US$ millions
Corporates	135.0	1.9	35.7	172.6
Retail banking	18.4	12.6	2.3	33.3
	153.4	**14.5**	**38.0**	**205.9**

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4. Credit risk – Pillar 3 disclosures (continued)

4.7 Past due facilities (continued)

The geographical analysis of past due but not credit impaired facilities was as follows:

	Gross exposure	Expected credit losses	Net exposure
	US$ millions	US$ millions	US$ millions
GCC	218.2	30.2	188.0
North America	14.4	-	14.4
MENA (excluding GCC)	3.5	-	3.5
	236.1	**30.2**	**205.9**

4.8 Restructured and modified facilities

The Group restructured and modified US$108.7 million gross credit facilities out of US$13,963.5 million total gross loan exposure as at 31st December 2023 with no significant additional impact on ECL during the year.

4.9 Internal ratings

The Group monitors, manages and controls credit risk exposures based on an internal credit rating system that rates individual obligors based on a rating scale from 1 to 10, subject to positive (+) and negative (-) modifiers for rating grades 2 to 6. The internal credit rating is a measure of the credit worthiness of a single obligor, based on an assessment of the credit risk relating to senior unsecured, medium-term, foreign currency credit exposure. The primary objectives of the internal credit rating system are the maintenance of a single uniform standard for credit quality measurement, and to serve as the primary basis for Board-approved risk parameters and delegated credit authority limits.

The internal credit rating system is used throughout the organisation and is inherent in all business decisions relating to the extension of credit. A rating is an estimate that exclusively reflects the quantification of the repayment capacity of the customer, i.e. the risk of customer default. The internal credit rating system also serves as a key input into the Group's Risk-Adjusted Return on Capital (RAROC) performance measurement system. Ratings reflect a medium-term time horizon, thereby rating through an economic cycle.

The internal ratings map directly to the rating grades used by the international credit rating agencies as illustrated below:

Internal rating grade	Internal classification	Fitch and Standard & Poor's	Moody's
Investment grade			
Rating grade 1	Standard	AAA	Aaa
Rating grade 2	Standard	AA	Aa
Rating grade 3	Standard	A	A
Rating grade 4	Standard	BBB	Baa
Sub-investment grade			
Rating grade 5	Standard	BB	Ba
Rating grade 6	Standard	B	B
Rating grade 7	Standard	CCC	Caa
Classified			
Rating grade 8	Substandard	CC	Ca
Rating grade 9	Doubtful	C	C
Rating grade 10	Loss	D	-

The rating mapping does not intend to reflect that there is a fixed relationship between GIB's internal rating grades and those of the external agencies as the rating approaches differ.

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5. Market risk – Pillar 3 disclosures

5.1 Market risk

Market risk is the risk of loss due to adverse changes in interest rates, foreign exchange rates, commodity prices, equity prices and market conditions, such as liquidity. The principal market risks to which the Group is exposed are interest rate risk and foreign exchange risk associated with its trading, investment and asset and liability management activities. The portfolio effects of holding a diversified range of instruments across a variety of businesses and geographic areas contribute to a reduction in the potential negative impact on earnings from market risk factors.

The Group's trading and foreign exchange activities principally comprise trading in debt securities, foreign exchange and derivative financial instruments. Derivative financial instruments include futures, forwards, swaps and options in the interest rate and foreign exchange markets. The Group manages and controls the market risk within its trading portfolios through limit structures that relate, inter alia, to positions, volumes, concentrations, allowable losses and maturities.

5.2 Sensitivity analysis

The sensitivity of the interest rate risk in the banking book to changes in interest rates is set out in section 8.1(c) of this report.

The Group's investment debt securities are measured at amortised cost. However, the Group nevertheless monitors the impact of changes in credit spreads on the fair value of the debt securities.

6. Operational risk – Pillar 3 disclosures

6.1 Operational risk

Whilst operational risk cannot be eliminated in its entirety, the Group endeavours to minimise it by ensuring that a strong control infrastructure is in place throughout the organisation. 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.

As part of the Group's Operational Risk Management Framework (ORMF), comprehensive risk self-assessments are conducted, which identify the operational risks inherent in the Group's activities, processes and systems. The controls in place to mitigate these risks are also reviewed and enhanced as necessary. A database of measurable operational risk events is maintained, together with a record of key risk indicators, which can provide an early warning of possible operational risk.

The Group has an independent operational risk function. As part of the Group's Operational Risk Management Framework (ORMF), comprehensive risk assessments are conducted, which identify operational risks inherent in the Group's activities, processes, and systems. The controls in place to mitigate these risks are also reviewed and enhanced if necessary.

The capital requirement for operational risk is calculated for regulatory purposes according to the standardised approach, in which the regulatory capital requirement is calculated based on a range of beta coefficients, ranging from 12% to 18%, applied to the average gross income for the preceding three financial years for each of eight predefined business lines. Consequently, the operational risk capital requirement is updated only on an annual basis.

7. Off-balance sheet exposure and securitisations

Off-balance sheet exposures are divided into two exposure types in accordance with the calculation of credit risk RWAs in the CBB's Basel 3 capital adequacy framework:

- Credit-related contingent items: Credit-related contingent items comprise guarantees, credit commitments and unutilised approved credit facilities
- Derivative and foreign exchange instruments: Derivative and foreign exchange instruments are contracts, the value of which is derived from one or more underlying financial instruments or indices, and include futures, forwards, swaps and options in the interest rate, foreign exchange, equity and credit markets

In addition to counterparty credit risk measured within the Basel 3 credit risk framework, derivatives also incorporate exposure to market risk and carry a potential market risk capital requirement, as commented on in more detail in section 5 of this report. A credit valuation adjustment (CVA) is applied to the relevant derivative exposure RWA's.

For the two off-balance exposure types, there are different possible values for the calculation base of the regulatory capital requirement, as commented on below:

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7. Off-balance sheet exposure and securitisations (continued)

7.1 Credit-related contingent items

For credit-related contingent items, the notional principal amount is converted to an exposure at default (EAD) through the application of a credit conversion factor (CCF). The CCF factors range from 20% to 100% 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 unutilised approved credit facilities represent commitments that have not been drawn down or utilised. The notional amount provides the calculation base to which a CCF is applied for calculating the EAD. The CCF ranges between 0% and 100% depending on the approach, product type and whether the unutilised amounts are unconditionally cancellable or irrevocable.

The table below summarises the notional principal amounts, RWAs and capital requirements for each credit-related contingent category:

	Notional principal amount	RWA	Capital requirement
	US$ millions	US$ millions	US$ millions
Direct credit substitutes	840.1	744.2	93.0
Transaction-related contingent items	3,369.8	1,392.6	174.1
Short-term self-liquidating trade-related contingent items	853.3	155.6	19.5
Commitments	3,259.0	1,639.3	204.9
	8,322.2	**3,931.7**	**491.5**

Commitments include undrawn loan commitments and underwriting commitments under note issuance and revolving facilities and may be drawn down on demand.

The notional principal amounts reported above are stated gross before applying credit risk mitigants, such as cash collateral, guarantees and counter indemnities. At 31st December 2023, the Group held cash collateral, guarantees, counter-indemnities or other high quality collateral in relation to credit-related contingent items amounting to US$429.0 million.

7.2 Derivative and foreign exchange instruments

The Group utilises derivative and foreign exchange instruments to meet the needs of its customers, to generate trading revenues and as part of its asset and liability management activity to hedge its own exposure to market risk. Derivative and foreign exchange instruments are subject to the same types of credit and market risk as other financial instruments. The Group has appropriate and comprehensive Board-approved policies and procedures for the control of exposure to both credit and market risk from its derivative and foreign exchange activities.

In the case of derivative transactions, the notional principal typically does not change hands. It is simply a quantity which is used to calculate payments. While notional principal is a volume measure used in the derivative and foreign exchange markets, it is neither a measure of market nor credit risk. The Group's measure of credit exposure is the cost of replacing contracts at current market rates should the counterparty default prior to the settlement date. Credit risk amounts represent the gross unrealised gains on non-margined transactions before taking account of any collateral held or any master netting agreements in place.

The Group participates in both exchanges traded and over-the-counter (OTC) derivative markets. Exchange traded instruments are executed through a recognised exchange as standardised contracts and primarily comprise futures and options. OTC contracts are executed between two counterparties who negotiate specific agreement terms, including the underlying instrument, notional amount, maturity and, where appropriate, exercise price. In general, the terms and conditions of these transactions are tailored to the requirements of the Group's customers although conform to normal market practice. Industry standard documentation is used, most commonly in the form of a master agreement. The existence of a master netting agreement is intended to provide protection to the Group in the event of a counterparty default.

The Group's derivative and foreign exchange activities are predominantly short-term in nature. Transactions with maturities over one year principally represent either fully offset trading transactions or transactions that are designated, and qualify, as fair value or cash flow hedges.

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7. Off-balance sheet exposure and securitisations (continued)

7.2 Derivative and foreign exchange instruments (continued)

The aggregate notional amounts for derivative and foreign exchange instruments at 31st December 2023 were as follows:

	Trading	Hedging	Total
	US$ millions	US$ millions	US$ millions
Foreign exchange contracts:			
Unmatured spot, forward and futures contracts	6,616.7	-	6,616.7
Options purchased	383.2	-	383.2
Options written	383.2	-	383.2
	7,383.1	-	7,383.1
Interest rate contracts:			
Interest rate swaps	15,461.1	6,908.4	22,369.5
Cross currency swaps	492.5	-	492.5
Futures	101.7	-	101.7
Options, caps and floors purchased	2,436.5	-	2,436.5
Options, caps and floors written	2,436.5	-	2,436.5
	20,928.3	6,908.4	27,836.7
Equity and commodity contracts:			
Options and swaps purchased	51.0	-	51.0
Options and swaps written	51.0	-	51.0
	102.0	-	102.0
Credit default swaps:			
Protection purchased	41.9	-	41.9
Protection sold	41.9	-	41.9
	83.8	-	83.8
	28,497.2	**6,908.4**	**35,405.6**

7.3 Counterparty credit risk

Counterparty credit risk is the risk that a counterparty to a contract in the interest rate, foreign exchange, commodity, equity or credit markets defaults prior to the maturity of the contract. The counterparty credit risk for derivative and foreign exchange instruments is subject to credit limits on the same basis as other credit exposures. Counterparty credit risk arises in both the trading book and the banking book.

a) Counterparty credit risk calculation

For regulatory capital adequacy purposes, GIB uses the current exposure method to calculate the exposure for counterparty credit risk for derivative and foreign exchange instruments in accordance with the credit risk framework in the CBB's Basel 3 capital adequacy framework. A capital charge to cover the risk of mark-to-market losses on expected counterparty risk (CVA) is applied to over-the-counter derivatives. Credit exposure comprises the sum of current exposure (replacement cost), and potential future exposure. The potential future exposure is an estimate, which reflects possible changes in the market value of the individual contract during the remaining life of the contract and is measured as the notional principal amount multiplied by an add-on. The add-on depends on the risk categorisation and maturity of the contract and the contract's remaining life. Netting of potential future exposures on contracts within the same legally enforceable netting agreement is done as a function of the gross potential future exposure.

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7. Off-balance sheet exposure and securitisations (continued)

7.3 Counterparty credit risk (continued)

a) Counterparty credit risk calculation (continued)

The EAD, CVA, RWAs and capital requirements for the counterparty credit risk of derivative and foreign exchange instruments analysed by standard portfolio, is presented in the table below:

	Exposure at Default (EAD)					
	Current exposure US$ millions	Future exposure US$ millions	Total exposure US$ millions	CVA US$ millions	RWA US$ millions	Capital requirement US$ millions
Banks	727.2	149.1	876.3	53.1	80.3	16.7
Corporates	1.4	110.5	111.9	161.7	176.1	42.2
Governments	513.7	2.7	516.4	-	1.0	0.1
	1,242.3	**262.3**	**1,504.6**	**214.8**	**257.4**	**59.0**

b) Mitigation of counterparty credit risk exposure

Risk mitigation techniques are widely used to reduce exposure to single counterparties. The most common risk mitigation technique for derivative and foreign exchange-related exposure is the use of master netting agreements, which allow the Group to net positive and negative replacement values of contracts under the agreement in the event of default of the counterparty.

The reduction of counterparty credit risk exposure for derivative and foreign exchange instruments through the use of risk mitigation techniques is demonstrated as follows:

	Current exposure US$ millions	Effect of netting agreements US$ millions	Netted current exposure US$ millions
Counterparty credit risk exposure	1,242.3	(648.5)	593.8

7.4 Securitisations

Securitisations are defined as structures where the cash flow from an underlying pool of exposures is used to secure at least two different stratified risk positions or tranches reflecting different degrees of credit risk. Payments to the investors depend upon the performance of the underlying exposures, as opposed to being derived from an obligation of the entity originating those exposures.

At 31st December 2023, the Group had no exposure to securitisation tranches.

The Group provides collateral management services to two collateralised debt obligations (CDOs) issued between 2002 and 2006. The CDOs are intended to extract relative value from a wide range of asset classes across a broad spectrum of credit ratings. The underlying collateral of the CDOs includes leveraged loans, residential and commercial real estate, consumer finance, lending to small and medium sized enterprises, and other receivables. Each CDO holds up to 20 individual investments.

At 31st December 2023, the underlying investments in the CDOs for which the Group acted as collateral manager amounted to US$66.0 million. At 31st December 2023, GIB did not hold any exposure to CDOs managed by the Group.

8. Pillar 2 risks

GIB manages and measures other risk types that are not included under Pillar 1 in the CBB's Basel 3 framework through Internal Capital Adequacy Assessment Process (ICAAP). For this purpose, the Group has adopted a "Pillar 1 plus" approach. Pillar 1 capital calculations (for credit, market and operational risk) constitute the minimum capital required by the Group's home regulator, the Central Bank of Bahrain (CBB). In addition to the capital assessment for Pillar 1 risks, the Pillar 2 capital assessment considers risks that are not covered adequately under Pillar 1 risks to ensure sufficient capital coverage for all the underlying risks of the Group's business. This includes an analysis of the Group's liquidity risk, concentration risk, interest rate risk in the banking book (IRRBB), pension obligation risk, reputation risk, information technology risk and macroeconomic risk.

This section describes GIB's Pillar 2 risks that are not addressed in Pillar 1 of the CBB's Basel 3 framework.

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8. Pillar 2 risks (continued)

8.1 Other risk types

a) Liquidity risk

The Group has established approved limits which restrict the volume of liabilities maturing in the short-term. An independent risk management function monitors the future cash flow maturity profile against approved limits on a daily basis. The cash flows are monitored against limits applying to both daily and cumulative cash flows occurring over a 30-day period. The liquidity limits ensure that the net cash outflows over a 30-day period do not exceed the eligible stock of available liquid resources. The cash flow analysis is also monitored on a weekly basis by the Assets and Liabilities Committee (ALCO).

Customer deposits form a significant part of the Group's funding. The Group places considerable importance on maintaining the stability of both its customer and interbank deposits. The stability of deposits depends on maintaining confidence in the Group's financial strength and financial transparency.

The funding base is enhanced through term financing, amounting to US$6,020.7 million at 31st December 2023. Access to available but uncommitted short-term funding from the Group's established GCC and international relationships provides additional comfort. In addition to the stable funding base, the Group maintains a stock of liquid and marketable securities that can be readily sold or repoed.

At 31st December 2023, 74.0% of total on balance sheet credit exposures were contracted to mature within one year. In relation to deposits, retention records demonstrate that there is considerable divergence between their contractual and effective maturities.

US$25,956.2 million or 73.3% of the Group's deposits at 31st December 2023 were from GCC countries. Historical experience has shown that GIB's deposits from counterparties in the GCC region are more stable than deposits derived from the international interbank market. At 31st December 2023, placements and other liquid assets with counterparties in non-GCC countries were greater than the deposits received, demonstrating that the Group is a net lender of funds in the international interbank market.

b) 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. Concentration risk is captured in GIB's Pillar 2 capital framework through the use of a credit risk portfolio model which considers single-name concentrations and sector concentrations in the credit portfolio.

Under the CBB's single obligor regulations, banks incorporated in Bahrain are required to obtain the CBB's approval for any planned exposure to a single counterparty, or group of connected counterparties, exceeding 15% of the regulatory capital base. At 31st December 2023, the following single obligor exposures exceeded 15% of the Group's regulatory capital base which was approved by the CBB (i.e. exceeded US$584.0 million).

	On-balance sheet exposure	Off-balance sheet exposure	Total exposure
	US$ millions	US$ millions	US$ millions
Counterparty A	10,725.6	-	10,725.6
Counterparty B	5,351.1	64.7	5,415.8
Counterparty C	4,280.7	-	4,280.7
Counterparty D	2,161.1	800.8	2,961.9
Counterparty E	1,264.6	0.1	1,264.7
Counterparty F	956.8	0.4	957.2
Counterparty G	691.8	13.3	705.1
Counterparty H	701.3	-	701.3
Counterparty I	667.3	-	667.3
Counterparty J	578.7	8.5	587.2

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8. Pillar 2 risks (continued)

8.1 Other risk types (continued)

c) Interest rate risk in the banking book

Structural interest rate risk arises in the Group's core balance sheet as a result of mismatches in the repricing of interest rate sensitive financial assets and liabilities. The associated interest rate risk is managed through the use of models to evaluate the sensitivity of earnings to movements in interest rates.

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

	Within 3 months	Months 4 to 6	Months 7 to 12	Over 1 year	Non-interest bearing items	Total
	US$ millions	US$ millions	US$ millions	US$ millions	US$ millions	US$ millions
Cash and other liquid assets	16,806.8	-	195.0	-	4.7	17,006.5
Securities purchased under agreements to resell	343.9	-	400.0	-	-	743.9
Placements	5,540.4	798.0	739.0	-	-	7,077.4
Trading securities	-	-	-	-	270.8	270.8
Investment securities:						
- Fixed rate	761.9	411.4	909.3	1,386.4	-	3,469.0
- Floating rate	3,164.0	46.7	-	13.3	-	3,224.0
- Equities	-	-	-	-	23.2	23.2
Loans and advances	8,232.3	1,951.3	3,441.0	-	-	13,624.6
Other assets	-	-	-	-	1,630.5	1,630.5
Total assets	**34,849.3**	**3,207.4**	**5,684.3**	**1,399.7**	**1,929.2**	**47,069.9**
Deposits	28,781.0	1,759.8	3,132.8	-	1,728.2	35,401.8
Securities sold under agreements to repurchase	582.2	92.4	68.5	-	-	743.1
Other liabilities	-	-	-	-	1,535.7	1,535.7
Senior term financing	5,130.6	-	73.7	416.4	-	5,620.7
Subordinated term financing	400.0	-	-	-	-	400.0
Equity	-	-	-	-	3,368.6	3,368.6
Total liabilities & equity	**34,893.8**	**1,852.2**	**3,275.0**	**416.4**	**6,632.5**	**47,069.9**
Interest rate sensitivity gap	**(44.5)**	**1,355.2**	**2,409.3**	**983.3**	**(4,703.3)**	**-**
Cumulative interest rate sensitivity gap	**(44.5)**	**1,310.7**	**3,720.0**	**4,703.3**	**-**	**-**

The repricing profile is based on the remaining period to the next interest repricing date. Derivative financial instruments that have been used for asset and liability management purposes to hedge exposure to interest rate risk are incorporated in the repricing profiles of the related hedged assets and liabilities amounting to US$6,908.4 million as at 31st December 2023.

The substantial majority of assets and liabilities reprice within one year.

Interest rate asset exposure beyond one year amounted to US$1,399.7 million or 3.0% of total assets. This exposure principally represented the investment of the net free capital funds in fixed rate government securities. At 31st December 2023, the modified duration of these fixed rate government securities was 4.92. Modified duration represents the approximate percentage change in the portfolio value resulting from a 100 basis point change in yield. More precisely in dollar terms, the price value of a basis point of the fixed rate securities was US$ 0.7 million. The Bank also has US$400 million of unhedged term finance maturing in September 2025 contributing to a DV01 of US$63,905.

Based on the repricing profile at 31st December 2023, and assuming that the financial assets and liabilities were to remain until maturity or settlement with no action taken by the Group to alter the interest rate risk exposure, an immediate and sustained one per cent (200bps) increase in interest rates across all maturities would result in an increase of approximately US$68.0 million (13.7% of Net interest Income) in net income before tax for the following year and approximately US$102.1 million (3.1% of Tier 1 Capital) reduction in Group's equity.

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8. Pillar 2 risks (continued)

8.1 Other risk types (continued)

c) Interest rate risk in the banking book (continued)

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

Currency	Impact on Group's Earnings	Economic Value Equity Impact
	US$ millions	US$ millions
United States Dollar (USD)	45.6	12.7
Saudi Arabian Riyal (SAR)	11.0	(119.8)
Pound Sterling (GBP) and others	11.5	5.1
Total	**68.0**	**(102.1)**

d) Pension obligation risk

Pension obligation risk is the risk that there may be a shortfall with respect to pension benefits due to employees/former employees within the defined benefit schemes of the Group's subsidiaries, GIBUK, GIB KSA and GIB Capital. The scheme was closed to new members during 2002. As a result the Group is exposed to the risk that it will need to make further unexpected future contributions to the scheme. The risk can arise from a number of factors including:

- Increased life expectancy increasing the value of future liabilities;
- Falling interest rates increasing the value of the future liabilities;
- Falling equity prices reducing the value of scheme assets;
- Increased salaries for staff still in employment.

As part of GIB's ICAAP framework, an adverse scenario is applied to the scheme's assets and liabilities on a level of severity expected no more than once in every 200 years, i.e. a 99.5% one year confidence level.

e) Reputational risk

Reputational risk is the risk of losses resulting from adverse perceptions about the Group, its brand and franchise by its various stakeholders that is caused by a variety of internal and external factors. Preventive measures, including controls and processes have been deployed to manage reputational risk. These include a robust and comprehensive governance structure, which is based on set of well-defined policies and procedures.

The Group has established a reputational risk reporting framework, providing relevant stakeholders with periodic overview on key reputational risks, loss event incidents, status of key risk indicators, and required management action. Training sessions on reputational risks are organised for employees to create awareness among them on reputational risk, encourage them to identify and understand emerging internal and external reputational risks, and guide them on the process to take action in order manage or mitigate their impact.

The Group's operating model has been designed to cater transparency and appropriate disclosures. The Corporate Communications function of the Group has the responsibility to ensure effective communications internally with the employees and externally with the media, shareholders, customers and authorities. It is charged with the responsibility of enhancing the image and reputation of the GIB brand through the various activities such as advertising, public relations, sponsorships, and donations.

f) Information Technology (IT) risk

Technology continues to play a critical role in the Bank's operations and in the fulfilment of its strategic objectives. The Group has in place a sound IT and Information Security governance framework that aligns its IT strategy and Information & Cyber Security Strategy with its overall business objectives.

The Group has an IT Audit team with the mandate to examine and evaluate the Group's IT infrastructure, policies and procedures and compliance to those policies. The audits determine whether IT controls protect corporate assets, ensure data integrity and are aligned with the business overall objectives. This culminates in an audit plan which is reviewed and approved by the Board Audit committee. Based on the audit findings, exception reports and recommendations are prepared and sent to the relevant unit for prompt response and/or implementation. Follow up meetings are also made to ensure that issues identified are properly resolved and the recommendations made are being implemented.

In addition, the Group has newly created two teams, Information Security Governance and Information Security Compliance, who have the mandate to perform detailed Information & Cyber Security Risk Assessments and Information Security Compliance reviews.

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8. Pillar 2 risks (continued)

8.1 Other risk types (continued)

g) Macroeconomic risk

Macroeconomic risk relates to the risk of increasing stress levels in the principal economies in which the Group operates. These risks can be triggered by political uncertainties, social unrests, high/low commodity prices, excessive leverage in the financial system or an uncompetitive business environment. Due to the systemic nature of these macroeconomic triggers there will be an adverse impact on the Group's profitability and capital positions and the extent of loss would depend on the severity of the stress event.

Macroeconomic risk is captured in GIB's ICAAP framework through the use of stressed macroeconomic forecast to gauge the impact of potential losses that the Group could incur.

h) Legal risk

In the ordinary course of its business, as a participant in the financial services industry, the Group may pursue litigation claims against third parties and may also have litigation claims and/or regulatory proceedings filed against it. The Bank has an in-house legal department comprising of qualified legal professionals. The department has put in place adequate policies & procedures and uses assistance of professional legal firms on need basis, to ensure effective and efficient management of legal risk.

i) Strategic risk

Strategic risk refers to 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.

Strategic risk is identified, managed, mitigated and monitored jointly by the business (as the 1st line of defence) and the Economics & Strategy Management Unit. The Economics & Strategy Management Unit is responsible for the monitoring and reporting of the Group's strategic initiatives and provides the Management Committee, Board Risk Policy Committee (BRPC), and the Board of Directors a regular update on all the Group's strategic initiatives, including the strategic risks facing the Group. The Management Committee, the BRPC, and the Board review the strategic risks of the Group and ensure that adequate mitigating strategies are in place for the Group's strategic initiatives to be successfully implemented.

9. Capital adequacy ratios and other issues

9.1 Capital adequacy ratios

The Group's policy is to maintain a strong capital base so as to preserve investor, creditor and market confidence and to sustain the future development of the business. The impact of the level of capital on shareholders' return is also recognised as well as the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position. The Group manages its capital structure and makes adjustments to the structure taking account of changes in economic conditions and strategic business plans. The capital structure may be adjusted through the dividend pay-out or the issue of new shares.

The capital adequacy ratios of GIB's subsidiaries, GIBKSA and GIBUK, and the Group were as follows:

	GIB KSA*	GIB UK	Group
	US$ millions	US$ millions	US$ millions
Total RWAs	11,787.3	1,782.8	20,556.3
Capital base	2,454.7	370.5	3,893.2
Tier 1 capital	1,975.8	370.5	3,316.8
Tier 1 ratio	**16.8%**	**20.8%**	**16.1%**
Total ratio	**20.8%**	**20.8%**	**18.9%**

* GIBKSA numbers are inclusive of GIB capital which became a fully owned subsidiary of GIBKSA as of 1st Jan 2021.

GIB's internal target is to maintain a tier 1 capital adequacy ratio above 11.5% and a total capital adequacy ratio in excess of 15.0%.

Strategies and methods for maintaining a strong capital adequacy ratio

GIB prepares multi-year strategic projections on a rolling annual basis which include an evaluation of short-term capital requirements and a forecast of longer-term capital resources.

The evaluation of the strategic planning projections have historically given rise to capital injections. The capital planning process triggered the raising of additional tier 2 capital through a US$400 million subordinated debt issue in 2005 to enhance the total regulatory capital adequacy ratio, and a US$500 million capital increase in March 2007 to provide additional tier 1 capital to support planned medium-term asset growth. A further US$1.0 billion capital increase took place in December 2007 to enhance capital resources and compensate for the impact of likely provisions relating to exposures impacted by the global credit crisis.

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9. Capital adequacy ratios and other issues (continued)

9.2 Leverage ratio

The leverage ratio serves as a supplementary measure to the risk-based capital requirements. The leverage ratio is computed on a consolidated basis and Bahraini conventional bank licensees must meet a 3.0% leverage ratio minimum requirement at all times.

Leverage Ratio components	Total
	US$ millions
Total on-balance sheet exposures (excluding derivatives)	**46,209.3**
Replacement cost associated with all derivatives transactions (where applicable net of eligible cash variation margin and/or with bilateral netting)	1,076.9
Add-on amounts for potential future exposure (PFE) associated with all derivatives transactions	367.2
Total derivative exposures	**1,444.1**
Off-balance sheet exposure at gross notional amount	8,905.0
(Adjustments for conversion to credit equivalent amounts)	(4,322.9)
Total off-balance sheet exposures	**4,582.1**
Total exposures	**52,235.5**
Tier 1 capital	**3,316.8**
Basel III leverage ratio	**6.3%**

9.3 ICAAP considerations

Pillar 2 in the Basel 3 framework covers two main processes: the ICAAP and the supervisory review and evaluation process. The ICAAP involves an evaluation of the identification, measurement, management and control of material risks in order to assess the adequacy of internal capital resources and to determine an internal capital requirement reflecting the risk appetite of the institution. The purpose of the supervisory review and evaluation process is to ensure that institutions have adequate capital to support the risks to which they are exposed and to encourage institutions to develop and apply enhanced risk management techniques in the monitoring and measurement of risk.

GIB's regulatory capital base exceeded the CBB's minimum requirement of 12.5% throughout the year ended 31st December 2023 Based on the results of capital adequacy stress testing and capital forecasting, GIB considers that the buffers held for regulatory capital adequacy purposes are sufficient and that GIB's internal minimum capital targets of targets of 11.5% for tier 1 capital and 15.0% for total capital are adequate given its current risk profile and capital position. The Group's regulatory capital adequacy ratios set out in section 9.1 of this report significantly exceeded the minimum capital targets and are high by international comparison.

10. Related party transactions

Refer note 40 to the consolidated financial statements of the Group for the year ended 31st December 2023.

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11. Glossary of abbreviations

ALCO	Assets and Liabilities Committee
AMA	Advanced Measurement Approach
Basel Committee	Basel Committee for Banking Supervision
CBB	Central Bank of Bahrain
CCF	Credit Conversion Factor
CDO	Collateralised Debt Obligation
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CCO	Chief Credit Officer
CRO	Chief Risk Officer
CVA	Credit Valuation Adjustment
EAD	Exposure at Default
FCA	Financial Conduct Authority (of the United Kingdom)
FVTOCI	Fair Value through Other Comprehensive Income
GCC	Gulf Cooperation Council
GIB	Gulf International Bank B.S.C.
GIBUK	Gulf International Bank (UK) Limited
Group	Gulf International Bank B.S.C. and subsidiaries
ICAAP	Internal Capital Adequacy Assessment Process
IFRS	International Financial Reporting Standards
IRRBB	Interest Rate Risk in the Banking Book
LGD	Loss Given Default
MENA	Middle East and North Africa
ORMF	Operational Risk Management Framework
OTC	Over-The-Counter
PD	Probability of Default
PRA	Prudential Regulation Authority (of the United Kingdom)
PSE	Public Sector Entity
RAROC	Risk-adjusted Return on Capital
RWA	Risk-weighted Assets

Appendices

Appendix I – Regulatory Capital: 3-Step Reconciliation

Appendix II – Liquidity Coverage Ratio (LCR)

Appendix III – Net Stable Funding Ratio (NSFR)

Appendices

Appendix I - step 1

Step 1: Balance sheet under the regulatory scope of consolidation as at 31 December 2023

US$ Millions	Balance sheet as in published consolidated financial statements	Consolidated PIR data	Reference
Assets			
Cash and other liquid assets	17,006.5	119.1	1,2
Securities purchased under agreements to resell	743.9	-	2
Placements with banks and similar financial institutions	7,077.4	24,709.5	2,3
Financial assets at fair value through profit and loss	270.8	270.8	
Investment securities	6,716.2	6,719.3	3
Loans and advances to banks and non-banks	13,624.6	13,784.1	3
Other assets	1,630.5	1,630.4	4
Total assets	**47,069.9**	**47,233.2**	
Liabilities			
Deposits from banks	883.9	14,448.1	5
Deposits from customers	34,517.9	20,953.7	5
Securities sold under agreements to repurchase	743.1	743.1	
Senior term financing	5,620.7	5,620.7	
Other liabilities	1,535.7	1,522.6	3,6
Subordinated term financing	400.0	-	7
Total liabilities	**43,701.3**	**43,288.2**	
Shareholders' Equity			
Paid up share capital	2,000.0	2,000.0	
Reserves	237.3	237.3	
Retained earnings	131.3	131.3	
Tier 2 capital instruments	-	400.0	7
Expected Credit Losses	-	176.4	3
Equity attributable to the shareholders of the Bank	2,368.6	2,945.0	
Non-controlling interest	1,000.0	1,000.0	
Total equity	**3,368.6**	**3,945.0**	
Total liabilities & shareholders' equity	**47,069.9**	**47,233.2**	

	Differences due to PIR requirements:	
1	Cash balance reported in PIR is the cash on hand and balances at the Central Bank of Bahrain. Other bank balances are reported under placements.	
2	Other bank balances and securities purchased under agreements to resell are included under placements.	
3	Expected credit losses (Stages 1 & 2) (loans, securities, placements & other assets) and Off Balance sheet provisions are reported separately.	
4	Under PIR the following breakdown is applicable:	
	- Interest receivable	404.8
	- Property, plant, and equipment (PPE)	76.4
	- Other assets	1,149.3
	Total	**1,630.4**
5	Central Banks deposits are reported under deposits from banks under the PIR, however, these are customer relationships to GIB.	
6	Differences between amounts reported in the Balance sheet and the PIR are due to Off Balance sheet provisions.	
	Under PIR the following breakdown is applicable:	
	- Interest payable	346.1
	- Other liabilities	1,176.4
	Total	**1,522.6**
7	Eligible Tier 2 instruments issued by subsidiaries and held by third parties recognised in the regulatory capital base.	
8	Figures are rounded to the nearest US$ million	

Appendices (continued)

Appendix I - step 2

Step 2: Expansion of the Balance sheet under the regulatory scope of consolidation as at 31 December 2023

US$ Millions	Balance sheet as in published consolidated financial statements	Consolidated PIR data	Reference
Assets			
Cash and other liquid assets	17,006.5	119.1	
Securities purchased under agreements to resell	743.9	-	
Placements with banks and similar financial institutions	7,077.4	24,709.5	
Financial assets at fair value through profit and loss	270.8	270.8	
Investment securities	6,716.2	6,719.3	
Loans and advances to banks and non-banks	13,624.6	13,784.1	
Other assets	1,630.5	1,630.4	
Total assets	**47,069.9**	**47,233.2**	
Liabilities			
Deposits from banks	883.9	14,448.1	
Deposits from customers	34,517.9	20,953.7	
Securities sold under agreements to repurchase	743.1	743.1	
Senior term financing	5,620.7	5,620.7	
Other liabilities	1,535.7	1,522.6	
Subordinated term financing	400.0	-	
Total liabilities	**43,701.3**	**43,288.2**	
Shareholders' Equity			
Paid up share capital	2,000.0	2,000.0	
of which amount eligible for CET1	-	2,000.0	
of which amount eligible for AT1	-		
Reserves	237.3	237.3	
Retained earnings	131.3	131.3	A
Tier 2 capital instruments	-	400.0	
Expected Credit Losses	-	176.4	B
Equity attributable to the shareholders of the Bank	2,368.6	2,945.0	
Non-controlling interest	1,000.0	1,000.0	
Total equity	**3,368.6**	**3,945.0**	
Total liabilities & shareholders' equity	**47,069.9**	**47,233.2**	

Appendices (continued)

Appendix I - step 3

Step 3: Composition of Capital Disclosures template as at 31 December 2023

	US$ millions	Component of regulatory capital reported by bank	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation from step 2
	Common Equity Tier 1 capital: instruments and reserves		
1.	Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	2,000.0	
2.	Retained earnings	131.3	A
3.	Accumulated other comprehensive income (and other reserves)	273.0	
4.	*Not Applicable*		
5.	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	1,000.0	
6.	**Common Equity Tier 1 capital before regulatory adjustments**	**3,404.3**	
	Common Equity Tier 1 capital: regulatory adjustments		
7.	Prudential valuation adjustments		
8.	Goodwill (net of related tax liability)		
9.	Other intangibles other than mortgage-servicing rights (net of related tax liability)	28.9	
10.	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)		
11.	Cash-flow hedge reserve		
12.	Shortfall of provisions to expected losses		
13.	Securitisation gain on sale (as set out in paragraph 562 of Basel II framework)		
14.	Not applicable.		
15.	Defined-benefit pension fund net assets	58.6	
16.	Investments in own shares (if not already netted off paid-in capital on reported balance sheet		
17.	Reciprocal cross-holdings in common equity		
18.	"Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)"		
19.	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)		
20.	Mortgage servicing rights (amount above 10% threshold)		
21.	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)		
22.	Amount exceeding the 15% threshold		
23.	of which: significant investments in the common stock of financials		
24.	of which: mortgage servicing rights		
25.	of which: deferred tax assets arising from temporary differences		
26.	CBB specific regulatory adjustments		
27.	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions		
28.	**Total regulatory adjustments to Common equity Tier 1**	87.6	
29.	**Common Equity Tier 1 capital (CET1)**	3,316.8	
30.	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus		
31.	of which: classified as equity under applicable accounting standards		
32.	of which: classified as liabilities under applicable accounting standards		
33.	*Directly issued capital instruments subject to phase out from Additional Tier 1*		
34.	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)		
35.	*of which: instruments issued by subsidiaries subject to phase out*		
36.	**Additional Tier 1 capital before regulatory adjustments**	-	

Appendices (continued)

Appendix I - step 3 (continued)

US$ millions		Component of regulatory capital reported by bank	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation from step 2
	Additional Tier 1 capital: regulatory adjustments		
37.	Investments in own Additional Tier 1 instruments		
38.	Reciprocal cross-holdings in Additional Tier 1 instruments		
39.	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)		
40.	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)		
41.	CBB specific regulatory adjustments		
42.	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions		
43.	**Total regulatory adjustments to Additional Tier 1 capital**	-	
44.	**Additional Tier 1 capital (AT1)**	-	
45.	**Tier 1 capital (T1 = CET1 + AT1)**	3,316.8	
	Tier 2 capital: instruments and provisions		
46.	Directly issued qualifying Tier 2 instruments plus related stock surplus		
47.	*Directly issued capital instruments subject to phase out from Tier 2*		
48.	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	400.0	
49.	*of which: instruments issued by subsidiaries subject to phase out*		
50.	Provisions	176.4	B
51.	**Tier 2 capital before regulatory adjustments**	576.4	
	Tier 2 capital: regulatory adjustments		
52.	Investments in own Tier 2 instruments		
53.	Reciprocal cross-holdings in Tier 2 instruments		
54.	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold)		
55.	Significant investments in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)		
56.	CBB specific regulatory adjustments		
57.	**Total regulatory adjustments to Tier 2 capital**	-	
58.	**Tier 2 capital (T2)**	576.4	
59.	**Total capital (TC = T1 + T2)**	3,893.2	
RISK WEIGHTED ASSETS IN RESPECT OF AMOUNTS SUBJECT TO PRE-2015 TREATMENT OF WHICH:			
Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)			
OF WHICH: Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold)			
60.	**Total risk weighted assets**	20,556.3	

Appendices (continued)

Appendix I - step 3 (continued)

	US$ millions	Component of regulatory capital reported by bank	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation from step 2
	Capital ratios		
61.	Common Equity Tier 1 (as a percentage of risk weighted assets)	16.1%	
62.	Tier 1 (as a percentage of risk weighted assets)	16.1%	
63.	Total capital (as a percentage of risk weighted assets)	18.9%	
64.	Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus D-SIB buffer requirement expressed as a percentage of risk weighted assets)	9.0%	
65.	*of which: capital conservation buffer requirement*	2.5%	
66.	*of which: bank specific countercyclical buffer requirement (N/A)*	N/A	
67.	*of which: D-SIB buffer requirement (N/A)*	N/A	
68.	Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	16.1%	
	National minima including CCB (if different from Basel 3)		
69.	CBB Common Equity Tier 1 minimum ratio	9.0%	
70.	CBB Tier 1 minimum ratio	10.5%	
71.	CBB total capital minimum ratio	12.5%	
	Amounts below the thresholds for deduction (before risk weighting)		
72.	Non-significant investments in the capital of other financials		
73.	Significant investments in the common stock of financials		
74.	Mortgage servicing rights (net of related tax liability)		
75.	Deferred tax assets arising from temporary differences (net of related tax liability)		
	Applicable caps on the inclusion of provisions in Tier 2		
76.	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	176.4	
77.	Cap on inclusion of provisions in Tier 2 under standardised approach	237.4	
78.	N/A		
79.	N/A		
	Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2020 and 1 Jan 2024)		
80.	*Current cap on CET1 instruments subject to phase out arrangements*		
81.	*Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)*		
82.	*Current cap on AT1 instruments subject to phase out arrangements*		
83.	*Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)*		
84.	*Current cap on T2 instruments subject to phase out arrangements*		
85.	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)		

Appendices (continued)

Appendix I - Main Features

PD 3: Main Features of Regulatory Capital Instruments

		US$ millions
1.	Issuer	Gulf International Bank B.S.C.
2.	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	3541088Z
3.	Governing law(s) of the instrument	Bahrain
	Regulatory treatment	
4.	Transitional CBB rules	Tier 1
5.	Post-transitional CBB rules	Tier 1
6.	Eligible at solo/group/group & solo	Solo and Group
7.	Instrument type (types to be specified by each jurisdiction)	Common equity
8.	Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date)	3,893.2
9.	Par value of instrument	2,000.0
10.	Accounting classification	Shareholders' equity
11.	Original date of issuance	NA
12.	Perpetual or dated	Perpetual
13.	Original maturity date	NA
14.	Issuer call subject to prior supervisory approval	No
15.	Optional call date, contingent call dates and redemption amount	NA
16.	Subsequent call dates, if applicable	NA
	Coupons / dividends	NA
17.	Fixed or floating dividend/coupon	NA
18.	Coupon rate and any related index	NA
19.	Existence of a dividend stopper	NA
20.	Fully discretionary, partially discretionary or mandatory	Fully discretionary
21.	Existence of step up or other incentive to redeem	NA
22.	Noncumulative or cumulative	NA
23.	Convertible or non-convertible	NA
24.	If convertible, conversion trigger (s)	NA
25.	If convertible, fully or partially	NA
26.	If convertible, conversion rate	NA
27.	If convertible, mandatory or optional conversion	NA
28.	If convertible, specify instrument type convertible into	NA
29.	If convertible, specify issuer of instrument it converts into	NA
30.	Write-down feature	NA
31.	If write-down, write-down trigger(s)	NA
32.	If write-down, full or partial	NA
33.	If write-down, permanent or temporary	NA
34.	If temporary write-down, description of write-up mechanism	NA
35.	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	NA
36.	Non-compliant transitioned features	NA
37.	If yes, specify non-compliant features	NA

Appendices (continued)

Appendix II

Liquidity Coverage Ratio (LCR)
31st December 2023

BD '000/ US $'000

	Factor	Total Amount	Amount with Factor Applied
Stock of HQLA			
A. Level 1 assets:			
Coins and banknotes	100%	4,687.7	4,687.7
Qualified balances with the CBB	100%	7,527,748.8	7,527,748.8
Debt securities/Sukuk issued by the CBB or the Government of Bahrain	100%	379,211.6	379,211.6
Debt securities/Sukuk issued governments of GCC member states and their central banks;	100%	455,855.3	455,855.3
Debt securities/Sukuk that can be monetised and issued or guaranteed by sovereigns, central banks, PSEs, IMF, BIS, ECB, EC, or MDBs	100%	423,021.0	423,021.0
Debt securities/Sukuk issued in local currency by sovereign or the country's central bank, where the liquidity risk arises or the banks home country – given a non-0 percent Risk-weight (RW);	100%	-	-
Debt securities/Sukuk issued in foreign currency by sovereign or central bank that does not exceed the value of the net cash outflow in the foreign currency caused by a stress scenario based on the bank's operations in the country where the liquidity risk arises from – given a non-0 percent RW	100%	-	-
Total level 1 Assets			**8,790,524.4**
B. Level 2 assets (maximum of 40 percent Of HQLA)			
1) Level 2A assets	Fine		
Debt securities/Sukuk that can be issued and liquidated or guaranteed by sovereigns, central banks, PSEs, and qualified MDBs	85%	768,799.2	653,479.3
Debt securities/Sukuk qualified for liquidation (including commercial paper)	85%	106,163.8	90,239.2
Qualified covered bonds	85%		-
2) Level 2B assets (maximum of 15 percent of HQLA)	Fine		
Debt securities/Sukuk (including commercial paper) issued by qualified non-financial institutions	50%	186,128.1	93,064.1
Qualified common equity shares	50%	-	-
Total level 2 Assets (1+2)			**836,782.6**
Total value of stock of HQLA			**9,627,307.0**
Cash Outflows			
A1. Retail Deposits			
Demand deposits and term deposits (maturity within 30 days)			
Stable deposits; and	3%	-	-
Less stable – retail deposits*	10%	468,535.8	46,853.6
Retail and Small Business Customers demand and fixed deposits (for overseas branches and subsidiaries)*	-		
B. Unsecured Wholesale Funding			
1) Small business customer deposits:			
Less stable deposits	10%	-	-
2) Operational deposits generated by clearing, custody, and cash management:	25%	-	-
3) Deposits from non-financial institutions, sovereign, central banks, multilateral development banks, PSEs, and Bahrain's Social Insurance Organisation and GCC PIFs where PIF is a controller of the bank.	40%	23,484,707.0	9,393,882.8
4) Deposits from Financial Institutions and other legal entity corporations.	100%	573,426.0	573,426.0

Appendices (continued)

Appendix II (continued)

Liquidity Coverage Ratio (LCR)
31st December 2023

BD '000/ US $'000

	Factor	Total Amount	Amount with Factor Applied
C. Secured Funding			
Backed by level 1 assets or with central banks	0%	16,959.8	-
Backed by level 2A assets	15%	2,727.3	409.1
Secured funding transactions with domestic sovereign, PSE's or multilateral development banks that are not baked by level 1 or 2A assets	25%		-
Backed by other level 2B assets	50%	2,787.0	1,393.5
All others	100%	-	-
D. Other Cash Outflow			
Net derivative cash outflow	100%	44,260.9	44,260.9
Asset-backed securities, covered bonds, and other structured financing instruments	100%		-
Asset-backed commercial paper, securities paper, securities investment vehicles, and other similar financing tool	100%		-
Committed: credit and liquidity facilities given by bank to:			-
Retail and small business customers, including credit cards (from amount not used)	5%		-
Non-financial corporates, sovereigns and central banks, PSEs and multilateral development banks (from amount not used) - Credit	10%	2,542,592.9	254,259.3
Non-financial corporates, sovereigns and central banks, PSEs and multilateral development banks (from amount not used) - Liquidity	30%		-
Banks subject to prudential supervision (from amount not used)	40%	185,000.0	74,000.0
Other financial institutions (including securities firms and insurance firms) (from amount not used) - Credit	40%		-
Other financial institutions (including securities firms and insurance firms) (from amount not used) - Liquidity	100%		-
Other legal entities (from amount not used)	100%		-
Other Contingent Funding Obligations:			-
Guarantees, LCs, revocable credit and liquidity facilities, non-contractual commitments	5%	7,611,834.1	380,591.7
Customer short positions that are covered by other customers' collateral	50%		-
Increased liquidity needs related to the potential for valuations changes on posted collateral	20%	-	-
Other contractual cash outflows	100%	254,467.6	254,467.6
Total Cash Outflow			**11,023,544.6**
Cash Inflows			
A. Secured lending transactions backed by the following asset category			
Level 1 assets	0%	16,959.8	-
Level 2A assets	15%	2,727.3	409.1
Level 2B assets	50%	2,787.1	1,393.5
Margin lending backed by all other collateral	50%	-	-
Other collateral	100%	-	-
B. Committed facilities – credit and liquidity facilities given to banks	0%	-	-
C. Other inflows by			
Retail and small business customer	50%	6,614.1	3,307.0
Non-retail customers:			
1. Financial institutions and central banks	100%	3,409,276.1	3,409,276.1
2. Non-financial institutions	50%	610,514.6	305,257.3
Operational deposits held at other financial institutions	0%		-
D. Other net derivative cash inflows	100%	105,137.7	105,137.7
E. Other contractual cash inflows	100%	210,822.1	210,822.1
Total Cash Inflows			**4,035,602.9**
Net cash outflow = total cash outflow – total cash inflow or lowest value (75 percent of total cash outflow)			**6,987,941.7**
Liquidity coverage ratio (LCR) – HQLA / Net cash outflow (%)			**137.8%**

* The run-off figures for retail/small business deposits (overseas branches and subsidiaries) will be based on host jurisdictions factors in which the bank operates.

Appendices (continued)

Appendix III

Net Stable Funding Ratio (NSFR)
31st December 2023

All figures in US$ millions

No.	Item	Unweighted Values (i.e. before applying relevant factors) No specified maturity	Maturing in less than 6 months	Maturing in more than 6 months and less than one year	Maturing over one year	Total unweighted value	Total weighted value
	Available Stable Funding (ASF):						
1	Capital:						
2	Regulatory Capital	3,317.8	-	-	-	3,317.8	3,317.8
3	Other Capital Instruments	51.2	-	-	-	51.2	51.2
4	Retail deposits and deposits from small business customers:						
5	Stable deposits	-	-	-	-	-	-
6	Less stable deposits	118.9	895.6	202.4	-	1,217.0	1,095.3
7	Wholesale funding:						
8	Operational deposits	-	-	-	-	-	-
9	Other wholesale funding	19,873.3	12,031.3	4,862.5	4,441.9	41,209.1	15,197.2
10	Other liabilities:						
11	NSFR derivative liabilities		-	-	-	-	
12	All other liabilities not included in the above categories	-	-	-	-	-	-
13	**Total ASF**						**19,661.5**
	Required Stable Funding (RSF):						
14	Total NSFR high-quality liquid assets (HQLA)						1,255.3
15	Deposits held at other financial institutions for operational purposes						
16	Performing loans and securities:						
17	Performing loans to financial institutions secured by Level 1 HQLA	-	-	-	-	-	-
18	Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	1,333.2	3,919.8	818.3	391.8	6,463.1	1,588.9
19	Performing loans to non- financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which:	-	6,485.4	956.1	4,854.6	12,296.0	7,847.1
20	- With a risk weight of less than or equal to 35% as per the CBB Capital Adequacy Ratio guidelines	-	-	-	2,029.9	2,029.9	1,319.4
21	Performing residential mortgages, of which:	-	-	-	-	-	-
22	- With a risk weight of less than or equal to 35% under the CBB Capital Adequacy Ratio Guidelines	-	-	-	-	-	-
23	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	161.4	2.5	11.9	280.8	456.5	445.3
24	Other assets:						
25	Physical traded commodities, including gold	-					-
26	Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs		91.9	-	-	-	78.1
27	NSFR derivative assets		335.0	-	-	-	335.0
28	NSFR derivative liabilities before deduction of variation margin posted		75.6	-	-	-	75.6
29	All other assets not included in the above categories	290.3	-	-	-	290.3	290.3
30	OBS items		2,341.5	2,079.4	5,918.5	10,339.4	517.0
31	**Total RSF**						13,752.0
32	**NSFR (%)**						**143.0%**

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