

Arab Banking Corporation SA
Annual Report
2022



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ARAB BANKING CORPORATION SA
SA with a capital of 169,511,160 Euros
Registered office: 8 rue Halévy 75009 PARIS
RCS Paris 844 604 538
APE Code: 6419Z
(the "Company")

**MANAGEMENT REPORT OF THE BOARD OF DIRECTORS
TO THE ORDINARY GENERAL MEETING
AS OF 25 MAY 2023**

**IN ACCORDANCE WITH ARTICLES L.225-100 AND L.225-37 OF THE FRENCH COMMERCIAL
CODE, INCLUDING THE REPORT ON CORPORATE GOVERNANCE**

Ladies and Gentlemen,

We have called you to the Annual Ordinary General Assembly, amongst other things:

- to inform you about the situation of ARAB BANKING CORPORATION SA ("ABC SA" or the "bank" or the "company") and its activity during the past financial year, the bank's results, the progresses made or difficulties encountered, the bank's research and development activities, the foreseeable evolution of the bank's situation, future prospects and important events that have occurred between the end of the financial year and the date on which this report is drawn up, and
- to submit the accounts for this financial year for your approval,

The prescribed notices of meeting were duly sent to you and all the documents and papers provided for by the regulations in force were made available to you within the legal time limits.

PART ONE:
Management report of the Board of Directors provided for in Article L.225-100 of the Commercial Code

I. Situation and activity of the bank during the year ended 31 December 2022

The financial statements of ABC SA as of 31 December 2022 show a net profit of EUR 1.7 million. This follows a net profit of EUR 2.7 million for the year 2021.

The bank is ultimately owned by Bahrain-based Arab Banking Corporation B.S.C. ("ABC BSC" or "the Group") through London-based ABC International Bank Plc ("ABCIB"). The bank was created in 2018 to address the Brexit challenge and took over the assets of ABCIB's former Paris branch in October 2020, with the Frankfurt and Milan branches becoming direct branches of the new Paris entity at the same time.

The main driver of ABC SA's strategy is to strengthen the international reach of the ABC Group and to capitalise on group-wide synergies to better serve clients and increase trade and investment flows between Europe and the Middle East, North Africa, and Turkey (MENAT). ABC SA's goal is to provide its clients with innovative products and services, creative solutions, and operational excellence in trade finance. Guided by this objective, we are convinced that our model is the right one to create value for all our stakeholders.

Our balance sheet amounts to 1,052million euros as of 31 December 2022 vs. 757 million as of 31 December 2021, which shows a solid increase of 39%.

This robust result was built while maintaining strong capital and liquidity ratios throughout 2022 and accompanied by the consolidation of risk management, controls, and compliance processes within ABC SA.

II. Analysis of the evolution of the bank's activities

Wholesale Banking and *Transactional Banking* business are ABC SA's core business, in line with the Group's strategy, with a continued aim to support the needs of European customers.

Within this activity, the *Global Transactional Banking* department is the main driver of ABC SA in Europe. Trade finance is the main contributor to the bank's revenue through a targeted range of products and services. The department markets or finances export and import documentary letters of credit, guarantees, bonds and payments - still very important for many countries in the MENAT region and for the major North African markets such as Libya - but also offers pre-export finance and more structured products in supply chain finance, such as insurance-backed receivables discounting.

The operating environment in which the bank operated in 2022 affected its business, its staff and many of its customers in various and significant ways. No one expected the rapid economic growth and strong

business recovery of 2021 to be repeated in 2022. But few could have anticipated the profound geopolitical crisis created by the Russian invasion of Ukraine in February 2022, let alone the scale and scope of the global shockwave it precipitated. However, the bank proved operationally resilient and, supported by a strong balance sheet and a prudent and carefully calibrated risk appetite, was better able to take advantage of the current environment, generating a sustained level of Net Banking Income of €24.1 million for the year, which is comparable with the previous year. Profitability declined slightly during the year, with pre-tax profits of EUR 2.6 million compared to EUR 3.3 million in the previous year and post-tax profits of EUR 1.7 million compared to EUR 2.7 million in the previous year.

These results are the consequence of the strong revenues generated by ABC SA's three geographical units (Paris, Frankfurt, and Milan), and an increased cost base related to the ongoing enhancements following the establishment of the bank.

III. Progress made and difficulties encountered

The Bank is facing a complex, multidimensional and constantly changing operating environment, which is often beyond its control and yet has a key influence on the success of its operations. At global, regional, and national levels, political, economic, and financial developments have a significant and varied impact on the bank's clients and, by extension, directly on ABC SA, not only in terms of its day-to-day activities, but also in terms of its market risks, operational, regulatory and compliance environments.

The bank faced a particularly challenging year in 2022, during which risks remained exceptionally high. Its main geographical areas of operation, Europe, and the Middle East, were more than usually shaken by global events. The continuing legacy of COVID, combined with adverse geopolitical developments and financial market pressures, combined to cloud the overall economic outlook while fuelling inflationary pressures and generating widespread uncertainty and instability, particularly regarding interest and exchange rates.

At the global level, the bank faced a much less buoyant context than in 2021. The IMF estimated that global GDP growth would almost halve to 3.2% in 2022, down from 6% the previous year, while the expansion of international trade volume was estimated at 4.3%, significantly slower than the 10% recorded in 2021. Russia's invasion of Ukraine in February was the main driver of the global slowdown. Energy markets and subsequently key grain and other commodity markets were plunged into deep crisis as Ukrainian commodity exports collapsed and increasingly severe sanctions were imposed on Russia. The dislocation of commodity markets led to short-term price spikes with fractured global supply chains and difficulties for international shipping and transport, while already strained financial markets were subject to further interest and exchange rate uncertainties.

These global developments have inevitably had an impact on the countries of the MENAT region, our main area of operation, albeit somewhat asymmetrically given the diverse nature and structure of the region's various economies. While soaring energy prices have benefited the region's major hydrocarbon producers, including ABC SA's main markets such as Libya and Algeria, these benefits have been partially offset by rising prices for food, fertiliser, and other commodities. For energy importers in the MENAT region, the general rise in commodity prices has fuelled inflationary pressures, precipitating cost-of-living crises compounded, in the case of Turkey, for example, by the collapse of the currency. In Europe, too, the impact of higher commodity prices and global supply chain disruptions (the latter also reflecting China's COVID containment policies) has been keenly felt, putting additional pressure on many manufacturing customers, at least in the short term, and leading to some (temporary) decline in trade flows.

This changing global scenario and the shockwaves felt by our main geographical regions also had a direct impact on the bank's risk, regulatory and compliance operating environments. The instability in the financial sector, regarding interest rates, exchange rates and debt markets, has had significant implications in terms of risk, regulation, and operational resilience (particularly on capital and liquidity management). While the increase in Russian sanctions has added further degrees of complexity to the financial crime and compliance operating environment. The bank was able to adapt quickly to these changing operating conditions and confidently navigate through the complex interplay of global developments on risk, regulatory and compliance issues, while fully meeting its regulatory thresholds.

Through 30 years of experience in trading with the MENAT region, the Bank ABC Group has developed an excellent understanding of the area, enabling it to mitigate its risk-taking in its key geographies. Its strong commitment continues to be underpinned by the Bank's in-house product and country expertise - further benefitting from the Bank ABC Group's extensive footprint in the MENAT region - as well as an approach to risk mitigation through asset distribution that remains integral to its business model and operational ethos. This continues to serve the bank well, demonstrating both its relevance and resilience in the high-risk operating environment it faced in 2022. At the same time, the bank has been able to continue its transformational journey into the world of digital banking, mentored and supported by the Bank ABC Group, positioning it well for the innovations and technological advances that will undoubtedly be a major feature of the operating environment of the future.

IV. Forecast for the year 2023

The geopolitical uncertainty and volatility, with its widespread financial and economic fallout, that has characterised much of 2022 still shows no clear signs of imminent stabilisation. It would be unrealistic to expect anything other than another very challenging operating environment in 2023, which will again have a varying impact on the bank's business units and internal operations as well as on its customers.

It is therefore reassuring that the bank faces the challenges of 2023 not only in robust financial health and with a proven track record of operational resilience - having confidently and skilfully navigated the challenging macroeconomic environment of 2022 - but also with a dynamic pipeline of new business and increased aspirations. Indeed, in the coming year, the bank's exciting and ongoing transformational journey is set to continue and intensify further. The balance between the unique and specialised market and product expertise of the MENAT region and an increased strategic shift in banking services under the Bank ABC Group's umbrella should allow the bank's business to continue to grow.

At the same time, the bank should also continue to strengthen its support functions to further consolidate the foundations of the three-year-old bank.

Finally, within the framework of group projects, the bank continues its journey towards good corporate citizenship, with particular attention to climate change responsibilities. During the year, the Bank ABC Group approved a medium-term strategic plan and achievable climate change targets. In collaboration with external experts and ABCIB, and following European guidance, the bank launched a programme to train and raise awareness among staff on policies relating to diversity, equity, and inclusion in the workplace. ABC SA continues to ensure that its internal risk and compliance architecture remains fit for purpose and evolves appropriately in line with the dynamics

of our niche and core domestic markets. The bank ensures the highest level of integrity, helping to achieve full compliance with all prudential regulatory thresholds and wider ESG issues.

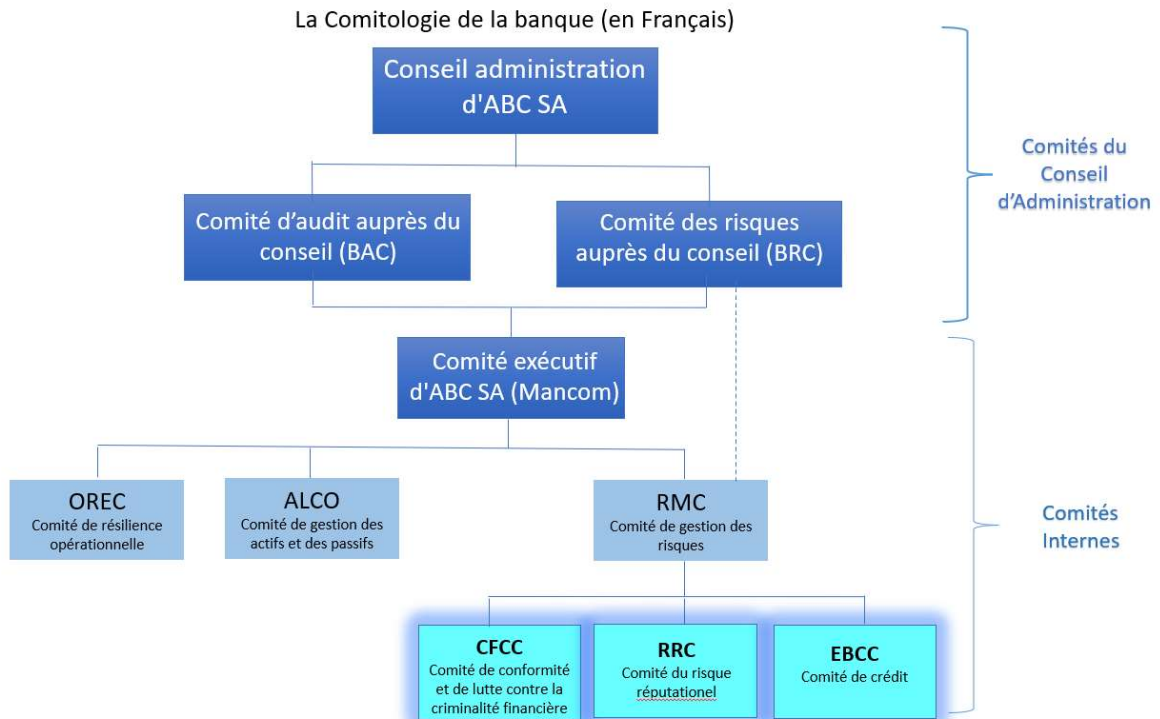
V. Main risks and uncertainties related to the business

The analysis and monitoring of the various risks incurred by the bank, inherent to its activity, are organised in accordance with the provisions of the Order of 3 November 2014 relating to the internal control of credit and investment institutions, which incorporates the European CRD Directive into French law.

The risk measurement and monitoring activity is largely outsourced to the London-based parent company. In 2023, the bank's risk team was strengthened by the arrival of an operational risk manager to take charge of the entire operational risk management system, including ICT risks.

The functions, responsibilities and organisation of the Risk Directorate have been specified and described in the charter approved in January 2022.

The Bank's main risk monitoring committees are organized as follows:



The bank has put in place a risk appetite framework that sets out the level and types of risk that ABC SA is prepared to assume to be able to achieve its strategic objectives. The objective is also to be always within prudential and regulatory limits. In addition, ABC SA has also revised in 2022 its internal capital adequacy

assessment process (ICAAP) and its internal liquidity adequacy assessment process (ILAAP) deployed for the first time in 2021 and is managing its capital and liquidity risk in a manner that is fully compatible with internal and external arrangements.

The main thresholds for the bank's risk appetite in 2022 are detailed below:

- For the capital:
 - Capital adequacy ratio (CAR) - Maintain a minimum CAR of 15% (the regulatory threshold is 10.5%)
 - Leverage ratio - Maintain a minimum leverage ratio of 5% (regulatory threshold of 3%)
- For liquidity:
 - Liquidity Coverage Ratio (LCR) - Maintain a minimum LCR of 105% (regulatory threshold 100%)
 - NSFR - Maintain a minimum NSFR of 105% (regulatory threshold 100%)
- For credit:
 - Large exposure - Keeping exposure below 24% (the regulatory limit is 25%)
- For profit/financial performance measurement:
 - Net Banking Income (NBI) / Total amount of risk exposure as defined in Article 92 of EU Regulation 575/2013 - Target a minimum of 2%.

The risk management process was fully reviewed in 2022 to be compliant with French and European regulations, as well as Bank ABC Group standards and relevant to the bank's business model. An action plan has been developed to draft or update the documents. Work has started with the review and validation by the Board of Directors on the recommendation of the Risk Committee to the Board of Directors of the Bank ABC Group's credit policies in November 2022. The drafting of procedures to complete the framework was started in the 4th quarter of 2022.

Governance was enhanced in 2022 with the creation of a sub-committee of the Credit Committee to oversee the portfolio of default and potentially defaulting loans and provisioning issues including ECL amounts. The BRC met six times in 2022 with four meetings dedicated to the presentation and discussion of quarterly reports and two additional meetings to discuss and recommend for validation the annual internal control report (RACI) and the review of the ICAAP, ILAAP and recovery plan. The Credit Committee meets weekly. The Risk Committee, ALCO and Compliance Committee held their respective meetings quarterly.

Credit and counterparty risks

Credit risk is considered the most significant risk for ABC SA. The bank has therefore put in place sufficiently detailed credit risk management procedures and mechanisms that use a strict monitoring to control exposures across multiple levels of regulatory thresholds, and risk appetite. This monitoring is broken down by counterparty, risk country and sector. Counterparty credit risk is supervised by the ABC SA Credit Committee. An additional report on the monitoring of the quality of the credit portfolio is submitted to the bank's Risk Management Committee (RMC) in accordance with the authority delegated to it by the ABC SA Management Committee (Mancom) and the Board Risk Committee (BRC), which is then submitted to the Board Risk Committee (BRC). The analysis of the portfolio of bad debts and potentially problematic loans as well as the provisioning related to these files are presented and discussed in the NPL and provisioning committee.

The bank's commitments include the loan portfolio and financing commitments, as well as guarantees issued, and letters of credit issued/confirmed. Commitments are subject to a comprehensive annual review by the risk management department and are subject to approval by the Credit Committee.

A system of limits is in place to provide a framework for decision-making on the approval of new commitments and to monitor the risks associated with outstanding loans. Limits are defined for each country, sector, and counterparty. These limits are reviewed annually. Any excess of limits must be justified and authorised by the appropriate decision-making body.

An internal rating system, common across the Bank ABC Group, is implemented within ABC SA. The analysis of the counterparties and the proposed limits are reviewed by the Credit Committee. The allocated rating covers separately and in a complementary manner the risk generated by a client and the risk inherent in the transaction (including the risk of the various counterparties involved in the operation). In addition to the rating of the counterparties, the risk department expresses its opinion on the transaction risk and suggests a set of preconditions and postconditions where appropriate.

The rating system is represented by a rating scale with twenty-four levels, from 1 (best rating) to 9 (lowest rating). A rating of 10 is assigned to doubtful counterparties. The use of a harmonised group-wide rating framework provides a consistent view of common counterparties and allows for a universal approach to individual clients of each unit within the Bank ABC Group.

The bank has opted for the standard approach to credit risk for the calculation of the regulatory solvency ratio. The calculation is performed daily by the department in charge of regulatory monitoring. As of 31 December 2022, the bank's solvency ratio was 17.55% compared with 23.68% the previous year, still well above the regulatory level.

Operational risks

The bank has put in place an operational risk management framework, to monitor and control operational risk at all levels of its business.

During 2022, several improvements were made to the operational risk management framework:

- An operational risk manager has been recruited to take charge of the monitoring and management of operational risks
- A RCSA (Risk and Compliance Self-Assessment) exercise was carried out in the 4th quarter of 2022 and the report accompanied by the action plan was presented to the Risk Committee for approval. The operational risk map was updated based on this exercise. The BRC was also informed of the results of the analysis of the data collected. The operational risk map is also communicated to the OREC,
- Awareness-raising actions for employees were carried out during 2022, particularly regarding IT risks (phishing, password security, etc.)
- Training sessions (e-training on dedicated platforms) on operational risks including ICT and compliance risks were organised for all ABC SA staff.
- The improvement of the recording and monitoring of operational risk incidents has been initiated in 2022 with wider use of the dedicated operational risk management tool. This work will continue in 2023.
- The operational risk rating system was reviewed by the Bank ABC Group in 2022 and the revised rating grid was approved by ABC SA in the 1st quarter of 2023. This grid is used to rate operational risks, compliance risks and risks identified during audit assignments.
- Reports on operational risk are presented quarterly to both the Internal Risk Committee and the Risk Committee of the Board of Directors.

Given the importance to ABC SA of its information system and the data it carries, and the continuing increase in cyber related threats, the risks linked to information, communication, and security

technologies (ICT) are major for both the group and ABC SA. Their management, integrated into the general operational risk management system, is conducted by the Information Security and Information Systems Department within the Group as the first line of defence and the second line of defence is provided by the Risk Department. Within ABC SA, they are monitored by the management bodies through dedicated sessions in the bank's governance (Risk Management Committee, Management Committee, Risk Committee to the Board of Directors).

No significant operational risk incidents were recorded by the bank in 2022.

Liquidity risk management

The Board of Directors defines the liquidity risk tolerance as part of the bank's risk appetite framework and periodically assesses the liquidity risk situation (at minimum annually). The Asset and Liability Management Committee is dedicated to the management of the bank's balance sheet and is also responsible for proposing to the bank's management team a policy for managing liquidity, interest rate and foreign exchange risks. The committee meets periodically to analyse liquidity.

The European Head of Treasury ensures the financing of the bank's activity, maintains the level of liquidity required to meet its commitments and ensures daily monitoring and management of liquidity.

The Risk Directorate implements systems for analysing and measuring liquidity risk, performs controls on limits and is responsible for their annual review. It defines liquidity risk stress scenarios and identifies long-term liquidity risks.

The Bank's initial objective in managing liquidity is to ensure the refinancing of its activities at an optimal cost by controlling liquidity while complying with regulatory requirements. The liquidity risk management framework manages the balance sheet to achieve a targeted asset and liability structure in line with the Bank's risk level defined by the Board of Directors and management.

In accordance with the regulations in force, the bank calculates the LCR and NSFR ratios. As of 31 December 2022, the LCR ratio stood at 331% compared to 507% at the end of 2021; while the NSFR ratio stood at 127% at the end of 2022 compared to 143% on 31 December 2021. Both ratios are well above the minimum regulatory requirement of 100%.

Market activity risk

ABC SA, as part of its risk monitoring and management, uses various market risk techniques and measures to appropriately manage its risk by setting limits that are monitored daily. This information is reported to the decision-making bodies in charge of the business.

ABC SA is not exposed to capital market activities. The bank's only market risk is currency risk. This risk is very low and is managed daily by the treasury department.

Measurement of overall interest rate risk

Interest rate risk is the risk of losses resulting from changes in interest rates. It is a factor of vulnerability of the financial situation of the bank confronted with an unfavourable evolution of interest rates.

In its analysis of the overall interest rate risk, the bank has chosen, in accordance with the guidelines on interest rate risk management published by the EBA, to differentiate:

- the influence on economic value, which may be impacted by a sudden interest rate shock,
- the influence on future equity arising from the impact of interest rate fluctuations on the future ability to generate earnings.

For this purpose, the bank calculates the impact of a uniform yield curve shock of 2% on equity and on the current net interest margin. These projections are made in euro equivalents on all lines, regardless of currency, and for the two significant currencies used, i.e., the euro and the US dollar.

ABC SA internal control system (3 lines of defence)

ABC SA's internal control system is organised around three lines of defence under the responsibility of the effective management and the supervisory body

Permanent control within the meaning of the Order of 3 November 2014 consists of continuous monitoring of the risk management framework, integrated into the operational processes and involving the first and second lines of defence.

Periodic control, which is the third line of defence, is an audit process carried out as an outsourced activity by ABCIB's internal audit department which operates on a dedicated audit cycle.

The first line of defence (LOD1) is responsible for the systems, operations, processes, and operation of the first-level controls that enable the Bank to manage risk. Management and staff are responsible for achieving objectives and monitoring risks. They must comply with applicable laws and regulations as well as internal policies and procedures, under the direction of the compliance and risk functions.

The second line of defence (LOD2) is responsible for defining the control framework (the internal control system) through policies, and monitoring the effectiveness of the control using various mechanisms such as risk mapping, key risk indicators (KRIs), the compliance monitoring plan and its testing, the 2LOD permanent control plan and its testing, etc.

This second line of defence is mainly composed of the compliance and permanent control officer (in charge of regulatory compliance and AML/CFT), and the risk manager.

It should be noted that the LOD2 functions are independent and report directly to the CEO of ABC SA.

The third line of defence (periodic control or LOD3) is an independent control function that also reports to the CEO of ABC SA. It is carried out by the ABCIB internal audit team based in London.

Internal audit is a function independent of other levels of control and operational lines. It undertakes periodic reviews of operations, the level of risk involved, compliance with procedures, and the effectiveness and adequacy of ongoing control through investigations.

The audit undertakes reviews of the design and effectiveness of the risk management and internal control system on a risk-based cycle that ensures coverage on a periodic basis in line with regulatory requirements.

VI. Communication of costs and expenses excluded from deductible expenses for the corporate tax base

In accordance with the provisions of Articles 223 *quater* and *quinquies* of the General Tax Code, it should be noted that no expenditure or sumptuary charges that are not deductible from the taxable income within the meaning of Article 39-4 of the General Tax Code, or excessive overheads within the meaning of Article 39-5 of the General Tax Code, have been recorded for the past financial year.

VII. Important events since the end of the financial year

Since the end of the financial year, there have been no significant events with an impact on the bank's activity.

At the accounting level, all events originating in 2022 and confirmed at the beginning of 2023 have been accounted for after the closing.

VIII. Bank's research and development activity

The bank did not undertake any research or development programmes in the past year.

IX. Employee share ownership

Pursuant to Article L.225-102 of the French Commercial Code, it should be noted that no employee held a stake in the company's capital on the last day of the financial year, i.e., 31 December 2022.

X. Method of valuation and presentation of the accounts for the financial year

The presentation rules and valuation methods used to prepare the annual financial statements comply with the regulations in force, and with the provisions of ANC Regulation No. 2014-07 on the financial statements of companies in the banking sector dated 26 November 2014.

XI. Allocation of the result

The financial year ending 31 December 2022 results in a profit of EUR 1,737,570. In total, the distributable sums amount to 1,738,690 euros considering a small amount from previous year pending allocation. Hence, we propose to allocate EUR 1,738,690 to the legal reserve account.

To demonstrate its commitment to the bank and to strengthen the regulatory capital, our shareholders do not wish to receive dividends in the first few years of the company to consolidate the equity while the legal reserve is being fully constituted.

As a reminder, we are bound by the following rules pursuant to Articles L.232-10 and L232-12 of the Commercial Code:

- Past losses must be offset by future profits
- A legal reserve amounting to 10% of the capital must be set aside
- The legal reserve must be endowed each year with a minimum of 5% of the distributable profit until it is fully constituted.

In view of the above, no dividend will be distributed to shareholders this year.

XII. Agreements referred to in Articles L. 225-38 et seq. of the Commercial Code

No agreement referred to in Articles L. 225-38 et seq. of the Commercial Code is in place within ABC SA.

XIII. Normal and routine agreements

Several normal and ongoing agreements are in place to cover the various services provided to ABC SA on the one hand by ABCIB and on the other hand by ABC BSC.

XIV. Shareholding

Of the 16,951,116 shares making up the bank's share capital, ABCIB held 16,951,115 shares on 31 December 2022.

XV. Dividends distributed for the last three years

No dividends have been distributed in the company's first three financial years. The shareholders want the statutory reserves to be built up as soon as possible from the bank's profits to strengthen the bank's regulatory capital.

Exercise	2022	2021	2020
Dividends distributed	0	0	0

XVI. Appendix table

Attached to this report, pursuant to Article R.225-102 of the Commercial Code, is a table showing the results of ABC SA over the bank's first three financial years (**Appendix 1**).

XVII. Payment deadlines

The company undertakes to pay its suppliers' invoices at the latest within thirty days of the date of receipt of the invoice, so that the outstanding debt to suppliers as of 31 December 2022 does not include any invoices that are beyond their due dates.

Furthermore, regarding Article D. 441-4 I-2^e, it is agreed that the scope of the information communicated relating to the payment periods mentioned in Article D. 441-4 of the Commercial Code does not include banking and related transactions.

In accordance with the provisions of Article L.441-14 of the French Commercial Code, the breakdown of supplier and customer payment terms is presented below:

	Article D.441 I.-1° : factures <u>reçues</u> non réglées à la date de clôture de l'exercice dont le terme est échu					Article D.441 I.-1° : factures <u>émises</u> non réglées à la date de clôture de l'exercice dont le terme est échu				
	0 jour (indicatif)	1 à 30 jours	31 à 60 jours	91 jours et plus	Total	0 jour (indicatif)	1 à 30 jours	31 à 60 jours	91 jours et plus	Total
(A) Tranches de retard de paiement										
Nombre de factures concernées										
Montant total des factures concernées (TTC)										
Pourcentage du montant total des achats de l'exercice (TTC)										
Pourcentage du chiffre d'affaires de l'exercice (TTC)										
(B) Factures exclues de (A) relatives à des dettes et créances litigieuses ou non comptabilisées										
Nombre de factures exclues										
Montant total des factures exclues (TTC)										
(C) délais de paiement de référence utilisés (contractuel ou délai légal - article L.441-6 du code de commerce)										
Délais de paiement utilisés pour le calcul des retards de paiement	Délais légaux					Délais légaux				

XVIII. Subsidiaries and holdings, controlled companies (Article L. 233-6 of the Commercial Code)

Not applicable.

XIX. List of the bank's branches at the end of the financial year (Article L. 232-1, II of the Commercial Code)

The bank has two branches located in Milan (Italy) and Frankfurt (Germany).

XX. Status of the Statutory Auditors' mandates

ERNST & YOUNG and Others was appointed at the time of the bank's creation in December 2018 for a period of 6 financial years.

The size of the Balance Sheet above 450 million euros, led the company to appoint a joint auditor in the person of KPMG SA in 2020, also for a period of six years.

XXI. Information on remuneration policy and practices

Article 199 of the Order of 3 November 2014 provides that credit institutions below a balance sheet total of EUR 10 billion are not subject to the provisions of Articles L. 511-81 and L. 511-82 and the second paragraph of Article L. 511-84 of the Monetary and Financial Code if, in order to limit excessive risk-taking, they have identified their staff who have a significant impact on the risk of the company or group and have implemented rules for limiting, deferring and diversifying the payment instruments for the variable part of the remuneration of these staff, while respecting the long-term interests of the company and provided that they do not limit the company's ability to strengthen its capital base.

Article L. 511-102 of the Monetary and Financial Code provides that reporting companies that are part of a group may apply the remuneration policy of the company that controls them.

Article 241-1 of the Order of 3 November 2014 set the threshold above which a specialised remuneration committee must be set up at EUR 5 billion in balance sheet size.

The bank's remuneration policy is therefore in line with that of ABCIB and the Bank ABC Group.

This policy is the result of numerous exchanges with the regulators of the main countries in which the wider group is established (the Kingdom of Bahrain, United Kingdom and of course France), their requirements and expectations regarding the Bank ABC Group's approach to remuneration.

The main provisions of the current policy are designed to ensure that the remuneration offered to employees is sufficient to:

- attract and retain those with the skills, knowledge and expertise required to perform the duties to which they are appointed,
- encourage employees to perform at a high level of performance in line with the bank's strategy and

objectives, while ensuring full compliance with all risk management and compliance policies and guidelines,

- promote and encourage behaviours consistent with the culture and values of the bank,
- to provide remuneration in line with market practice, relative to comparable financial institutions, and within the budget approved by the Board of Directors of ABC SA, and
- have an appropriate ratio between fixed and discretionary variable pay.

Thus, ABC SA complies with all applicable local remuneration regulations in France, Germany, and Italy.

The remuneration policy includes measures to avoid and mitigate conflicts of interest:

- All discretionary variable remuneration is subject to a set of principles contained in the remuneration policy,
- The annual discretionary bonus scheme document is referred to in the remuneration policy and describes how discretionary bonuses will be calculated,
- no executive director is involved in setting his or her own remuneration,
- No single manager or line manager can approve the remuneration of a direct report, HR will oversee all remuneration offers and adjustments,
- The Board of Directors of ABC SA is responsible for agreeing the individual remuneration packages (including discretionary bonuses) for the Executive Directors of ABC SA.

In terms of governance, the Bank ABC Group in Bahrain and ABCIB each have remuneration committees. These committees meet at least three times a year. ABC SA does not have its own remuneration committee, but remuneration issues are discussed directly in the Board of Directors.

Finally, the bank has identified the staff with a significant impact on the company's risk in application of the criteria mentioned in the European Commission's Delegated Regulation 604/2014.

XXII. Information on regulatory ratios

ABC SA complies with all local regulations applicable to its three European units (the French headquarters and the Italian and German branches) and with those of the Banque de France and the ACPR as well as with European regulations.

Ratios are monitored daily, and warning thresholds have been defined under the various plans: *Risk Appetite Statement*, Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Assessment Process (ILAAP).

	Amounts in Euros / Ratios in %.	31/12/2022	31/12/2021
CAR	Own funds	183 502 305	180 413 731
	Equity Tier 1	183 502 305	180 413 731
	Total capital ratio (%)	17.72%	23.68%
	Capital ratio T1 (%)	17.72%	23.68%
	Capital Ratio CET1 (%)	17.72%	23.68%
	Total amount of risk exposure	1 035 318 856	761 756 532

	Weighted exposure amounts for credit, counterparty credit and dilution risks and unsettled trading positions	990 276 236	720 443 945
	Total exposure to position risk, currency risk and commodity risk	2 196 391	2 799 428
	Total amount of operational risk exposure	40 397 567	38 465 696
LCR	Liquidity coverage ratio (%)	330.73%	506.79%
NSFR	NSFR ratio (%)	127.42%	142.82%
LR	Leverage ratio (%)	13.11%	17.78%

It should be noted that these ratios were reported before the final adjustments related to the closing of the accounts. It is customary to report again once the accounts have been approved so that the regulator has the final figures in its databases.

Moreover, the Equity does not consider the result of the financial year which is added only after the validation of the General Assembly (Chapter 2 section 1 article 26.2 of the CRR).

XXIII. Information on social responsibility issues

The bank's day-to-day operations and activities will always and inevitably have some degree of impact - albeit limited - on the environment and the wider social community and, as a result, the Bank ABC Group continues to invest resources in developing and accelerating progress in its approach to environmental, social and governance (ESG) factors.

Within the framework of the Bank ABC Group's policies and in compliance with local regulations, the bank strives to minimise its carbon footprint and to develop its approach to corporate social responsibility (CSR) issues. ABC SA is below 2 of the 3 thresholds defined in Article L225-102 of the French Commercial Code and is therefore not required to include a declaration of non-financial performance in its management report.

However, the bank is part of the Bank ABC Group-wide approach to meet the extra-financial reporting requirements.

PART TWO:
Report on corporate governance provided for in Article L.225-37 of the Commercial Code

I. Agreements between a director or a significant shareholder of the bank and a subsidiary of the bank

Not applicable

II. Information on Directors

In accordance with the provisions of Article L.225-37-4, 1° of the French Commercial Code, you will find attached a list of the offices and positions held in any company during the past financial year by each of the company's directors (**Appendix 2**).

In accordance with Article L.225-17 of the French Commercial Code, the Board of Directors is composed of a total of 6 directors, including 4 internal directors and 2 external directors, ensuring the independence and good governance of the bank.

The selection procedure for independent directors is based on the following principles:

- the search for a balance in the composition of the Board of Directors with regard to the skills and diversity of its members (professional and international qualifications and experience, balanced representation of women and men),
- the search for complementary profiles, considering the existing composition of the Board of Directors.

III. Status of directors' mandates

In accordance with the bank's Articles of Association, the term of office of directors is three years. The Board of Directors is composed of three directors from ABC BSC (one of whom retired from ABC BSC during 2022, but remains a director of the Bank), one director from ABCIB and two independent directors.

The situations of the 6 directors are as follows:

- Mr Pierre Debray was appointed as a director on 4 November 2020.
- Ms Bayone Sisombat was appointed as a director on 09 December 2021.
- Dr Khaled Kawan, Mr Rajeev Adrian, and Mr Nicolas Hurtrez were reappointed as directors at the General Assembly on 24 May 2022.
- Mr. Fouad Salame was appointed director at the same assembly on 24 May 2022.

Furthermore, it can be noted that the two independent directors chair the two committees attached to the Board of Directors. Mr Debray chairs the Board Risk Committee (BRC), and Ms Sisombat chairs the Board Audit Committee (BAC).

IV. Information about the delegations

Not applicable.

We will now present to you in detail the annual accounts which we will submit for your approval.

The auditors shall report on the performance of their duties in their report on the annual accounts. It is under these conditions that we ask you to approve the resolutions submitted to your vote.

The Chairman of the Board of Directors

APPENDIX 1: TABLE OF COMPANY RESULTS FOR THE LAST FIVE YEARS (in thousands of euros except number of shares, earnings per share and number of employees)

NATURE	2022	2021	2020
<u>I. - Financial situation at the end of the year:</u>			
a) Share capital	169 511	169 511	169 511
b) Number of shares issued	16 951 116	16 951 116	16 951 116
c) Number of bonds convertible into shares	-	-	-
<u>II. - Overall profit & loss:</u>			
a) Turnover before tax	24 118	24 083	3 523
b) Profit before tax, depreciation, and provisions	-390	2 194	-266
c) Income tax	-535	-1 059	55
d) Profit after tax, depreciation, and provisions	1 738	2 736	-2 040
e) Distributed profits	-	-	-
<u>III. - Earning per share:</u>			
a) Profit after tax but before depreciation and provisions	0,01	0,19	-0,02
b) Profit after tax, depreciation, and provisions	0,10	0,16	-0,12
c) Dividend paid per share	-	-	-
<u>IV. - Personnel:</u>			
a) Number of employees	85	78	74
b) Salaries	5 306	6 810	1 312
c) Amount paid for social benefits (social security, works, etc.)	2 893	2 246	466

APPENDIX 2: LIST OF OFFICES AND POSITIONS HELD BY THE COMPANY'S CORPORATE OFFICERS
(ARTICLE 225-37-4, 1° OF THE COMMERCIAL CODE)

- Dr Khaled KAWAN held the following positions in the following companies in 2022
 - Chief Executive Officer, Arab Banking Corporation (B.S.C.) - Dr Kawan retired from this role effective 31 July 2022
 - ABC International Bank plc, Chairman
 - Banco ABC Brazil, Chairman
 - Arab Banking Corporation SA, Chairman

- Mr Rajeev ADRIAN held the following positions in the following companies in 2022
 - ABC International Bank plc., CEO and Director
 - The Libyan British Business Counsel Secretariat, Director
 - Arab Bankers Association, Director
 - Arab Banking Corporation SA, Director

- In 2022, Mr Pierre DEBRAY held the following positions in the following companies
 - President of the consulting company Marjuguilauralex SA (100% owned),
 - President of Inboard Partners, via Marjuguilauralex SA,
 - Senior advisor to Nemrod Finance
 - Arab Banking Corporation SA, Director

- In 2022, Mr Nicolas HURTREZ held the following positions in the following companies
 - Head of Group Strategy, Arab Banking Corporation (B.S.C.)
 - Arab Banking Corporation SA, Director

- Mr Fouad SALAME held the following positions in the following companies in 2022
 - Group Head of Financial Institutions, Arab Banking Corporation (B.S.C)
 - Arab Banking Corporation SA, Director

- Mrs Bayone SISOMBAT held the following positions in the following companies in 2022
 - BS Partner SAS (France): Chairman
 - Apivia Macif Mutuelle (France): Finance, Audit, Risk Committee member
 - Chartered Accountant
 - Arab Banking Corporation SA, Director

This is a translation into English of the statutory auditors' report on the financial statements of the Company issued in French and it is provided solely for the convenience of English-speaking users.

This statutory auditors' report includes information required by European regulations and French law, such as information about the appointment of the statutory auditors or verification of the management report and other documents provided to the shareholders.

This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

Arab Banking Corporation S.A.

Year ended December 31, 2022

Statutory auditors' report on the financial statements

KPMG S.A.
Tour Eqho
2, avenue Gambetta
CS 60055
92066 Paris-La Défense cedex
S.A. au capital de € 5 497 100
775 726 417 R.C.S. Nanterre

Commissaire aux Comptes
Membre de la compagnie
régionale de Versailles et du Centre

ERNST & YOUNG et Autres
Tour First
TSA 14444
92037 Paris-La Défense Cedex
S.A.S. à capital variable
438 476 913 R.C.S. Nanterre

Commissaire aux Comptes
Membre de la compagnie
régionale de Versailles et du Centre

Arab Banking Corporation S.A.

Year ended December 31, 2022

Statutory auditors' report on the financial statements

To the Annual General Meeting of Arab Banking Corporation S.A.,

Opinion

In compliance with the engagement entrusted to us by your Annual General Meeting and the Articles of Association, we have audited the accompanying financial statements of Arab Banking Corporation S.A. for the year ended December 31, 2022.

In our opinion, the financial statements give a true and fair view of the assets and liabilities and of the financial position of the Company as at December 31, 2022 and of the results of its operations for the year then ended in accordance with French accounting principles.

The audit opinion expressed above is consistent with our report to the Audit Committee.

Basis for Opinion

■ Audit Framework

We conducted our audit in accordance with professional standards applicable in France. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Statutory Auditors' Responsibilities for the Audit of the Financial Statements* section of our report.

■ Independence

We conducted our audit engagement in compliance with the independence requirements of the French Commercial Code (*Code de commerce*) and the French Code of Ethics for Statutory Auditors (*Code de déontologie de la profession de commissaire aux comptes*) for the period from January 1, 2022 to the date of our report, and specifically we did not provide any prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No. 537/2014.

Justification of Assessments - Key Audit Matters

In accordance with the requirements of Articles L. 823-9 and R. 823-7 of the French Commercial Code (*Code de commerce*) relating to the justification of our assessments, we inform you of the key audit matters relating to risks of material misstatement that, in our professional judgment, were of most significance in our audit of the financial statements of the current period, as well as how we addressed those risks.

These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on specific items of the financial statements.

■ Credit risk impairments

Risk identified	Audit procedures implemented to answer this risk
<p>Your Company is exposed to credit risks which are inherent in its activities and which are borne by loans and commitments to banks and customers. As indicated in Note 3 "Accounting principles and valuation methods" of the notes to the statutory financial statements, your Company classifies these loans as non-performing when they bear an incurred credit risk and books impairments against that risk. Provision on performing exposures is also calculated using a statistical model based on a number of assumptions as defined in the note 3.2.3 "Impairments and credit risk provisions". These provisions are booked under "Provisions for risks and charges" as liabilities.</p> <p>As at December 31, 2022, non-performing loans amount to K€ 204 and associated impairments to K€ 49. Provisions for performing exposures amount to K€ 2,377.</p> <p>We considered the evaluation of such impairments and provisions to be a key audit matter because of the judgment in assessing credit risk.</p>	<p>Our work consisted in:</p> <ul style="list-style-type: none">▶ gaining an understanding of the processes relating to the identification of non-performing exposures as well as the procedures for evaluating and booking the corresponding impairment;▶ reviewing, on a sample basis, the classification of exposures between performing and non-performing and the documentation of the risk of non-recovery;▶ testing a sample of non-performing exposures to assess the impairments booked;▶ performing a critical review of the conclusions of the work carried out by the auditors of your majority shareholder on the process of assessing the provisions on performing exposures and assessing the correct application of these methods by your Company;▶ reading the credit risk disclosures in the notes to the statutory financial statements.

Specific Verifications

We have also performed, in accordance with professional standards applicable in France, the specific verifications required by laws and regulations.

■ **Information given in the management report and in the other documents with respect to the financial position and the financial statements provided to the shareholders**

We have no matters to report as to the fair presentation and the consistency with the financial statements of the information given in the management report of the Board of Directors and in the other documents with respect to the financial position and the financial statements provided to the shareholders, with the exception of the following point.

The fairness and consistency with the financial statements of the information relating to the payment deadlines referred to in Article D. 441-6 of the French Commercial Code (*Code de commerce*) leads us to make the following observation: as indicated in the management report, this information does not include banking and related transactions, as your Company considers that they are not included in the scope of the information to be produced.

■ **Information relating to Corporate Governance**

We attest that the section of the Board of Directors' Report relating to Corporate Governance sets out the information required by Article L. 225-37-4 of the French Commercial Code.

Report on Other Legal and Regulatory Requirements

■ **Appointment of the Statutory Auditors**

We were appointed as statutory auditors of Arab Banking Corporation S.A. by your annual general meeting held on November 4, 2020 for KPMG S.A. and by your articles of association of December 10, 2018 for ERNST & YOUNG et Autres.

As at December 31, 2022, KPMG S.A. and ERNST & YOUNG et Autres were in their third and fourth year of total uninterrupted engagement, respectively (including three years since the Company became a public interest entity due to its status as a credit establishment).

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with French accounting principles and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing the Company'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 it is expected to liquidate the Company or to cease operations.

The Audit Committee is responsible for monitoring the financial reporting process and the effectiveness of internal control and risk management systems and where applicable, its internal audit, regarding the accounting and financial reporting procedures.

The financial statements were approved by the Board of Directors.

Statutory Auditors' Responsibilities for the Audit of the Financial Statements

■ Objectives and audit approach

Our role is to issue a report on the financial statements. Our objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with professional standards 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 made on the basis of these financial statements.

As specified in Article L. 823-10-1 of the French Commercial Code (*Code de commerce*), our statutory audit does not include assurance on the viability of the Company or the quality of management of the affairs of the Company.

As part of an audit conducted in accordance with professional standards applicable in France, the statutory auditor exercises professional judgment throughout the audit and furthermore:

- ▶ Identifies and assesses the risks of material misstatement of the financial statements, whether due to fraud or error, designs and performs audit procedures responsive to those risks, and obtains audit evidence considered to be sufficient and appropriate to provide a basis for his 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.
- ▶ Obtains 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 internal control.
- ▶ Evaluates the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management in the financial statements.
- ▶ Assesses the appropriateness of Management's 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 Company's ability to continue as a going concern. This assessment is based on the audit evidence obtained up to the date of his audit report. However, future events or conditions may cause the Company to cease to continue as a going concern. If the statutory auditor concludes that a material uncertainty exists, there is a requirement to draw attention in the audit report to the related disclosures in the financial statements or, if such disclosures are not provided or inadequate, to modify the opinion expressed therein.
- ▶ Evaluates the overall presentation of the financial statements and assesses whether these statements represent the underlying transactions and events in a manner that achieves fair presentation.

■ Report to the Audit Committee

We submit to the Audit Committee a report which includes in particular a description of the scope of the audit and the audit program implemented, as well as the results of our audit. We also report significant deficiencies, if any, in internal control regarding the accounting and financial reporting procedures that we have identified.

Our report to the Audit Committee includes the risks of material misstatement that, in our professional judgment, were of most significance in the audit of the financial statements of the current period and which are therefore the key audit matters that we are required to describe in this report.

We also provide the Audit Committee with the declaration provided for in Article 6 of Regulation (EU) No. 537/2014, confirming our independence within the meaning of the rules applicable in France as set out in particular in Articles L. 822-10 to L. 822-14 of the French Commercial Code (*Code de commerce*) and in the French Code of Ethics for Statutory Auditors (*Code de déontologie de la profession de commissaire aux comptes*). Where appropriate, we discuss with the Audit Committee the risks that may reasonably be thought to bear on our independence, and the related safeguards.

Paris-La Défense, May 10, 2023

The Statutory Auditors
French original signed by

KPMG S.A.

ERNST & YOUNG et Autres

Valéry Foussé

Matthieu Préchoux

Accounts as of 31 December 2022
(in thousands of euros)

Balance sheet assets		31/12/2022	31/12/2021
Cash, Central Banks, Post Office accounts	4.1	119,321	170,560
Loans and advances to credit institutions	4.1	289,135	134,980
Operations with customers	5.1	639,618	448,790
Shares and other variable income securities	6	11	9
Investments and other securities held for the long term	7	-	0
Intangible assets	8	115	109
Tangible Fixed assets	8	576	667
Prepayments, accrued income and other debtors	9 & 11.1	3,448	2,155
Total assets		1,052,224	757,270

Accounts as of 31 December 2022

(in thousands of euros)

Balance sheet liabilities & shareholder's funds		31/12/2022	31/12/2021
Deposits from banks and other financial institutions	4.2	617,183	359,176
Customer deposits	5.2	232,258	199,505
Other liabilities, accruals and deferred income	10 & 11.2	13,436	7,990
Provisions for risks and charges	12	4,108	7,450
Funds for General Banking Risk	13	656	304
Equity (excluding FGBR)	20.1	184,584	182,845
- Share capital		169,511	169,511
- Reserves		12,639	10,599
- Statutory legal reserve		697	-
- Financial year profit & loss		1,738	2,736
Total liabilities & shareholder's funds		1,052,224	757,270

Accounts as of 31 December 2022
(in thousands of euros)

Off balance sheet		31/12/2022	31/12/2021
Commitments given	14		
Financing commitments given		413,039	331,016
Guarantees commitments given		437,066	269,663
Other commitments given			
Commitments received			
Financing commitments received			
Guarantees commitments received		137,061	
Other commitments received			
		987,167	600,679

Income statement as at 31 December 2022
(in thousands of euros)

		31/12/2022	31/12/2021
- Interest and similar incomes		18,726	9,642
- Interest and similar expenses		(10,019)	(1,203)
- Income from variable income securities		818	196
- Commission and fee income		17,589	16,739
- Commission and fee expenses		(2,917)	(1,188)
- Gain or losses on trading portfolio transactions			
- Other banking operating incomes		182	-
- Other banking operating expenses		(262)	(103)
Net banking income	15	24,118	24,083
- General operating expenses	16	(24,507)	(21,574)
- Depreciation and amortisation and provisions on fixed assets	8	(216)	(258)
Gross operating P&L		(605)	2,252
- Provision for credit loss (cost of risk)	17	3,229	1,022
Operating P&L		2,624	3,273
- Gain or losses on fixed assets		-	-
Earnings before tax and interest		2,624	3,273
- Exceptional income			-
- Allocations / reversals Fund for General Banking Risks	13	(352)	522
- Corporate income tax		(535)	(1,059)
Financial year profit/loss		1,738	2,736

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

1. HIGHLIGHTS OF THE YEAR

The financial year ending December 31, 2022, is the second full financial year for Arab Banking Corporation SA (ABC SA).

For ABC SA, this year 2022 was a year of consolidation for the new entity structure following the setting up of this structure in 2021.

The bank ended up the year with a profit of 1,738 K€ following a profit of 2,736K€ in 2021.

Overall, 2022 was a year marked by the geopolitical crisis generated by the Russian-Ukrainian conflict which had impacts on the economy, on our clients and on our products.

2. SIGNIFICANT EVENTS AFTER THE CLOSING OF THE BOOKS

At the accounting level, no significant events have occurred since the closing.

3. ACCOUNTING PRINCIPLES AND VALUATION METHODS

The annual financial statements are prepared in accordance with Regulation 2014-07 issued by the French Accounting Standards Authority (*Autorité des Normes Comptables* - ANC).

3.1. Accounting principles

The accounting conventions have been applied fairly, in accordance with the principle of prudence and the following fundamental assumptions:

- going concern,
- consistency of accounting methods between periods,
- independence of exercises.

We have also complied with the general rules for the preparation and presentation of annual financial statements.

The basic method used to value items recognised in the financial statements is the historical cost method.

3.2. Receivables due from and payables due to credit institutions and customers

3.2.1. Receivables and payables

Receivables and payables are recognised on the balance sheet at the date of the transaction and at their face value.

However, where these are firm commitments to carry out a transaction at a later date, they are recognised off-balance sheet at the date of said commitment (see section on off-balance sheet items).

Accrued interests on receivables are recognized as accrued interests' receivable, with a corresponding credit to the income statement.

We have not recognised any moratoria or state-guaranteed loans (PGE) on ABC SA's balance sheet.

3.2.2. Non-performing loans due from credit institutions and customers

Loans are reclassified as non-performing loans if they have at least one of the following three characteristics:

- there is a probable or certain risk of total or partial non-recovery,
- principal or interest receivable have been unpaid for more than three months,
- loans are in dispute.

Interests on non-performing loans are recognised and provisions are recognised in respect of them.

3.2.3. Impairment losses and provisions for credit risk

Impairment losses in respect of credit risk on non-performing receivables (stage 3) are recognised as a deduction from assets.

Provisions for performing loans calculated using the statistical model defined below are recognised as provisions for liabilities and charges (ECL stage 1 & 2).

The measurement of credit risk provisions for the financial assets assessed requires the use of models and significant assumptions about future economic conditions, credit behaviour (e.g. the probability of customer default and the resulting losses), the estimation of the amount and timing of future cash flows and collateral values. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

For its calculations, the Bank uses a model with a certain number of underlying assumptions affecting the choice of variables and their interdependence. This model includes in particular:

- An internal credit rating model, which assigns a probability of default (PD) to the individual ratings

- The determination of significant increase in credit risk (SICR) criteria
- The selection of appropriate models and assumptions for measuring the provision
- The determination of associations between macroeconomic scenarios, economic data such as unemployment levels, collateral values and the effect on PD, exposure at default (EAD) and loss given default (LGD)
- The selection and relative weighting of forward-looking scenarios to produce economic data in the provision models
- The determination of relevant exposure periods regarding revolving credit facilities and facilities being restructured at the reporting date.

These calculations cover both outstanding loans and off-balance sheet commitments.

If a probable loss is identified on an off-balance sheet commitment, a provision is recognised. This provision will be recognised in the income statement under provision for credit losses.

The Bank applies the principle of contagion of impairment to all defaulting counterparty's exposures.

Charges to and reversals of the provision for risk of non-recovery of non-performing receivables are recognised in provision for credit losses.

The model used for credit risk impairments and provisions is the model used by the ABC group and the calculations are run centrally.

3.3. Intangible assets and property, plant and equipment

These are recognised at their acquisition cost (purchase price and incidental costs).

Non-current assets are depreciated or amortised on a straight-line basis over the life of the asset concerned:

- | | |
|-------------------------------------|---------------|
| • Fixtures, fittings, and furniture | 5 to 10 years |
| • Office and computer equipment | 3 to 5 years |
| • Intangible assets | 1 to 3 years |

3.4. Fees and commissions

ABC SA receives fees and commissions for a diverse range of services it provides to its customers. Fees and commissions are recognised when ABC SA provides a service.

These amounts include fees related to all products and services provided.

Fees recognised for the provision of services for a given period and are recognised on a straight-line basis over that period.

3.5. Provisions for liabilities and charges

3.5.1. Provisions for employee benefit obligations

ABC SA makes provisions in its accounts for all retirement and length-of-service commitments granted to its employees according to local regulations.

The commitments relating to retirement benefits and long-service awards calculated by French and Italian actuaries totalled €1,445k at the end of 2022 vs. €1,529k at the end of 2021.

As regards post-employment benefits in France:

- Long-service awards have been calculated and provisioned on the assumption of payment in accordance with the collective bargaining agreement for credit institutions.
- Retirement benefits have been calculated and provisioned on the assumption of a payment in accordance with the collective bargaining agreement for credit institutions and based on voluntary retirement at 62 for employees. This calculation includes employer contributions.
- As regards defined contribution pension plans, in respect of which the Company's commitment is limited to the payment of contributions, the contributions concerned are recognised as expenses of the year in which they are incurred.

As regards post-employment benefits in Italy, they have also been calculated and provisioned in accordance with the legislation in force in the country.

No post-employment benefits are recognised in Germany, in line with local requirements.

Benefits during employment, such as medical cover contributions, are recognised as expenses for the year in which they are incurred.

3.5.2. Other provisions for liabilities and charges:

If there are any tax disputes, a provision must be recognised as from the notification of tax reassessment, calculated based on the estimated risk.

Other provisions for legal disputes are established based on the net risk measured and calibrated by an external legal consultancy firm when needed, or at a flat rate of 100%.

3.6. Non-recurring income and expenses

Non-recurring income includes all items that, due to their nature or amount, cannot be attributed to the Company's ordinary activities.

3.7. Translation of foreign currency transactions

Foreign currency balance sheet items are translated at the year-end exchange rate in accordance with the rates provided by the Group.

3.8. Consolidation principles

As ABC SA is part of the ABC Group, our Company's annual financial statements are fully consolidated into the consolidated financial statements of Arab Banking Corporation B.S.C.

The Group's registered office is in Manama, Kingdom of Bahrain, at the following address: Bank ABC Tower, Diplomatic Area, PO Box 5698. Arab Banking Corporation B.S.C is registered in the Bahrain commercial register under C.R. No. 10299.

4. CASH, CENTRAL BANKS, POST OFFICE ACCOUNTS AND RECEIVABLES DUE FROM CREDIT INSTITUTIONS (in thousands of euros)

4.1. Assets

	31/12/2022	31/12/2021
Cash	7	8
Central banks	119,264	170,516
Accrued interest receivable	49	37
TOTAL	119,321	170,560
Current accounts	36,103	12,962
Term accounts and loans	251,298	120,870
Accrued interest receivable	1,734	1,150
Provisions for non-performing receivables	-	-
TOTAL	289,135	134,980

No irrecoverable loans or restructured loans are accounted for in these balance sheet items.

A breakdown of the loans and advances to credit institutions is provided below:

	31/12/2022		31/12/2021	
	Affiliated undertakings	Other	Affiliated undertakings	Other
Current accounts	10,964	25,139	9,195	3,767
Term accounts and loans	9,337	241,961	472	120,398
Accrued interest receivable	-	1,735	-	1,148
Provisions for non-performing receivables	-	-	-	-
TOTAL	20,300	268,836	9,667	125,313

A breakdown by maturity is provided below:

31/12/2022	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years
Current accounts	36,103		-	-
Term accounts and loans	157,258	94,041	-	-
Accrued interest receivable	1,675	59	-	-
TOTAL	195,036	94,100	-	-

A breakdown of loans and advances by geographic region is provided below:

31/12/2022		31/12/2021	
Belgium	93,708	Turkey	67,726
Turkey	65,169	Egypt	17,658
Egypt	54,669	Libya	14,901
United States	22,925	United Kingdom	10,209
Jordan	12,767	Bahrain	8,998
Rest of the world	39,898	Rest of the world	15,488
TOTAL	289,135	TOTAL	134,980

4.2. Liabilities

	31/12/2022	31/12/2021
Current accounts	111,168	17,768
Term accounts and loans	505,069	341,390
Accrued interest payable	946	18
TOTAL	617,183	359,176

A breakdown of the liabilities is provided below:

	31/12/2022		31/12/2021	
	Affiliated undertakings	Other	Affiliated undertakings	Other
Current accounts	107,377	3,791	15,504	2,263
Term accounts and borrowings	495,138	9,931	332,030	9,359
Accrued interest payable		946	-	18
TOTAL	602,515	14,668	347,535	11,641

A breakdown by maturity is provided below:

	31/12/2022		31/12/2021	
	Less than 3 months	3 months to 1 year	Less than 3 months	3 months to 1 year
Current accounts	111,168	-	17,768	-
Term accounts and borrowings	17,478	468,428	41,195	300,194
Accrued interest payable	946	-	18	-
TOTAL	129,505	468,428	58,982	300,194

5. LOANS AND ADVANCES TO AND AMOUNTS DUE FROM CUSTOMERS (in thousands of euros)

5.1. Assets

	31/12/2022	31/12/2021
Discounts and similar items	127,100	72,716
Loans and advances	507,391	374,266
Accrued interest receivable	4,972	1,521
Non-performing loans	204	3,295
Impairment of non-performing loans	(49)	(3,007)
TOTAL	639,618	448,790

There are no irrecoverable or restructured loans on the balance sheet.

A breakdown of loans by geographic region is provided below:

31/12/2022		31/12/2021	
Italy	161,773	Switzerland	129,097
Germany	137,134	Germany	84,002
Switzerland	68,335	United Arab Emirates	58,606
France	43,722	Italy	56,990
Singapour	35,834	Saudi Arabia	35,061
United Arab Emirates	27,113	Luxembourg	17,674
Turkey	26,600	Netherlands	16,157
Portugal	21,229	France	15,915
Saudi Arabia	20,193	Algeria	11,732
Rest of the world	97,685	Rest of the world	20,775
TOTAL	639,618	TOTAL	448,790

A breakdown by maturity is provided below:

	31/12/2022			
	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years
Discounts and similar items	107,461	19,639	-	-
Loans and advances	287,531	76,533	143,328	-
Accrued interest receivable	2,598	1,829	544	-
Non-performing loans	-	-	204	-
Impairment of non-performing loans	-	-	(49)	-
TOTAL	397,590	98,001	144,027	-

5.2. Liabilities

	31/12/2022	31/12/2021
Current accounts	39,548	38,433
Term deposits	187,107	155,019
Customer collateral/Security deposits	4,889	6,050
Accrued interest payable	714	3
TOTAL	232,258	199,505

6. SHARES AND OTHER VARIABLE INCOME SECURITIES

	31/12/2021	Acquisitions	Disposals	31/12/2022
Gross values	-	-	-	-
Shares	9	2	-	11
Other variable income securities	-	-	-	-
TOTAL	9	2	-	11

In 2022 the bank recorded FGDR certificates of deposit under this section.

7. EQUITY INVESTMENTS AND PORTFOLIO ACTIVITIES

ABC SA does not hold any investments or portfolios.

8. INTANGIBLE ASSETS AND PROPERTY PLANT AND EQUIPMENT (in thousands of euros)

	31/12/2021	Additions	Disposals	31/12/2022
Gross amounts				
Intangible assets (software licenses)	1,570	62	10	1,622
Property plant and equipment	1,805	68	3	1,872
TOTAL	3,375	130	13	3,493

	31/12/2021	Charges	Reversals	31/12/2022
Depreciation and amortization	-	-	-	-
Intangible assets	1,461	55	9	1,507
Property, plant, and equipment	1,138	160	3	1,296
TOTAL	2,599	215	12	2,803

9. OTHER ASSETS (in thousands of euros)

	31/12/2022	31/12/2021
VAT and other taxes*	2,686	0
Other miscellaneous debtors	136	53
TOTAL	2,822	53

* VAT and other taxes that were in the prepayment accrual section in 2021 have been reclassified as other assets.

10. OTHER LIABILITIES (in thousands of euros)

	31/12/2022	31/12/2021
Accrued taxes (corporation tax and others)	1,946	2,173
Accrual bonus	3,513	3,090
Other miscellaneous creditors	2,740	33
TOTAL	8,199	5,296

* Other miscellaneous creditors that were in the prepayment accrual section in 2021 have been reclassified as other assets.

11. PREPAYMENT ACCRUAL AND ADJUSTMENT ACCOUNTS (in thousands of euros)

11.1. Assets

	31/12/2020	31/12/2021
Currency adjustment account	(9)	7
Forward financial instruments adjustment account	38	-
Prepaid expenses	404	442
Accrued income	224	228
Other assets	(31)	1,425
TOTAL	626	2,102

11.2. Liabilities

	31/12/2022	31/12/2021
Deferred income	4,652	611
Accrued expenses	584	410
Other liabilities	-	1,673
TOTAL	5,236	2,694

12. PROVISIONS FOR LIABILITIES AND CHARGES (in thousands of euros)

	31/12/2022	31/12/2021
Provisions for pension costs and long-service awards	1,445	1,529
Provision for signature commitment risk	-	3,711
Other provisions for liabilities and charges (ECL)	2,377	1,895
Provision for regulatory litigation	286	315
TOTAL	4,108	7,450

Other provisions for liabilities and charges correspond to expected credit loss calculated on performing loans (stage 1 and 2). They are calculated by the Risk department based on statistical models as described in section 3.2.3.

The change in provisions for liabilities and charges over the year was as follows:

	Variations
Provisions as at 31/12/2021	7,450
Accrual	482
Release	3,824
Provisions as at 31/12/2022	4,108

None of the release correspond to an actual loss.

13. FUND FOR GENERAL BANKING RISKS (in thousands of euros)

	Variations
FGBR as at 31/12/2021	304
Accrual	656
Release	304
FGBR as at 31/12/2022	656

ABC SA, in line with Group policy, had booked an overlay provision in FGBR in 2020 in the context of the health crisis linked to COVID-19. In 2022, the remaining balance of this provision was fully reversed.

In addition, in 2022 ABC SA, still in line with Group policy, recorded an overlay provision for inflation-related risks.

14. OFF-BALANCE SHEET ITEMS (in thousands of euros)

The only items recognised as off-balance sheet items are commitments given in connection with trade finance activity as well as commitments received from insurance companies to cover loans and commitments.

These guarantees received are not displayed in the off-balance sheet financials of our parent company, so they did not appear in the ABC SA's off-balance sheet on previous years. In 2022 and after approval from our auditors we have decided to add this line in the off-balance sheet.

A breakdown of the counterparties is provided below:

	31/12/2022	31/12/2021
Commitments given to credit institutions	218,566	153,302
- of which financing commitments	33	15,510
- of which guarantees	218,533	137,793
Commitments given to customers	631,540	447,377
- of which financing commitments	413,006	315,507
- of which guarantees	218,534	131,870
Commitments received from insurance companies	137,061	-
- of which guarantees received	137,061	-
TOTAL	987,167	600,679

15. REVENUE (in thousands of euros)

	31/12/2022	31/12/2021
Interest and similar income	18,726	9,845
- Of which from bank counterparties	4,963	3,980
- Of which from customers	13,763	5,866
	-	-
Interest and similar expenses	(10,019)	(1 508)
Gains or losses on foreign exchange transactions	818	196
Fee and commission income	17,589	16,536
Fee and commission expenses	(2,916)	(883)
Other banking operating income / expense	(80)	(103)
Net banking income	24,118	24,083

A breakdown of Net Banking Income (NBI) by geographic region is provided below:

	31/12/2022	31/12/2021
Paris NBI	8,049	7,169
Milan branch NBI	7,314	5,636
Frankfurt branch NBI	8,755	11,278
NBI TOTAL	24,118	24,083

16. OPERATING EXPENSES (in thousands of euros)

A breakdown of general operating expenses is provided below:

	31/12/2022	31/12/2021
Payroll costs	14,053	12,160
- Wages and salaries	11,578	9,664
- Social security contributions	2,025	2,038
- Other taxes	16	16
- Change in retirement benefits provision and pension costs	434	443
Other operating expenses	10,454	9,414
- Other external services	4,505	4,077
- Management charges recharged by the Group	4,452	4,034
- Rent	1,389	1,340
- Transport	293	109
- Other taxes	(185)	(147)
Total operating expenses	24,507	21,574

17. PROVISION FOR CREDIT LOSSES

2022 was marked by the reversal of a provision for risk on signature commitments.

The accruals for the year are explained by the change over the year in the ABC SA stage 1 and 2 accruals. This calculation is based on statistical models as described in paragraph 3.2.3. This is a net allocation.

	31/12/2022	31/12/2021
Accrual	(482)	(315)
Release	3,711	1,337
Amounts written off	-	-
Impairment gain / (loss) during the year	3,229	1,022

18. GAINS OR LOSSES ON ASSET SALES

No assets were sold during the year.

19. EXPENSES AND INCOME IN RESPECT OF PRIOR YEARS

No expenses or income in respect of prior financial years were recognised during the year.

20. GENERAL INFORMATION ABOUT THE COMPANY

20.1. Shareholders' equity (excluding FGBR)

The Company's share capital of €169,511,160 is composed of 16,951,116 shares of €10 each fully paid up out of which 16,451,116 were issued as part of the Assets contribution.

A breakdown of shareholders' equity excluding the FGBR at 31 December 2022 is provided below:

In thousands of euros	31/12/2022	31/12/2021
Share capital	169,511	169,511
Legal reserve	695	-
Premiums and other reserves	12,639	10,599
Profit/(loss) for the year	1,738	2,736
Shareholders' equity	184,583	182,845

Movements recorded over the period were as follows:

	Share capital	Legal reserve	Other reserves	Profit/(loss) for the year	Shareholders' equity
31/12/2021	169,511	-	10,599	2,736	182,846
Allocation of 2021 P&L	-	695	2,040	(2,736)	-
Profit (loss) for the year	-	-	-	1,738	1,738
31/12/2022	169,511	695	12,639	1 738	184,583

20.2. Related party transactions

Transactions between related parties are carried out at arm's length.

20.3. Earnings per share

Earnings per share was a profit of €0.10.

20.4. Full-time equivalent workforce

ABC SA's full-time equivalent workforce consisted of 85 employees in 2022 including 25 in France and 60 in the branches (Germany and Italy).

The breakdown between managerial and non-managerial employees is as follows:

2022	Managerial employees	Non-managerial employees	Total
Paris*	21	4	25
Frankfurt	8	24	32
Milan	14	14	28
Total	43	42	85

*Excluding Paris CEO

20.5. Remuneration of the members of the Board

A remuneration in line with market practice and the director's experience was paid in 2022 to the two bank's non-executive directors.

20.6. Loans and advances granted to all members of the management body

No loans or advances were granted to members of the management body in 2022.

20.7. Consolidation principles and methods

Not applicable.

20.8. Statutory Auditors' fees

The following amounts were booked in the P&L in 2022:

- EY: €87,737
- KPMG: €87,867