AHLI UNITED BANK K.S.C.P.
KUWAIT

FINANCIAL STATEMENTS

31 DECEMBER 2023

Ahli United Bank K.S.C.P.
Kuwait

Contents	**Page**

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF AHLI UNITED BANK K.S.C.P.

Report on Audit of the Financial Statements

Opinion
We have audited the financial statements of Ahli United Bank K.S.C.P. (the "Bank"), which comprise the statement of financial position as at 31 December 2023 and the statement of profit or loss, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including material accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2023, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs"), as adopted by the Central Bank of Kuwait ("CBK") for use by the State of Kuwait.

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 *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in the State of Kuwait, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters
Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current year. 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 these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

Credit losses on Islamic financing to customers
The recognition of credit losses on Islamic financing to customers ("credit facilities") is the higher of Expected Credit Loss ("ECL") determined under International Financial Reporting Standard 9: Financial Instruments ("IFRS 9"), according to Central Bank of Kuwait (the "CBK") guidelines, or the provision required by the CBK rules based on classification of credit facilities and calculation of their provision (the "CBK instructions") as disclosed in the accounting policies in Note 2.5.1 and in Note 10 to the financial statements.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF AHLI UNITED BANK K.S.C.P. (continued)

Report on Audit of the Financial Statements (continued)

Key Audit Matters (continued)

Credit losses on Islamic financing to customers (continued)
The recognition of ECL under IFRS 9, determined in accordance with the CBK guidelines, is a complex accounting policy, which requires considerable judgement in its implementation. ECL is dependent on management's judgement in assessing the level of credit risk on initial recognition and significant increase in credit risk subsequently on the reporting date relative to its initial recognition, and classification into three stages.

Furthermore, as disclosed by management, inherently judgmental modelling techniques are used to estimate ECLs which involves determining Probability of Default ("PD"), Loss Given Default ("LGD") and Exposure at Default ("EAD") which are modelled based on macroeconomic variables and discounted to the reporting date.

On the other hand, recognition of specific provision on impaired credit facility under the CBK rules is based on the instructions prescribed by the CBK on the minimum provision to be recognised, together with any additional provision to be recognised based on management's estimate of expected cash flows related to that credit facility.

We determined that '*Credit losses on Islamic financing to customers*' is a key audit matter due to the significance of credit facilities and the related estimation uncertainty and judgement applied by management in the identification of significant increases in credit risk and consequent staging of customers; the significant judgment required by management when designing future macroeconomic scenarios and forecasting macroeconomic variables and probability-weighting scenarios.

Our audit procedures included testing the design and implementation of controls over identification of significant increase in credit risk, consequent staging of customers; the effectiveness of controls over inputs and assumptions used by the Bank in developing the models, the forecasting of macro-economic variables, the probability weighting of the scenarios, governance, including the review controls performed by management over the determination of ECL. Further, our audit procedures were updated to incorporate consideration of the current inflationary pressure and high profit rate environment, including a focus on rescheduled credit facilities.

With respect to the ECL, we selected samples of credit facilities outstanding, including rescheduled credit facilities, and assessed if the Bank's determination of significant increase in credit risk and the resultant basis for classification of the credit facilities into various stages was appropriate. We involved our specialists to review the ECL model in terms of key data, methods and assumptions used to ensure that they are in line with IFRS 9 requirements, determined in accordance with CBK guidelines. For a sample of credit facilities, we determined if the Bank's staging criteria, EAD, PD and LGD including the eligibility and value of collateral considered in the ECL models used by the Bank, and the overlays considered by management in view of the ongoing economic impacts, in order to determine the ECL taking into consideration CBK guidelines, was appropriate. We have also evaluated the consistency of various inputs and assumptions used by management to determine the ECL.

Report on Audit of the Financial Statements (continued)

Key Audit Matters (continued)

Credit losses on Islamic financing to customers (continued)
Further, for the CBK rule based provision requirements, we have assessed the criteria for determining whether there is a requirement to calculate any credit loss in accordance with the related regulations and, if required, we determined that it was computed accordingly. For the samples selected, which included rescheduled credit facilities, we verified whether all impairment events were identified by management. For the selected samples, which also included impaired credit facilities, we have assessed the valuation of collateral and reperformed the resultant provision calculations.

Other information included in the Annual Report of the Bank for the year ended 31 December 2023
Management is responsible for the other information. Other information consists of the information included in the Annual Report of the Bank for the year ended 31 December 2023, other than the financial statements and our auditors' report thereon. We obtained the report of the Bank's Board of Directors, prior to the date of our auditors' report, and we expect to obtain the remaining sections of the Annual Report after the date of our auditors' report.

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditors' 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 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 IFRSs as adopted for use by the State of Kuwait, 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 Bank'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 management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF AHLI UNITED BANK K.S.C.P. (continued)

Report on Audit of the Financial Statements (continued)

Auditors' Responsibilities for the Audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the 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 Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on 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 Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the 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 auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance 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 those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with 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 safeguards applied.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF AHLI UNITED BANK K.S.C.P. (continued)

Report on Audit of the Financial Statements (continued)

Auditors' Responsibilities for the Audit of the Financial Statements (continued)
From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditors' 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
Furthermore, in our opinion proper books of account have been kept by the Bank and the financial statements, together with the contents of the report of the Bank's Board of Directors relating to these financial statements, are in accordance therewith. We further report that, we obtained all the information and explanations that we required for the purpose of our audit and that the financial statements incorporate all information that is required by the Capital Adequacy Regulations and Financial Leverage Ratio Regulations issued by the CBK as stipulated in CBK Circular Nos. 2/RB, RBA/336/2014 dated 24 June 2014 and its amendments. and 2/I.B.S. 343/2014 dated 21 October 2014 and its amendments, respectively, the Companies Law No. 1 of 2016, as amended, and its executive regulations, as amended, and by the Bank's Memorandum of Incorporation and Articles of Association, as amended, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Capital Adequacy Regulations and Financial Leverage Ratio Regulations issued by the CBK as stipulated in CBK Circular Nos. 2/RB, RBA/336/2014 dated 24 June 2014 and its amendments and 2/I.B.S. 343/2014 dated 21 October 2014 and its amendments, respectively, the Companies Law No. 1 of 2016, as amended, and its executive regulations, as amended, or of the Bank's Memorandum of Incorporation and Articles of Association, as amended, have occurred during the year ended 31 December 2023 that might have had a material effect on the business of the Bank or on its financial position.

We further report that, during the course of our audit, we have not become aware of any violations of the provisions of Law No. 32 of 1968, as amended, concerning currency, the CBK and the organisation of banking business, and its related regulations during the year ended 31 December 2023 that might have had a material effect on the business of the Bank or on its financial position.

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AL AIBAN, AL OSAIMI & PARTNERS

BADER A. AL-WAZZAN
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DELOITTE & TOUCHE - AL WAZZAN & CO.

01 February 2024

Ahli United Bank K.S.C.P.

STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2023

	Notes	2023 KD 000	2022 KD 000
Financing income		**221,265**	151,901
Distribution to depositors	3	**(148,073)**	(73,891)
Net financing income		**73,192**	78,010
Net fees and commission income	4	**5,073**	6,317
Foreign exchange gains		**3,278**	5,051
Net gain from investment securities		**3,820**	108
Share of results from an associate	12	**334**	592
Other income	5	**685**	743
Net operating income		**86,382**	90,821
Provision and impairment losses	6	**(3,550)**	(14,614)
Net operating income after provision and impairment losses		**82,832**	76,207
Staff costs		**(21,955)**	(20,976)
Depreciation expense		**(4,821)**	(4,472)
Other operating expenses		**(10,973)**	(12,191)
Total operating expenses		**(37,749)**	(37,639)
PROFIT BEFORE TAXATION AND DIRECTORS' REMUNERATION		**45,083**	38,568
Taxation	7	**(1,976)**	(1,687)
Directors' remuneration	21	**(580)**	(474)
PROFIT FOR THE YEAR		**42,527**	36,407
BASIC AND DILUTED EARNINGS PER SHARE (EPS)	8	**15.7 fils**	13.0 fils

The attached notes 1 to 29 form part of these financial statements.

Ahli United Bank K.S.C.P.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2023

	Note	**2023 KD 000**	2022 KD 000
PROFIT FOR THE YEAR		**42,527**	36,407
Other comprehensive income:			
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:			
Net movement in cumulative changes in fair values of equity instruments designated at FVOCI		**(137)**	71
Revaluation of freehold land	14	**458**	890
Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods		**321**	961
Other comprehensive income for the year		**321**	961
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**42,848**	37,368

The attached notes 1 to 29 form part of these financial statements.

ahli united bank

Ahli United Bank K.S.C.P.

STATEMENT OF FINANCIAL POSITION

As at 31 December 2023

	Notes	2023 KD 000	2022 KD 000
ASSETS			
Cash and balances with banks	9	**288,477**	228,804
Deposits with the Central Bank of Kuwait		**207,271**	238,164
Deposits with other banks		**383,984**	261,416
Financing receivables	10	**3,194,681**	3,405,004
Investment securities	11	**321,972**	453,453
Investment in an associate	12	**9,413**	8,761
Investment properties	13	**25,926**	20,297
Premises and equipment	14	**42,110**	40,836
Other assets	15	**25,103**	54,952
TOTAL ASSETS		**4,498,937**	4,711,687
LIABILITIES AND EQUITY			
LIABILITIES			
Deposits from banks and other financial institutions		**553,837**	710,030
Deposits from customers	16	**3,157,672**	3,241,346
Other liabilities	17	**102,603**	93,151
		3,814,112	4,044,527
EQUITY			
Share capital	18	**250,158**	250,158
Reserves	18	**297,964**	280,299
		548,122	530,457
Treasury shares	19	**(43,957)**	(43,957)
Attributable to Bank's equity shareholders		**504,165**	486,500
Perpetual Tier 1 Sukuk	20	**180,660**	180,660
TOTAL EQUITY		**684,825**	667,160
TOTAL LIABILITIES AND EQUITY		**4,498,937**	4,711,687

Jamal Shaker Alkazemi
Vice Chairman

Jehad Al-Humaidhi
Chief Executive Officer

المكتب الرئيسي 1
ahli united bank
1 HEAD OFFICE

The attached notes 1 to 29 form part of these financial statements.

Ahli United Bank K.S.C.P.

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2023

	Attributable to the Bank's equity shareholders											
		Reserves										
	Share capital KD 000	Share premium KD 000	Statutory reserve KD 000	General reserve KD 000	Retained earnings KD 000	Cumulative changes in fair values KD 000	Property revaluation reserve KD 000	Treasury shares reserve KD 000	Total reserves KD 000	Treasury shares KD 000	Perpetual Tier 1 Sukuk KD 000	Total equity KD 000
Balance as at 1 January 2023	**250,158**	**12,883**	**100,307**	**22,660**	**128,754**	**3,447**	**11,274**	**974**	**280,299**	**(43,957)**	**180,660**	**667,160**
Profit for the year	-	-	-	-	42,527	-	-	-	42,527	-	-	42,527
Other comprehensive income for the year	-	-	-	-	-	(137)	458	-	321	-	-	321
Total comprehensive income for the year					42,527	(137)	458	-	42,848	-	-	42,848
Dividend -2022 (Note 18)	-	-	-	-	(18,018)	-	-	-	(18,018)	-	-	(18,018)
Transfer to reserves (Note 18)	-	-	4,508	-	(4,508)	-	-	-	-	-	-	-
Profit payment on Tier 1 Sukuk (Note 20)	-	-	-	-	(7,165)	-	-	-	(7,165)	-	-	(7,165)
Balance as at 31 December 2023	**250,158**	**12,883**	**104,815**	**22,660**	**141,590**	**3,310**	**11,732**	**974**	**297,964**	**(43,957)**	**180,660**	**684,825**

The attached notes 1 to 29 form part of these financial statements

Ahli United Bank K.S.C.P.

STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the year ended 31 December 2023

	Attributable to the Bank's equity shareholders											
		Reserves										
	Share capital KD 000	Share premium KD 000	Statutory reserve KD 000	General reserve KD 000	Retained earnings KD 000	Cumulative changes in fair values KD 000	Property revaluation reserve KD 000	Treasury shares reserve KD 000	Total reserves KD 000	Treasury shares KD 000	Perpetual Tier 1 Sukuk KD 000	Total equity KD 000
Balance as at 1 January 2022	238,245	12,883	96,450	22,660	125,980	3,376	10,384	974	272,707	(43,957)	180,660	647,655
Profit for the year	-	-	-	-	36,407	-	-	-	36,407	-	-	36,407
Other comprehensive income for the year	-	-	-	-	-	71	890	-	961	-	-	961
Total comprehensive income for the year	-	-	-	-	36,407	71	890	-	37,368	-	-	37,368
Issue of bonus shares - 2021 (Note 18)	11,913	-	-	-	(11,913)	-	-	-	(11,913)	-	-	-
Dividend -2021 (Note 18)	-	-	-	-	(10,725)	-	-	-	(10,725)	-	-	(10,725)
Transfer to reserves (Note 18)	-	-	3,857		(3,857)	-	-	-		-	-	-
Profit payment on Tier 1 Sukuk (Note 20)	-	-	-	-	(7,138)	-	-	-	(7,138)	-	-	(7,138)
Balance as at 31 December 2022	250,158	12,883	100,307	22,660	128,754	3,447	11,274	974	280,299	(43,957)	180,660	667,160

The attached notes 1 to 29 form part of these financial statements.

Ahli United Bank K.S.C.P.

STATEMENT OF CASH FLOWS

For the year ended 31 December 2023

	Notes	2023 KD 000	2022 KD 000
OPERATING ACTIVITIES			
Profit before taxation and directors' remuneration		**45,083**	38,568
Adjustments to reconcile profit before taxation and directors' remuneration to net cash flows:			
Net gain on sale of investment properties		**(3)**	-
Net gain from investment securities		**(3,820)**	(108)
Share of results from an associate	12	**(334)**	(592)
Dividend income	5	**(476)**	(476)
Net income from investment properties	5	**(169)**	(228)
Depreciation of premises and equipment		**4,821**	4,472
Amortisation		**552**	1,736
Provision and impairment losses	6	**3,550**	14,614
		49,204	57,986
Changes in operating assets and liabilities:			
Deposits with the Central Bank of Kuwait		**10,891**	16,144
Deposits with other banks		**(122,757)**	121,784
Financing receivables		**193,799**	(71,841)
Other assets		**16,641**	(7,924)
Deposits from banks and other financial institutions		**(156,137)**	(26,361)
Deposits from customers		**(83,675)**	131,424
Other liabilities		**12,537**	8,869
Taxes paid		**(1,391)**	(1,129)
Net cash flows (used in) from operating activities		**(80,888)**	228,952
INVESTING ACTIVITIES			
Purchase of investment securities		**(222,186)**	(275,905)
Sale and redemption of investment securities		**370,089**	182,922
Proceeds from sale of investment properties		**898**	-
Purchase of investment properties		**(61)**	-
Purchase of premises and equipment		**(3,696)**	(3,341)
Net income from investment properties		**222**	281
Dividend income received		**476**	476
Net cash flows from (used in) investing activities		**145,742**	(95,567)
FINANCING ACTIVITIES			
Dividend paid to shareholders		**(18,018)**	(10,725)
Profit payment on Tier 1 Sukuks		**(7,165)**	(7,138)
Net cash flows used in financing activities		**(25,183)**	(17,863)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**39,671**	115,522
Cash and cash equivalents at 1 January		**313,843**	198,321
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	9	**353,514**	313,843

Financing income received amounted to KD 222,351 thousand (2022: KD 150,854 thousand) and distribution to depositors paid amounted to KD 131,488 thousand (2022: KD 69,890 thousand).

The attached notes 1 to 29 form part of these financial statements.

1. CORPORATE INFORMATION

Ahli United Bank K.S.C.P. (the "Bank") is a public shareholding company incorporated in Kuwait in 1971 and is listed on Boursa Kuwait. It is engaged in carrying out banking activities in accordance with Islamic Sharia'a and is regulated by the Central Bank of Kuwait ("the CBK"). Its registered office is at Darwazat Al-Abdul Razzak, P.O. Box 71, Safat 12168, Kuwait.

The Bank commenced operations as an Islamic bank from 1 April 2010. Effective from that date, all activities are conducted in accordance with Islamic Sharia'a, as approved by the Bank's Fatwa and Sharia'a Supervisory Board. The Bank is a subsidiary of Ahli United Bank B.S.C., a Bahraini Closed Shareholding Company (the "Parent Company"). Pursuant to the acquisition of the Parent Company by Kuwait Finance House K.S.C.P. ("KFH") on 2 October 2022 ("Acquisition Date"), KFH has become the Ultimate Parent Company effective from Acquisition Date. KFH is a public shareholding company incorporated in Kuwait on 23 March 1977, listed on the Boursa Kuwait and Bahrain Stock Exchange and regulated by the CBK. Subsequent to the listing of KFH in Bahrain, the Parent Company was delisted from the Bahrain and Kuwait stock exchanges during 2023.

On 30 July 2023, a preliminary agreement was reached between the Board of Directors of the Bank and KFH, who owns 95% of the shares of the Bank, excluding treasury shares, regarding the implementation of a merger through amalgamation of the Bank and KFH, whereby the Bank ('merged entity') will merge with KFH ('merging entity'). On 29 November 2023, the merger was approved by the extraordinary general assembly of the shareholders of the Bank and KFH. The merger is subject to regulatory approvals.

The financial statements of the Bank for the year ended 31 December 2023 were authorised for issue in accordance with a resolution of the Board of Directors of the Bank on 8 January 2024.

2. BASIS OF PREPARATION AND SUMMARY OF ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

The financial statements are prepared under the historical cost convention except for "investment securities" classified as financial assets at fair value through other comprehensive income, "freehold land" and "derivative financial instruments", that have been measured at fair values.

The financial statements are presented in Kuwaiti Dinars ("KD"), which is also the functional currency of the Bank, rounded to the nearest thousand except when otherwise indicated.

2.2 STATEMENT OF COMPLIANCE

The financial statements have been prepared in accordance with the regulations for financial services institutions as issued by the Central Bank of Kuwait (the CBK) in the State of Kuwait. These regulations, require banks and other financial institutions regulated by the CBK to adopt the International Financial Reporting Standards with the following amendment:

Expected credit loss ("ECL") to be measured at the higher of ECL on credit facilities computed under IFRS 9 in accordance with the CBK guidelines or the provisions as required by the CBK instructions along with its consequent impact on related disclosures;

The above framework is hereinafter referred to as "IFRS as adopted by the CBK for use by the State of Kuwait".

2. BASIS OF PREPARATION AND SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

2.3 CHANGES IN ACCOUNTING POLICIES

New standards, interpretations, and amendments adopted by the Bank

The accounting policies adopted in the preparation of these financial statements are consistent with those used in the previous financial year, except for the adoption of new standards effective as of 1 January 2023. The following amendments to IFRSs are effective for annual period beginning on or after 1 January 2023. The Bank has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

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

The IASB amended the scope of IAS 12 to clarify that the Standard applies to income taxes arising from tax law enacted or substantively enacted to implement the Pillar Two model rules published by the Organisation for Economic Co-operation and Development (OECD), including tax law that implements qualified domestic minimum top-up taxes described in those rules. The amendments introduce a temporary exception to the accounting requirements for deferred taxes in IAS 12, so that an entity would neither recognise nor disclose information about deferred tax assets and liabilities related to Pillar Two income taxes. In periods in which Pillar Two legislation is enacted or substantively enacted but not yet in effect, an entity shall disclose known or reasonably estimable information that helps users of financial statements understand the entity’s exposure to Pillar Two income taxes arising from that legislation.

The Bank has determined that it will not be subject to Pillar Two taxes once the legislation becomes effective since it does not operate in any taxable jurisdictions. Therefore, as the related Pillar Two disclosures are not required, the amendments will have no impact on the Bank financial statements at 31 December 2023.

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

In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements, in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their ‘significant’ accounting policies with a requirement to disclose their ‘material’ accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments have had an impact on the Bank’s disclosures of accounting policies, but not on the measurement, recognition or presentation of any items in the Bank’s financial statements.

Definition of Accounting Estimates - Amendments to IAS 8

In February 2021, the IASB issued amendments to IAS 8, in which it introduces a definition of ‘accounting estimates’. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates. The amendments had no material impact on the Bank’s financial statements.

Other amendments to IFRS which are effective for annual accounting period starting from 1 January 2023 did not have any material impact on the accounting policies, financial position or performance of the Bank.

2. BASIS OF PREPARATION AND SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

2.4 STANDARDS ISSUED BUT NOT YET EFFECTIVE

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

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

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

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

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

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

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

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

The amendments are not expected to have a material impact on the financial statements of the Bank.

Supplier Finance Arrangements - Amendments to IAS 7 and IFRS 7

In May 2023, the IASB issued amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures to clarify the characteristics of supplier finance arrangements and require additional disclosure of such arrangements. The disclosure requirements in the amendments are intended to assist users of financial statements in understanding the effects of supplier finance arrangements on an entity's liabilities, cash flows and exposure to liquidity risk.

The amendments will be effective for annual reporting periods beginning on or after 1 January 2024. Early adoption is permitted but will need to be disclosed.

The amendments are not expected to have a material impact on the financial statements of the Bank.

2. BASIS OF PREPARATION AND SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

2.5 SUMMARY OF ACCOUNTING POLICIES

2.5.1 Financial instruments

a) Recognition
A financial asset or a financial liability is recognised when the Bank becomes a party to the contractual provisions of the instrument. All “regular way” purchases and sales of financial assets are recognised on the settlement date, i.e. the date that the Bank receives or delivers the asset. Changes in fair value between the trade date and settlement date are recognised in the statement of profit or loss or in the statement of comprehensive income in accordance with the policy applicable to the related instrument. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the marketplace.

b) Classification and measurement
The Bank offers Sharia’a compliant products and services such as Murabaha, Musawamah, Wakala and Ijara.

Murabaha is the sale of commodities, real estate and certain other assets at cost plus an agreed profit mark-up whereby the seller informs the purchaser of the cost of the product purchased and the amount of profit to be recognised.

Musawamah is an agreement under which negotiations between a buyer and a seller preclude the disclosure of sellers cost.

Wakala is an agreement whereby the Bank provides a sum of money to a customer under an agency arrangement, who invests it according to specific conditions in return for a fee. The agent is obliged to return the amount in case of default, negligence or violation of any terms and conditions of the Wakala.

Ijara is an agreement whereby the Bank (lessor) purchases or constructs an asset for lease according to the customer’s request (lessee), based on his promise to lease the asset for a specific period and against certain rent instalments. Ijara could end by transferring the ownership of the asset to the lessee.

The Bank classifies all of its financial assets except for equity instruments and derivatives, based on the business model for managing the assets and the asset’s contractual cashflow characteristics.

Financial liabilities, other than financing commitments and financial guarantees, are measured at amortised cost or at fair value through profit or loss (FVTPL) when they are held for trading and derivative instruments or the fair value designation is applied.

Business model assessment
The Bank determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. That is, whether the Bank’s objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets.

2. BASIS OF PREPARATION AND SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

2.5 SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

2.5.1 Financial instruments (continued)

b) Classification and measurement (continued)

Business model assessment (continued)

The Bank's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed;
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected)

The expected frequency, value and timing of sales are also important aspects of the Bank's assessment.

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

The Contractual Cash flows assessment – Solely Payment of Principal and Profit (SPPP) test

The Bank assesses whether the financial instruments' cash flows represent Solely Payments of Principal and Profit (the 'SPPP test').

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

The most significant elements of profit within a financing arrangement are typically the consideration for the time value of money and credit risk. To make the SPPP assessment, the Bank applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the profit rate is set.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic financing arrangement do not give rise to contractual cash flows that are solely payments of principal and profit on the amount outstanding. In such cases, the financial asset is required to be measured at FVTPL.

The Bank reclassifies when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent.

2. BASIS OF PREPARATION AND SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

2.5 SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

2.5.1 Financial instruments (continued)

b) Classification and measurement (continued)

The Contractual Cash flows assessment – Solely Payment of Principal and Profit (SPPP) test (continued)

The Bank classifies its financial assets upon initial recognition into the following categories:

- Debt instruments at amortised cost
- Debt instruments at Fair Value through Other Comprehensive Income (FVOCI)
- Equity instruments at FVOCI, with no recycling of gains or losses to statement of profit or loss on derecognition
- Financial assets at FVTPL

i) Debt instruments at amortised cost
A financial asset which is a debt instrument, is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and profit (SPPP) on the principal amount outstanding.

Deposits with the CBK, deposits with other banks, financing receivables, certain investments securities mainly representing Bank's investment in Sukuks and other assets are classified as debt instruments at amortised cost.

Debt instruments categorised at amortised cost are subsequently measured at amortised cost using the effective yield method adjusted for effective fair value hedges and impairment losses, if any. Profit income, foreign exchange gains and losses and impairment are recognised in the statement of profit or loss. Any gain or loss on derecognition is recognised in the statement of profit or loss.

ii) Debt instruments at FVOCI
A debt instrument is carried at FVOCI if it meets both of the following conditions:

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset meet the SPPP test.

Debt instruments at FVOCI are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in other comprehensive income. Profit income and foreign exchange gains and losses are recognised in profit or loss in the same manner as for financial assets measured at amortised cost. Fair value changes which are not part of an effective hedging relationship are recognised in other comprehensive income and presented in the cumulative changes in fair values as part of equity until the asset is derecognised or reclassified. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to the statement of profit or loss.

2. BASIS OF PREPARATION AND SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

2.5 SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

2.5.1 Financial instruments (continued)

iii) Equity instruments at FVOCI
Upon initial recognition, the Bank may elect to classify irrevocably some of its equity investments as equity instruments at FVOCI when they meet the definition of Equity under IAS 32 *Financial Instruments: Presentation* and are not held for trading. Such classification is determined on an instrument-by- instrument basis.

Equity instruments at FVOCI are subsequently measured at fair value. Changes in fair values including foreign exchange component are recognised in other comprehensive income and presented in the cumulative changes in fair values as part of equity.

Gains and losses on these equity instruments are never recycled to statement of profit or loss. Dividends are recognised in statement of profit or loss when the right of the payment has been established, except when the Bank benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in the statement of comprehensive income.

Equity instruments at FVOCI are not subject to an impairment assessment. Upon disposal, cumulative gains or losses are reclassified from cumulative changes in fair value to retained earnings in the statement of changes in equity. Equity instruments at FVOCI are included in investment securities in the statement of financial position.

iv) Financial asset carried at FVTPL
The Bank classifies financial assets as carried at fair value through profit or loss when the business model of the class of financial assets is neither to solely collect the contractual cash flows from the assets nor to collect both the contractual cash flows and cash flows arising from the sale of assets. Financial assets that do not satisfy the SPPP test are mandatory classified under this category.

In addition, on initial recognition, the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL, if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise. Included in this classification are certain debt securities, equities and derivatives that are not designated as hedging instruments in a hedge relationship, that have been acquired principally for the purpose of selling or repurchasing in the near term.

FVTPL assets are subsequently measured at fair value.

Changes in fair values, financing income and dividends are recorded in the statement of profit or loss according to the terms of the contract, or when the right to payment has been established.

Day 1 profit or loss
When the transaction price of the instrument differs from the fair value at origination and the fair value is based on a valuation technique using only inputs observable in market transactions, the Bank recognises the difference between the transaction price and fair value in the investment income. In those cases where fair value is based on models for which some of the inputs are not observable, the difference between the transaction price and the fair value is deferred and is only recognised in profit or loss when the inputs become observable, or when the instrument is derecognised.

2. BASIS OF PREPARATION AND SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

2.5 SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

2.5.1 Financial instruments (continued)

Day 1 profit or loss (continued)

Reclassifications
Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Bank changes its business model for managing financial assets.

c) Impairment of financial assets

The Bank recognises ECL on financing receivables, non-cash credit facilities in the form of bank guarantees, letters of guarantee, documentary letters of credit, bank acceptances, undrawn cash and non-cash credit facilities (revocable and irrevocable) and investment in debt securities measured at amortised cost or FVOCI.

Balances with the CBK and Sukuks issued by the CBK and the Government of Kuwait, are low risk and fully recoverable and hence no ECL is measured. Equity investments are not subject to ECL.

Impairment of financing receivables shall be recognised at the higher of ECL computed based on the CBK guidelines for measurement of ECL under IFRS 9, and the provision required by the CBK instructions.

Expected credit losses
The Bank has established a policy to perform an assessment at the end of each reporting period, 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. To calculate ECL, the Bank will estimate 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 Bank under the contract, and the cash flows that the Bank expects to receive, discounted at the effective profit rate of the financing.

The Bank applies three-stage approach to measure ECL. Assets migrate through the following three stages based on the change in credit quality since initial recognition.

Stage 1: 12 months ECL
The Bank measures loss allowances at an amount equal to 12-month ECL on financial assets where there has not been significant increase in credit risk since their initial recognition or on exposures that are determined to have a low credit risk at the reporting date. The Bank considers a financial asset to have low credit risk when its credit risk rating is equivalent to the globally understood definition of ‘investment grade’.

Stage 2: Lifetime ECL – not credit impaired
The Bank measures loss allowances at an amount equal to lifetime ECL on financial assets where there has been a significant increase in credit risk since initial recognition but are not credit impaired.

Stage 3: Lifetime ECL – credit impaired
The Bank measures loss allowances at an amount equal to 100% of net exposure i.e. after deduction from the amount of exposure the value of collaterals determined in accordance with the CBK guidelines.

2. BASIS OF PREPARATION AND SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

2.5 SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

2.5.1 Financial instruments (continued)

Expected credit losses (continued)

Stage 3: Lifetime ECL – credit impaired (continued)

Lifetime ECL is ECL that result from all possible default events over the expected life of a financial instrument. The 12 months ECL is the portion of lifetime expected credit loss that result from default events that are possible within the 12 months after the reporting date. Both lifetime ECLs and 12-month ECLs are calculated on either an individual basis or a collective basis depending on the nature of the underlying portfolio of financial instruments.

For financial assets for which the Bank has no reasonable expectations of recovering either the entire outstanding amount, or a portion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) derecognition of the asset.

When estimating lifetime ECL for undrawn financing commitments, the Bank estimates the expected portion of the financing commitment that will be drawn down over its expected life. The ECL is then based on the present value of the expected shortfalls in cash flows if the financing facility is drawn down. The expected cash shortfalls are discounted at an approximation to the expected effective profit rate on the financing.

The Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in statement of profit or loss, and the ECL provision. For this purpose, the Bank estimates ECLs based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs. The shortfalls are discounted by the risk-adjusted profit rate relevant to the exposure.

It is Bank's policy to maintain consistent internal risk ratings across the credit portfolio. The credit quality of the portfolio of financing receivables that were neither past due nor impaired can be assessed by reference to the Bank's internal credit rating system. This facilitates focused portfolio management of the inherent level of risk across all lines of business. The credit quality ratings disclosed below can be equated to the following risk rating grades, which are either internally applied or externally ratings mapped to internal ratings.

Credit Quality	**Risk Rating**	**Definition**
High standard	Risk rating 1 to 4	Undoubted through to good credit risk
Standard	Risk rating 5 to 7	Satisfactory through to adequate credit risk
Credit Impaired	Risk rating 8 to 10	Substandard through to loss

The risk rating system is supported by various financial analytics and qualitative market information for the measurement of counterparty risk.

Determining the stage of impairment
The Bank continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12-month ECL or Lifetime ECL, the Bank assesses whether there has been a significant increase in credit risk since initial recognition and back stop indicators and analysis based on the Bank's historical experience and expert credit risk assessment, including forward-looking information. The Bank considers an exposure to have significantly increased in credit risk when there is significant deterioration in customer rating compared to rating at origination, restructured due to financial difficulties of the customers and other conditions mentioned below.

2. BASIS OF PREPARATION AND SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

2.5 SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

2.5.1 Financial instruments (continued)

c) Impairment of financial assets (continued)

Expected credit losses (continued)

Determining the stage of impairment (continued)

The Bank also applies a secondary qualitative method for triggering a significant increase in credit risk for financial assets, such as moving a customer/facility to the watch list, or the account becoming forborne. In certain cases, the Bank may also consider that events explained below (and not restricted to) are indicators of significant increase in credit risk as opposed to a default.

- Internal rating of the customer indicating default or near-default;
- The customer requesting emergency funding from the Bank;
- The customer having past due liabilities to public creditors or employees;
- The customer is deceased;
- A material decrease in the underlying collateral value where the recovery of the financing is expected from the sale of the collateral;
- A material decrease in the customer's turnover, loss of major customers or deterioration of customer financial position;
- A covenant breach not waived by the Bank;
- The obligor (or any legal entity within the obligor's group) filing for bankruptcy application / protection or liquidation;
- Obligor's listed debt or equity suspended at the primary exchange because of rumours or facts about financial difficulties;
- Legal measures and action against customer by other creditors;
- Clear evidence that the customer is unable to repayment financing receivable on maturity dates;
- Financial assets are classified under Stage 2 when there has been a downgrade in the facility's credit rating by 2 grades for the facilities with Investment Grade and by 1 grade for those with Non-Investment Grade;
- All rescheduled financial assets are classified under the Stage 2 unless it qualifies for Stage 3 classification.

The quantitative criteria used to determine a significant increase in credit risk is a series of relative and absolute thresholds. All financial assets that are more than 30 days past due are deemed to have significant increase in credit risk since initial recognition and migrated to stage 2 even if other criteria do not indicate a significant increase in credit risk.

Purchased or originated credit-impaired financial assets are those financial assets that are credit-impaired on initial recognition and are taken to Stage 3.

Objective evidence that debt instrument is impaired includes whether any payment of principal or profit is overdue by more than 90 days or there are any known difficulties in the cash flows including the sustainability of the counterparty's business plan, credit rating downgrades, breach of original terms of the contract, its ability to improve performance once a financial difficulty has arisen, deterioration in the value of collateral, etc. The Bank assess whether objective evidence of impairment exists on an individual basis for each individually significant asset and collectively for others not deemed individually significant.

2. BASIS OF PREPARATION AND SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

2.5 SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

2.5.1 Financial instruments (continued)

c) Impairment of financial assets (continued)

Expected credit losses (continued)

Measurement of ECLs (continued)

Except for consumer and instalment financing, transfer of credit facility from Stage 2 to Stage 1 is made after a period of 12 months from the satisfaction of all conditions that triggered classification of the credit facility to Stage 2. Transfer of credit facility from Stage 3 to Stage 2 or Stage 1 is subject to approval of the CBK.

Measurement of ECLs
ECLs are probability weighted estimates of credit losses and are measured as the present value of all cash shortfalls discounted at the effective profit rate of the financial instrument. Cash shortfall represent the difference between cashflows due to the Bank in accordance with the contract and the cashflows that the Bank expects to receive. The key elements in the measurement of ECL include probability of default, loss given default and exposure at default.

The Probability of Default ("PD") is an estimate of the likelihood of default over a given time horizon.

- A default may only happen at a certain time over the assessed period, if the financial asset has not been previously derecognised and is still in the portfolio. The Bank uses Point In Time PD (PIT PD) for each rating to calculate the ECL. The minimum PD is 0.75% for Investment Grade credit facilities and 1% for Non-Investment Grade credit facilities except for credit facilities granted to Government and Banks rated as Investment Grade by an external rating agency and financing transactions related to consumer and instalment financing (except for credit cards).

- The Exposure at Default ("EAD") is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and profit, whether scheduled by contract or otherwise, expected drawdowns on committed facilities. As per the CBK requirements, the Bank applies 100% Credit Conversion Factor (CCF) on utilised cash and non-cash facilities. For unutilised facilities, CCF is applied based on the CBK requirements for leverage ratio issued on 21 October 2014.

- The Loss Given Default ("LGD") is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD. The CBK has prescribed list of eligible collaterals and minimum hair-cuts that are applied in determination of LGD. Further, for unsecured senior and subordinate credit facilities minimum LGD threshold applied is 50% and 75% respectively.

The maximum period for which the credit losses are determined is the contractual life of a financial asset, including credit cards and other revolving facilities unless the Bank has the legal right to call it earlier. However, for financial assets in Stage 2, the Bank considers a minimum maturity of 7 years for all credit facilities (excluding consumer financing, credit cards and housing financing) unless credit facilities have non-extendable contractual maturity and final payment is less than 50% of the total facility extended. For consumer financings and credit cards and housing financings in Stage 2, the Bank considers minimum maturity of 5 years and 15 years respectively.

2. BASIS OF PREPARATION AND SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

2.5 SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

2.5.1 Financial instruments (continued)

c) Impairment of financial assets (continued)

Expected credit losses (continued)

Incorporation of forward-looking information
The Bank 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 Bank has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each portfolio. Relevant macro-economic adjustments are applied to capture variations from economic scenarios. These reflect reasonable and supportable forecasts of future macro-economic conditions that are not captured within the base ECL calculations.

Macro-economic factors
In its models, the Bank's macro-economic factors taken into consideration include, but are not limited to, gross domestic product, consumer price index and government expenditure, and require an evaluation of both the current and forecast direction of the macro-economic cycle. Incorporating forward-looking information increases the degree of judgement required as to how changes in these macro-economic factors will affect ECLs. The methodologies and assumptions including any forecasts of future economic conditions are reviewed regularly.

Multiple forward-looking scenarios
The Bank determines its allowance for credit losses using three probability-weighted forward-looking scenarios. The Bank considers both internal and external sources of information and data in order to achieve an unbiased projections and forecasts. The Bank prepares the scenarios using forecasts. The forecasts are created using internal and external models which are modified by Bank as necessary to formulate a 'Baseline' view of the most probable future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. The process involves the development of two additional economic scenarios (Upturn, and Downturn) and consideration of the relative probabilities of each outcome.

The 'baseline' represents the most likely outcome and is aligned with information used by the Bank for other purposes such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes. The Bank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macroeconomic variables, credit risk, and credit losses

Renegotiated financing receivables
In the event of a default, the Bank seeks to restructure financing to customers rather than take possession of collateral. This may involve extending the payment arrangements and the agreement of new financing conditions. When the financing to customers has been renegotiated or modified but not derecognised, any impairment is measured using the original effective yield method as calculated before the modification of terms. Management continually reviews renegotiated financing to ensure that all criteria are met and that future payments are likely to occur. Management also assesses whether there has been significant increase in credit risk, or the facility should be classified in Stage 3.

Presentation of allowance for ECL in the statement of financial position
Loss allowances for ECL are presented as a deduction from the gross carrying amount of the financial assets for financial assets carried at amortised cost. In the case of debt instruments measured at FVOCI, the Bank recognises the ECL charge in the statement of profit or loss and a corresponding amount is recognised in other comprehensive income with no reduction in the carrying amount of the financial asset in the statement of financial position.

2. BASIS OF PREPARATION AND SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

2.5 SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

2.5.1 Financial instruments (continued)

c) Impairment of financial assets (continued)

Write-offs
Financial assets are written off either partially or in their entirety only when the Bank has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense.

Provisions for credit losses in accordance with the CBK instructions
The Bank is required to calculate provisions for credit losses on financing receivables in accordance with the instructions of the CBK on the classification of financing receivables and calculation of provisions. Financing receivables are classified as past due when a payment has not been received on its contractual payment date or if the facility is in excess of pre-approved limits. A financing receivable is classified as past due and impaired when the profit or a principal instalment is past due for more than 90 days and if the carrying amount of the facility is greater than its estimated recoverable value.

Past due and past due and impaired financing receivables are managed and monitored as irregular facilities and are classified into the following four categories which are then used to determine the provisions.

Category	*Criteria*	*Specific provision*
Watch list	Irregular for a period up to 90 days	-
Substandard	Irregular for a period of 91- 180 days	20%
Doubtful	Irregular for a period of 181- 365 days	50%
Bad	Irregular for a period exceeding 365 days	100%

The Bank may also include a credit facility in one of the above categories based on management's judgement of a customer's financial and/or non-financial circumstances.

In addition to specific provisions, minimum general provisions of 1% on cash facilities and 0.5% on non-cash facilities are made on all applicable credit facilities (net of certain restricted categories of collateral) which are not subject to specific provisioning.

d) Derecognition

A financial asset (in whole or in part) is derecognised either when: (i) the contractual rights to receive the cash flows from the asset have expired or (ii) the Bank has retained its right to receive cash flows from the assets but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or (iii) the Bank has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Bank has transferred its right to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank's continuing involvement in the asset, in which case, the Bank also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained.

2. BASIS OF PREPARATION AND SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

2.5 SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

2.5.1 Financial instruments (continued)

d) Derecognition (continued)

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration the Bank could be required to pay.

If continuing involvement takes the form of a written or purchased option (or both) on the transferred asset, the continuing involvement is measured at the value the Bank would be required to pay upon repurchase. In the case of a written put option on an asset that is measured at fair value, the extent of the entity's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expired. When an existing financial liability is replaced by another from the same counterparty on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

e) Offsetting

Financial assets and financial liabilities are offset, and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and the Bank intends to settle on a net basis.

2.5.2 Fair values measurement

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

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

The principal or the most advantageous market must be accessible to by the Bank.

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

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

2. BASIS OF PREPARATION AND SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

2.5 SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

2.5.2 Fair values measurement (continued)

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For financial instruments quoted in an active market, fair value is determined by reference to quoted market prices. Bid prices are used for assets and offer prices are used for liabilities. The fair value of investments in mutual funds, unit trusts or similar investment vehicles are based on the last published net assets value.

For unquoted financial instruments fair value is determined by reference to the market value of a similar investment, discounted cash flows, other appropriate valuation models or brokers' quotes.

For financial instruments carried at amortised cost, the fair value is estimated by discounting future cash flows at the current market rate of return for similar financial instruments.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Bank determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

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

2.5.3 Derivative financial instruments and Hedging

The Bank deals in Islamic derivative instruments to manage exposures to profit rate, foreign currency and credit risks.

Derivative financial instruments are initially recognised in the statement of financial position at cost (including transaction costs) and subsequently measured at their fair value.

Islamic forward agreements

In the ordinary course of business, the Bank enters into various types of transactions that involve financial instruments represented in forward foreign exchange agreements (Waad) to mitigate foreign currency risk. A Waad is a financial transaction between two parties where payments are dependent upon movements in price of one or more underlying financial instruments, reference rate or index in accordance with Islamic Sharia'a.

The notional amount, disclosed gross, is the amount of a Waad's underlying asset/liability and is the basis upon which changes in the value are measured.

The notional amounts indicate the volume of transactions outstanding at the year-end and are neither indicative of the market risk nor credit risk.

2. BASIS OF PREPARATION AND SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

2.5 SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

2.5.3 Derivative financial instruments and Hedging (continued)

Islamic forward agreements (continued)

For derivative contracts that do not qualify for hedge accounting, any gains or losses arising from changes in fair value of the derivative contract are taken directly to the statement of profit or loss.

Profit rate swaps

Profit rate swaps are contractual agreements between two parties and may involve exchange of profit or exchange of both principal and profit for a fixed period of time based on contractual terms.

The notional amounts indicate the volume of transactions outstanding at the period-end and are neither indicative of the market risk nor credit risk. Most of the Bank's profit rate swaps are held for hedging.

Hedge accounting

The Bank uses profit rate swaps to hedge against the profit rate risk arising from specifically identified, or a portfolio of, fixed profit rate investments. At the inception of a hedge relationship, the Bank formally designates and documents the hedge relationship to which the Bank wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

For the purposes of hedge accounting, hedges are classified into two categories: (a) fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment; and (b) cash flow hedges, when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or a foreign currency risk in an unrecognised firm commitment.

The changes in fair value of the hedging instrument that qualify and is designated as fair value hedge is recorded in the statement of profit or loss, together with changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. If the hedge accounting is discontinued, the fair value adjustment to the hedged item is amortised to the statement of profit or loss over the period to maturity of the previously designated hedge relationship using the effective profit rate. If the hedged item is derecognised, the unamortised fair value is recognised immediately in the statement of profit or loss.

When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in statement of profit or loss.

For those contracts classified as cash flow hedges, the effective portion of the gain or loss on the hedging instrument is recognised directly as other comprehensive income in the cash flow hedge reserve, while any ineffective portion is recognised immediately in the statement of profit or loss.

2. BASIS OF PREPARATION AND SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

2.5 SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

2.5.3 Derivative financial instruments and Hedging (continued)

Hedge accounting (continued)

Amounts recognised as other comprehensive income are transferred to the statement of profit or loss when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognised or when a forecast sale occurs. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts recognised as other comprehensive income are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction or firm commitment is no longer expected to occur, the cumulative gain or loss previously recognised in fair value reserve are transferred to the statement of profit or loss. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, any cumulative gain or loss previously recognised in other comprehensive income remains in other comprehensive income until the forecast transaction or firm commitment affects profit or loss.

The Bank discontinues hedge accounting when the following criteria are met:

a) it is determined that the hedging instrument is not, or has ceased to be, highly effective as a hedge;
b) the hedging instrument expires, or is sold, terminated, or exercised;
c) the hedged item matures or is sold or repaid; or
d) a forecast transaction is no longer deemed highly probable.

The Bank applies the IBOR reform Phase 1 reliefs to hedging relationships directly affected by IBOR reform during the period before the replacement of an existing profit rate benchmark with an alternative risk-free rate (RFR). A hedging relationship is affected if IBOR reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument. The reliefs require that for the purpose of determining whether a forecast transaction is highly probable, it is assumed that the IBOR on which the hedged cash flows are based is not altered as a result of IBOR reform.

IBOR reform Phase 1 also requires that for hedging relationships affected by IBOR reform, the Bank must assume that for the purpose of assessing expected future hedge effectiveness, the profit rate is not altered as a result of IBOR reform. Further, the Bank is not required to discontinue the hedging relationship if the results of the assessment of retrospective hedge effectiveness fall outside the range of 80% to 125%, although any hedge ineffectiveness must be recognised in profit or loss, as normal.

The reliefs cease to apply once certain conditions are met. These include when the uncertainty arising from IBOR reform is no longer present with respect to the timing and amount of the benchmark-based cash flows of the hedged item, if the hedging relationship is discontinued or once amounts in the cash flow hedge reserve have been released.

2. BASIS OF PREPARATION AND SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

2.5 SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

2.5.4 Financial guarantees

In the ordinary course of business, the Bank provides financial guarantees, consisting of letter of credit, guarantees and acceptances. Financial guarantees are initially recognised in the financial statements at fair value, being the premium received, in other liabilities. The premium received is amortised in the statement of profit or loss on a straight-line basis over the life of the guarantee. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amortised premium received and the best estimate of net cash flow required to settle any financial obligation arising as a result of the guarantee. A provision for credit losses based on the higher of ECL under IFRS 9 according to the CBK guidelines and the provisions required by the CBK instructions is also accounted.

2.5.5 Investment in an associate

The Bank's investment in its associate is accounted for using the equity method. An associate is an entity in which the Bank has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

Under the equity method, the investment in associate is carried in the statement of financial position at cost plus post acquisition changes in the Bank's share of net assets of the associate.

Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The statement of profit or loss reflects the share of the results of operations of the associate. Where there has been a change recognised directly in the other comprehensive income of the associate, the Bank recognises its share of any changes and discloses this, when applicable, in the statement of comprehensive income. Unrealised gains and losses resulting from transactions between the Bank and the associate are eliminated to the extent of the interest in the associate.

The Bank's share of profit attributable to equity holders of an associate is shown on the face of the statement of profit or loss.

The financial statements of the associate are prepared for the same reporting period as the Bank. Where necessary, adjustments are made to bring the accounting policies in line with those of the Bank.

After application of the equity method, the Bank determines whether it is necessary to recognise an additional impairment loss on the Bank's investment in its associate. The Bank determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case the Bank calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the statement of profit or loss.

Upon loss of significant influence over the associate, the Bank measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retaining investment and proceeds from disposal is recognised in statement of profit or loss.

2. BASIS OF PREPARATION AND SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

2.5 SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

2.5.6 Investment properties

Land and buildings held for the purpose of capital appreciation or for long term rental yields and not occupied by the Bank are classified as investment properties.

Investment properties are measured at cost less accumulated depreciation (based on an estimated useful life of forty years using the straight-line method) and accumulated impairment.

Any gains or losses on the retirement or disposal of an investment property are recognised in the statement of profit or loss in the period of retirement or when sale is completed.

Fair values of investment properties are determined by appraisers having an appropriate recognised professional qualification and recent experience in the location and category of the property being valued. The fair value measurement takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

2.5.7 Premises and equipment

Freehold land is initially recognised at cost and not depreciated. After initial recognition freehold land is carried at the revalued amount, which is the fair value at the date of revaluation. The revaluation is carried out periodically by professional property evaluators. The resultant revaluation surplus or deficit is recognised in the statement of comprehensive income to the extent the deficit does not exceed the previously recognised surplus. The portion of the revaluation deficit that exceeds a previously recognised revaluation surplus is recognised in the statement of profit or loss. To the extent that a revaluation surplus reverses a revaluation decrease previously recognised in the statement of profit or loss, the increase is recognised in the statement of profit or loss. Upon disposal, the revaluation reserve relating to the freehold land sold is transferred to retained earnings.

Buildings, other premises and equipment are stated at cost, less accumulated depreciation and impairment losses if any. Depreciation of buildings and other premises and equipment is provided on a straight-line basis over their estimated useful lives.

The estimated useful lives of the assets for the calculation of depreciation are as follows:

- Buildings 40 to 45 years
- Other premises and equipment 2 to 7 years

When assets are sold or retired, their cost and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is recognised in the statement of profit or loss.

Expenditure incurred to replace a component of an item of premises and equipment that is accounted for separately is capitalised and the carrying amount of the component that is replaced is written off. Other subsequent expenditure is capitalised only when it increases future economic benefits of the related item of premises and equipment. All other expenditure is recognised in the statement of profit or loss as the expense is incurred.

2. BASIS OF PREPARATION AND SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

2.5 SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

2.5.8 Leases – Bank as a lessee

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

a) Right-of-use assets

The Bank 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 re-measurement 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. Unless the Bank is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment. The carrying value of the right-of-use assets are presented under premises and equipment in the statement of financial position.

b) Lease liabilities

At the commencement date of the lease, the Bank recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in- substance 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 Bank and payments of penalties for terminating a lease, if the lease term reflects the Bank exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Bank uses the incremental profit rate at the lease commencement date if the profit 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 profit 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 in-substance fixed lease payments or a change in the assessment to purchase the underlying asset and are presented under other liabilities in the statement of financial position.

2.5.9 Perpetual Tier 1 Sukuk

Perpetual Tier 1 Sukuk are recognised under equity in the statement of financial position and corresponding distributable profits on those Sukuk are accounted as a debit to the retained earnings.

2. BASIS OF PREPARATION AND SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

2.5 SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

2.5.10 Impairment of non-financial assets

The Bank assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Bank estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and then its recoverable amount is assessed as part of the cash-generating unit to which it belongs. Where the carrying amount of an asset (or cash-generating unit) exceeds its recoverable amount, the asset (or cash-generating unit) is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or cash-generating unit). In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by available fair value indicators.

2.5.11 End of service indemnity

Provision is made for employees' end of service indemnity in accordance with the local laws based on employees' salaries and accumulated periods of service or on the basis of employment contracts, where such contracts provide extra benefits. The provision, which is unfunded, is determined as the liability that would arise as a result of involuntary termination of staff at the reporting date. This basis is considered to be a reliable approximation of the present value of the final obligation. End of service indemnity is presented under other liabilities in the statement of financial position.

2.5.12 Treasury shares

Treasury shares consist of the Bank's own issued shares that have been reacquired by the Bank and not yet reissued or cancelled. The treasury shares are accounted for using the cost method. Under this method, the weighted average cost of the shares reacquired is charged to a contra account in equity. When the treasury shares are reissued, gains are credited to a separate account in equity, (the "treasury shares reserve"), which is not distributable. Any realised losses are charged to the same account to the extent of the credit balance on that account. Any excess losses are charged to retained earnings then to the general reserve and statutory reserve. Gains realised subsequently on the sale of treasury shares are first used to offset any previously recorded losses in the order of reserves, treasury shares reserve account and retained earnings. No cash dividends are paid on these shares. The issue of stock dividend shares increases the number of treasury shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

2.5.13 Repurchase agreements

Securities sold under agreements to repurchase ("repos") at a specified future date are not derecognised from the statement of financial position as the Bank retains substantially all of the risks and rewards of ownership. The corresponding cash received is recognised in the statement of financial position as an asset with a corresponding obligation to return it, including accrued profit as a liability within repurchase agreements with banks, reflecting the transaction's economic substance Repurchase agreements with banks. The difference between the sale and repurchase prices is treated as profit expense and is accrued over the life of agreement using the Effective Profit Rate.

2.5.14 Cash and cash equivalents

Cash and cash equivalents for the purpose of statement of cash flows include cash and balances with the Central Bank of Kuwait, deposits with banks with original maturity not exceeding seven days.

2. BASIS OF PREPARATION AND SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

2.5 SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

2.5.15 Revenue recognition

(i) Financing income

For all financial instruments measured at amortised cost, financing income is recorded using the effective profit rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective profit rate, but not future credit losses.

Once a financial instrument categorised as “financing receivables” is written down to its estimated recoverable amount, related income is thereafter recognised on the unimpaired portion based on the original effective profit rate that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

(ii) Fee and commission income

The Bank earns fee and commission income from a diverse range of services it provides to its customers.

Fee income can be divided into the following two categories:

- Fee income earned from services that are provided over a certain period of time are accrued over that period
- Fee income arising from negotiating or participating in the negotiation of a transaction for a third party, are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

2.5.16 Taxation

National Labour Support Tax (NLST)

The Bank calculates NLST in accordance with Law No. 19 of 2000 and the Ministry of Finance Resolutions No. 24 of 2006 at 2.5% of taxable profit for the year. As per law, cash dividends from listed companies which are subjected to NLST have been deducted from the profit for the year.

Kuwait Foundation for the Advancement of Sciences (KFAS)

The Bank calculates the contribution to KFAS at 1% of profit for the year, in accordance with the modified calculation based on the Foundation’s Board of Directors resolution, which states that the Board of Directors’ remuneration and transfer to statutory reserve should be excluded from profit for the year when determining the contribution.

Zakat

Contribution to Zakat is calculated at 1% of the profit of the Bank in accordance with Law No. 46 of 2006 and the Ministry of Finance resolution No. 58/2007 effective from 10 December 2007.

2.5.17 Provisions

Provisions are recognised when, as a result of past events, it is probable that an outflow of economic resources will be required to settle a present, legal or constructive obligation and the amount can be reliably estimated.

2. BASIS OF PREPARATION AND SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

2.5 SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

2.5.18 Foreign currency

Foreign currency transactions are recorded at the rate of exchange prevailing at the date of transactions. Monetary assets and liabilities denominated in foreign currencies outstanding at the year-end are translated into Kuwaiti Dinars at the rates of exchange prevailing at reporting date. Any resultant gains or losses are taken to the statement of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary assets and liabilities in foreign currencies that are stated at fair value are translated to Kuwaiti Dinars using exchange rates ruling at the dates when the fair value was determined. In case of non-monetary assets, whose changes in fair values are recognised directly in other comprehensive income, related foreign exchange differences are also recognised directly in other comprehensive income unless it is part of an effective hedging strategy. For other non-monetary assets foreign exchange differences are recognised directly in the statement of profit or loss.

Translation differences arising on net investments in foreign operations are taken to the statement of comprehensive income.

2.5.19 Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset.

When the Bank receives grants of non-monetary assets, the asset and the grant are recorded at nominal amounts and released to statement of profit or loss over the expected useful life of the asset, based on the pattern of consumption of the benefits of the underlying asset by equal annual instalments.

2.5.20 Segment information

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker.

2.5.21 Contingencies

Contingent assets are not recognised in the financial statements but are disclosed when an inflow of economic benefit is probable.

Contingent liabilities are not recognised in the financial statements, but are disclosed unless the possibility of an outflow of resources embodying economic benefit is remote. Provisions for contingent liabilities are recognised when the outflow of resources is probable.

2.5.22 Fiduciary assets

The Bank provides trust and other fiduciary services that result in the holding or investing of assets on behalf of its clients. Assets held in trust or in a fiduciary capacity are not treated as assets of the Bank and accordingly are not included in the statement of financial position.

2. BASIS OF PREPARATION AND SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

2.6 ACCOUNTING JUDGEMENT, ESTIMATES AND ASSUMPTIONS

The preparation of financial statements requires management to make judgements and estimates that affect the reported amounts of financial assets and liabilities and disclosure of contingent liabilities. These judgements and estimates also affect the revenues and expenses and the resultant provisions as well as the fair value changes reported in other comprehensive income.

2.6.1 Significant judgements

Classification of financial assets

The Bank determines the classification of financial assets based on the assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and profit on the principal amount outstanding.

Determining the lease term of contracts with renewal and termination options- Bank as lessee

The Bank determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Bank has the option, under some of its leases to lease the assets for additional terms. The Bank applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Bank reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

Fair value of financial instruments

The fair value of financial instruments is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e., an exit price) regardless of whether that price is directly observable or estimated using another valuation technique. When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimation is required in establishing fair values. Judgements and estimates include considerations of liquidity and model inputs related to items such as credit risk (both own and counterparty), funding value adjustments, correlation and volatility. For further details about determination of fair value please see Note 24.

Hedge accounting

The Bank's hedge accounting policies include an element of judgement and estimation. Estimates of future profit rates and the general economic environment will influence the availability and timing of suitable hedged items, with an impact on the effectiveness of the hedge relationships.

2. BASIS OF PREPARATION AND SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

2.6 ACCOUNTING JUDGEMENT, ESTIMATES AND ASSUMPTIONS (CONTINUED)

2.6.2 Estimation uncertainty and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Impairment of financial instruments

The measurement of impairment losses across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their dependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Bank's internal credit rating model, which assigns PDs to the individual grades.
- The Bank's criteria for assessing if there has been a significant increase in credit risk so allowances for financial assets should be measured on a lifetime ECL basis and qualitative assessment.
- The segmentation of financial assets when their ECL is assessed on a collective basis.
- Development of ECL models, including various formulas and choice of inputs.
- Determination of associations between macroeconomic scenarios and, economic inputs, and the effect on PDs, EADs and LGDs.
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

The Bank has the policy to regularly review its models in the context of actual loss experience and adjust when necessary.

Impairment of investment in an associate

The Bank calculates the amount of impairment as the difference between the recoverable amount and its carrying value if there is any objective evidence that the investment in an associate is impaired. The estimation of recoverable amount requires the Bank to make an estimate of the expected future cashflows and selection of appropriate inputs for valuation.

Valuation of unquoted financial assets

Fair value of unquoted financial assets is determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments. The determination of the cash flows and discount factors requires significant estimation.

3. DISTRIBUTION TO DEPOSITORS

The Board of Directors of the Bank determines and distributes the depositors' share of profit based on the Bank's results at the end of each quarter.

4. NET FEES AND COMMISSION INCOME

	2023 KD 000	2022 KD 000
Fees and commission income	**11,989**	12,464
Fees and commission expense	**(6,916)**	(6,147)
	5,073	6,317

5. OTHER INCOME

	2023 KD 000	2022 KD 000
Dividend income	**476**	476
Net income from investment properties	**169**	228
Others	**40**	39
	685	743

6. PROVISION AND IMPAIRMENT LOSSES

	2023 KD 000	2022 KD 000
Impairment of financing receivables (Note 10)	**12,528**	22,674
Recoveries from written-off financing receivables	**(2,790)**	(13,689)
(Reversal of) charge for provision for non-cash credit facilities (Note 10)	**(1,796)**	6,035
Charge for (reversal of) impairment of investment properties (Note 13)	**271**	(431)
Other provisions	**(4,577)**	108
Charge for expected credit losses for investment in sukuks (Note 11)	**(275)**	23
Reversal for expected credit losses for other financial assets	**189**	(106)
	3,550	14,614

7. TAXATION

	2023 KD 000	2022 KD 000
Contribution to Kuwait Foundation for the Advancement of Sciences (KFAS)	**406**	347
National Labour Support Tax (NLST)	**1,125**	961
Zakat	**445**	379
	1,976	1,687

8. BASIC AND DILUTED EARNINGS PER SHARE (EPS)

	2023	2022
Net profit for the year attributable to the Bank's equity shareholders (KD 000)	**42,527**	36,407
Less: Profit payments on Tier 1 Sukuks (KD 000)	**(7,165)**	(7,138)
Net profit for the year attributable to equity holders of the Bank after profit payment on Tier 1 Sukuks (KD 000)	**35,362**	29,269
Weighted average number of shares outstanding during the year	**2,252,286,284**	2,252,286,284
BASIC AND DILUTED EPS ATTRIBUTABLE TO THE BANK'S EQUITY SHAREHOLDERS (FILS)	**15.7**	13.0

The weighted average number of shares outstanding during the year is calculated after adjusting for treasury shares as follows:

	2023	2022
Weighted average number of Bank's issued and paid up shares	**2,501,577,259**	2,501,577,259
Less: Weighted average number of treasury shares	**(249,290,975)**	(249,290,975)
	2,252,286,284	2,252,286,284

As there are no dilutive instruments outstanding, basic and diluted earnings per share are identical.

9. CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the statement of cash flows consists of the following:

	2023 KD 000	2022 KD 000
Cash and balances with banks	**288,477**	228,804
Deposits with Central Bank of Kuwait and other banks with an original maturity of seven days or less	**65,037**	85,039
	353,514	313,843

10. FINANCING RECEIVABLES

	31 December 2023			*31 December 2022*
	Retail financing KD 000	**Commercial financing KD 000**	**Total KD 000**	Total KD 000
Financing receivables	**447,485**	**2,866,345**	**3,313,830**	3,522,585
Less: Provision for impairment	**(9,470)**	**(109,679)**	**(119,149)**	(117,581)
	438,015	**2,756,666**	**3,194,681**	3,405,004

10. FINANCING RECEIVABLES (CONTINUED)

The movement in provision for impairment of financing receivables by class of financial assets is as follows:

	Retail financing KD 000	**Commercial financing KD 000**	**Total KD 000**
At 1 January 2023	**12,601**	**104,980**	**117,581**
Charge for the year (Note 6)	**6,133**	**6,395**	**12,528**
Amounts written-off	**(9,264)**	**(1,696)**	**(10,960)**
At 31 December 2023	**9,470**	**109,679**	**119,149**

	Retail financing KD 000	Commercial financing KD 000	Total KD 000
At 1 January 2022	12,182	102,156	114,338
Charge for the year (Note 6)	452	22,222	22,674
Amounts written-off	(33)	(19,398)	(19,431)
At 31 December 2022	12,601	104,980	117,581

As at 31 December 2023, non-performing financing receivables on which income has been suspended from recognition amounted to KD 52,333 thousand (2022: KD 62,155 thousand).

The available specific provision on cash facilities is KD 15,835 thousand (2022: KD 21,268 thousand).

The provision reversal (charge) for the year on non-cash facilities is KD 1,796 thousand (2022: KD 6,035 thousand) (Note 6). The available provision on non-cash facilities of KD 11,526 thousand (2022: KD 13,322 thousand) is included in other liabilities (Note 17).

The policy of the Bank for calculation of the impairment provision for financing receivables complies in all material respects with the provision requirements of the CBK.

According to the CBK instructions, a minimum general provision of 1% for cash facilities and 0.5% for non-cash facilities has been made on all applicable credit facilities (net of certain categories of collateral), that are not provided for specifically.

The Bank's provision committee also evaluated the customers who have not exceeded the days past due, but yet having potential distress due to their business and economic environment, and where required, the Bank recorded additional provisions in line with the rules of the Central Bank of Kuwait.

An analysis of the carrying amounts of financing receivables, and the corresponding Expected Credit Losses based on the staging criteria under IFRS 9 in accordance with CBK regulations.

10. FINANCING RECEIVABLES (CONTINUED)

	As at 31 December 2023			
	Stage 1 KD 000	**Stage 2 KD 000**	**Stage 3 KD 000**	**Total KD 000**
Financing receivables				
High	**2,326,872**	**52,293**	**-**	**2,379,165**
Standard	**728,339**	**118,902**	**-**	**847,241**
Past due or impaired	**22,414**	**10,804**	**54,206**	**87,424**
	3,077,625	**181,999**	**54,206**	**3,313,830**

	As at 31 December 2022			
	Stage 1 KD 000	Stage 2 KD 000	Stage 3 KD 000	Total KD 000
Financing receivables				
High	2,496,987	46,678	-	2,543,665
Standard	831,447	68,661	-	900,108
Past due or impaired	10,402	4,774	63,636	78,812
	3,338,836	120,113	63,636	3,522,585

For commitments and contingent liabilities (Note 22), the amounts in the table below represent the amounts committed or guaranteed (Non-cash facilities), and the corresponding Expected Credit Losses based on the staging criteria under IFRS 9 in accordance with CBK regulations.

	As at 31 December 2023			
Commitments and contingent liabilities	**Stage 1 KD 000**	**Stage 2 KD 000**	**Stage 3 KD 000**	**Total KD 000**
31 December 2023				
High	**316,421**	**315**	**-**	**316,736**
Standard	**145,947**	**12,683**	**-**	**158,630**
Past due or impaired	**-**	**-**	**7,452**	**7,452**
	462,368	**12,998**	**7,452**	**482,818**
31 December 2022				
High	350,519	10	-	350,529
Standard	152,522	15,298	-	167,820
Past due or impaired	-	-	9,100	9,100
	503,041	15,308	9,100	527,449

10. FINANCING RECEIVABLES (CONTINUED)

An analysis of the changes in the Expected Credit Losses in relation to financing receivables and commitments and contingent liabilities computed under IFRS 9 in accordance to the CBK guidelines:

	31 December 2023			
	Stage 1 KD 000	**Stage 2 KD 000**	**Stage 3 KD 000**	**Total KD 000**
Expected credit losses				
As at 1 January 2023	**18,589**	**4,507**	**40,669**	**63,765**
Impact due to transfer between stages	**367**	**221**	**(588)**	**-**
(Reversal of) additional ECL	**(4,166)**	**6,332**	**1,306**	**3,472**
Amounts written off	**-**	**-**	**(10,960)**	**(10,960)**
At 31 December 2023	**14,790**	**11,060**	**30,427**	**56,277**

	31 December 2022			
	Stage 1 KD 000	Stage 2 KD 000	Stage 3 KD 000	Total KD 000
Expected credit losses				
As at 1 January 2022	23,887	13,762	41,584	79,233
Impact due to transfer between stages	1	(5,091)	5,090	-
Additional (reversal of) ECL	(5,257)	(4,164)	13,384	3,963
Amounts written off	(42)	-	(19,389)	(19,431)
At 31 December 2022	18,589	4,507	40,669	63,765

11. INVESTMENT SECURITIES

	2023 KD 000	2022 KD 000
Measured at amortised cost:		
Sukuks	**317,225**	448,287
Measured at FVOCI:		
Unquoted equity securities	**4,747**	5,166
	4,747	5,166
	321,972	453,453

11. INVESTMENT SECURITIES (CONTINUED)

An analysis of changes in the gross carrying amount and the corresponding expected credit losses in relation to investment in sukuks are as follows:

	2023 KD 000	2022 KD 000
Gross carrying amount as at 1 January	**449,223**	376,647
New assets purchased net of redemptions/sales during the year	**(145,278)**	87,641
Other movements including exchange rate impact	**13,941**	(15,065)
At 31 December	**317,886**	449,223

	2023 KD 000	2022 KD 000
ECL allowance as at 1 January	**936**	913
Net charge during the year	**(275)**	23
At 31 December	**661**	936

All the sukuks as of 31 December 2023 are classified under stage 1.

12. INVESTMENT IN AN ASSOCIATE

The Bank owns 30% (2022: 30%) equity interest in Middle East Financial Investment Company ("MEFIC") incorporated and domiciled in the Kingdom of Saudi Arabia.

Set out below is the movement in investment in an associate during the year:

	2023 KD 000	2022 KD 000
As at 1 January	**8,761**	8,070
Share of results	**334**	592
Share of OCI	**282**	6
Foreign currency translation adjustment	**36**	93
At 31 December	**9,413**	8,761

Set out below is the summarised financial information of the associate:

	2023 KD 000	2022 KD 000
Share of associate's statement of financial position:		
Current assets	**2,463**	2,803
Non-current assets	**8,952**	8,363
Current liabilities	**(978)**	(1,602)
Non-current liabilities	**(1,024)**	(803)
Net assets	**9,413**	8,761

12. INVESTMENT IN AN ASSOCIATE (CONTINUED)

Share of associate's results:

	2023 KD 000	2022 KD 000
Operating income	**1,486**	1,658
Profit for the year	**334**	592

Management has assessed whether there is any objective evidence that its investment in an associate is considered impaired. As a result of the exercise, the management has concluded that no impairment provision is considered necessary in the statement of profit or loss in the current year (2022: Nil).

The fair value of investment in the associate is not disclosed as the associate is unquoted and it does not have published quoted price.

13. INVESTMENT PROPERTIES

These represent properties acquired by the Bank and is recognised at cost less accumulated depreciation and impairment. For the purpose of impairment testing, investment properties were revalued by independent valuers using market comparable approach that reflects recent transaction prices for similar properties and is therefore classified under Level 2 of the fair value hierarchy. In estimating the fair value of investment properties, the highest and best use of the properties is their current use. There has been no change to the valuation technique during the year. The fair value of the investment properties at the reporting date is KD 27,209 thousand (2022: KD 21,613 thousand).

Movement for the year is as follows:

	2023 KD 000	2022 KD 000
At 1 January	**20,297**	19,919
Additions*	**6,849**	-
Disposals	**(896)**	-
(Charge) reversal of impairment (Note 6)	**(271)**	431
Depreciation charge for the year	**(53)**	(53)
At 31 December	**25,926**	20,297

*Includes repossessed asset KD 6,788 thousand

14. PREMISES AND EQUIPMENT

Premises and equipment include a revaluation increase of KD 458 thousand (2022: KD 890 thousand) in the value of freehold land based on valuations determined by independent valuation experts. Freehold land was revalued by independent valuers using significant valuation inputs based on observable market data and is classified under Level 2 of the fair value hierarchy.

15. OTHER ASSETS

	2023 KD 000	2022 KD 000
Profit receivable	**6,881**	7,967
Positive fair value of derivative financial instruments (Note 23)	**3,181**	15,957
Government grant receivables	**-**	10,120
Others	**15,041**	20,908
	25,103	54,952

16 DEPOSITS FROM CUSTOMERS

Depositors' accounts are deposits received from customers under current account, saving investment accounts, and fixed term investments accounts. The depositors' accounts of the Bank comprise the following:

i) Non-investment deposits in the form of current accounts
These deposits are not entitled to any profits nor do they bear any risk of loss as the Bank guarantees to pay the related balances on demand. Accordingly, these deposits are considered Qard Hassan from depositors to the Bank under Islamic Sharia'a. Investing such Qard Hassan is made at the discretion of the Board of Directors of the Bank, the results of which are attributable to the equity shareholders of the Bank.

ii) Investment deposit accounts include savings accounts, fixed term deposit accounts, and open term deposit accounts.

Saving Investment Accounts
These are open-term deposits and the client is entitled to withdraw the balances of these accounts or portions thereof at any time.

Fixed-Term Deposit Investment Accounts
These are fixed-term deposits based on the deposit contract executed between the Bank and the depositor. These deposits mature monthly, quarterly, semi-annually or annually.

Open –Term Deposit Investment Accounts
These are open-term deposits and are treated as annual deposits renewed automatically for a similar period, unless the depositor notifies the Bank in writing of his/her desire not to renew the deposit.

Funds utilised in investments for each investment deposit are computed using ratios identified in the contracts for opening of these accounts with clients. The Bank guarantees to pay the remaining un-invested portion of these investment deposits. Accordingly, this portion is considered Qard Hassan from depositors to the Bank, in accordance with Islamic Sharia'a.

The fair values of deposits from customers do not differ significantly from their carrying values.

17. OTHER LIABILITIES

	2023 **KD 000**	2022 KD 000
Depositors' profit share payable	**38,511**	21,925
Provision for staff indemnity	**5,852**	6,159
Provision for non-cash credit facilities (Note 10)	**11,526**	13,322
Negative fair value of derivative financial instruments (Note 23)	**735**	161
Lease liabilities	**6,590**	5,875
Contribution to Kuwait Foundation for the Advancement of Sciences (KFAS)	**406**	347
Account payables, accruals and others	**38,983**	45,362
	102,603	93,151

18. EQUITY

i) The authorised share capital as at 31 December 2023 comprises of 3,500,000,000 ordinary shares (2022: 3,500,000,000 shares) of 100 fils each and the issued and fully paid share capital as at 31 December 2023 comprises of 2,501,577,259 ordinary shares (2022: 2,501,577,259 shares) of 100 fils each.

ii) The Bank is required by the Companies' Law and the Bank's Articles of Association to transfer 10% of the profit before taxation and Directors' remuneration to the statutory reserve. The Bank may resolve to discontinue such annual transfers when the statutory reserve equals 50% of the paid-up share capital. Accordingly, the Bank has transferred KD 4,508 thousand (2022: KD 3,857 thousand) to statutory reserve. Distribution of the statutory reserve is limited to the amount required to enable the payment of a dividend of up to 5% of share capital in years when retained earnings are not sufficient for the payment of such dividend.

iii) The Articles of Association of the Bank requires that an amount of not less than 10% of the profit before taxation and Directors' remuneration should be transferred annually to a general reserve account. The Board of Directors have resolved to discontinue such transfer from the year ended 31 December 2007 onwards, which was approved by the shareholders at the Bank's AGM on 6 March 2008. General reserve is available to be distributed to shareholders at the discretion of the general assembly, in ways that may be deemed beneficial to the Bank.

iv) The balances of share premium and treasury shares reserve are not available for distribution. The balance in the property revaluation reserve is not available for distribution unless the relevant assets are derecognised.

The cost of the Bank's own shares purchased, including directly attributable costs, is recognised in equity. In accordance with the instructions of the Central Bank of Kuwait and AGM, the Bank may purchase treasury shares up to 10% of its paid-up share capital.

19. TREASURY SHARES

There was no purchase or sale of treasury shares during the current year.

	2023	2022
Number of treasury shares	**249,290,975**	249,290,975
Treasury shares as a percentage of total shares issued	**9.97%**	9.97%
Cost of treasury shares (KD 000)	**43,957**	43,957
Market value of treasury shares (KD 000)	**65,314**	70,799
Weighted average market value per treasury share (fils)	**272**	296

Amount equivalent to cost of treasury shares are retained out of reserves as non-distributable throughout the holding period of the treasury shares.

20. PERPETUAL TIER 1 SUKUK

The Bank, through a Sharia'a compliant Sukuk arrangement, issued "Tier 1 Sukuk – 2021" Capital Certificates amounting to USD 600 million in June 2021 (together "Tier 1 Sukuks) . Tier 1 Sukuks are perpetual securities in respect of which there are no fixed redemption dates and constitute direct, unsecured, deeply subordinated obligations (senior only to share capital) of the Bank subject to the terms and conditions of the Mudaraba Agreement. The Tier 1 Sukuks are listed on the Euronext Dublin and NASDAQ Dubai.

Tier 1 Sukuk - 2021 bears a profit rate of 3.875% per annum to be paid semi-annually in arrears until the First Reset Date (5.5 years from the issue date) subject to terms of the issue. After that, the expected profit rate will be reset every fifth anniversary based on the then prevailing 5 years U.S Mid Swap Rate plus an initial margin of 3.011 % per annum. The First Call Date of Tier 1 Sukuk -2021 is after 5 years of the issuance date (June 2026). Tier 1 Sukuk – 2021 is callable by the Bank any day falling in the period commencing on (and including) the First Call Date and ending on (and including) the First Reset Date or on any profit payment date thereafter subject to certain redemption conditions including prior CBK approval.

The net proceeds of Tier 1 Sukuks are invested by way of Mudaraba with the Bank (as Mudareb) on an unrestricted basis and the Bank's general business activities are carried out through the general assets pool.

At the Issuer's sole discretion, it may elect not to make any Mudaraba distributions and, in such event, the Mudaraba profit will not be accumulated and the event is not considered an event of default.

As disclosed in note 1, a preliminary agreement was reached between the Board of Directors of the Bank and KFH, whereby the Bank will merge with KFH. On 22 September 2023, an extra ordinary general meeting of the Sukuk holders approved changing the obligor ('Mudareb') name from the Bank to KFH which has been then disclosed on NASDAQ, Dubai and Euronext stock exchanges. KFH will take over as obligor of the perpetual Tier 1 Sukuk, once the approvals are obtained and the merger is completed.

Semi-annual profits were paid during the year ended 31 December 2023.

21. TRANSACTIONS WITH RELATED PARTIES

The Bank enters into transactions with the Ultimate Parent Company, Parent, associate, major shareholders, directors and key management, close members of their families and entities controlled, jointly controlled or significantly influenced by such parties in the ordinary course of business. The terms of these transactions are approved by the Bank's management.

21. TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

The year-end balances and transactions included in the financial statements are as follows:

	Number of Board members or executive officers	**Number of related parties**	**Ultimate Parent Company KD 000**	**Parent KD 000**	**Others KD 000**	**Total KD 000**
As at 31 December 2023						
Financing receivables	**-**	**7**	**-**	**-**	**33,775**	**33,775**
Deposits with other banks	**-**	**4**	**90,423**	**74,804**	**165**	**165,392**
Investment securities	**-**	**3**	**4,596**	**6,411**	**2,784**	**13,791**
Other assets	**-**	**2**	**505**	**2,437**	**-**	**2,942**
Deposits from banks and financial institutions	**-**	**14**	**12,039**	**22,377**	**157,018**	**191,434**
Deposits from customers	**25**	**44**	**-**	**-**	**478,649**	**478,649**
Other liabilities	**-**	**1**	**-**	**-**	**103**	**103**
Commitments and contingent liabilities	**-**	**4**	**-**	**13,422**	**4,994**	**18,416**
Islamic forward agreements (Notional amount)	**-**	**1**	**-**	**2,636**	**-**	**2,636**
Profit rate swaps (Notional amount)	**-**	**1**	**-**	**100,540**	**-**	**100,540**

	Number of Board members or executive officers	Number of related parties	Ultimate Parent Company KD 000	Parent KD 000	Others KD 000	Total KD 000
As at 31 December 2022						
Financing receivables	-	12	-	-	52,906	52,906
Deposits with other banks	-	5	99,548	38,441	226	138,215
Investment securities	-	3	4,590	6,410	5,437	16,437
Other assets	-	1	-	14,996	-	14,996
Deposits from banks and financial institutions	-	16	20,010	23,561	219,607	263,178
Deposits from customers	23	67	-	-	601,435	601,435
Other liabilities	-	1	-	-	286	286
Commitments and contingent liabilities	-	7	-	14,330	16,394	30,724
Islamic forward agreements (Notional amount)	-	1	-	4,310	-	4,310
Profit rate swaps (Notional amount)	-	1	-	188,973	-	188,973

21. TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

	Ultimate Parent Company KD 000	**Parent KD 000**	**Others KD 000**	**Total KD 000**
Transactions				
For the year ended 31 December 2023				
Financing income	**5,344**	**3,782**	**2,359**	**11,485**
Net income from profit rate swaps	**-**	**4,957**	**-**	**4,957**
Distribution to depositors	**(370)**	**(1,366)**	**(34,268)**	**(36,004)**
Insurance expenses	**-**	**-**	**(2,868)**	**(2,868)**
Other operating expenses	**-**	**-**	**(385)**	**(385)**
Purchase of fixed assets	**-**	**-**	**(570)**	**(570)**

	Ultimate Parent Company KD 000	Parent KD 000	Others KD 000	Total KD 000
Transactions				
For the year ended 31 December 2022				
Financing income	2,583	1,512	2,239	6,334
Net income from profit rate swaps	-	133	-	133
Distribution to depositors	(673)	(396)	(18,780)	(19,849)
Insurance expenses	-	-	(2,485)	(2,485)
Other operating expenses	-	-	(409)	(409)
Purchase of fixed assets	-	-	350	350

	2023 KD 000	2022 KD 000
Directors:		
Board of Directors' remuneration	**580**	474
Key management compensation:		
Salaries and other short-term benefits	**1,804**	1,892
Post-employment benefits	**109**	118
	1,913	2,010

Board of Directors' remuneration was approved in the Annual General Assembly ('AGM') of the shareholders of the Bank held on 29 November 2023.

22. COMMITMENTS AND CONTINGENT LIABILITIES

a) Credit- related commitments

Credit-related commitments include commitments to extend credit, standby letters of credit, guarantees and acceptances, which are designed to meet the requirements of the Bank's customers.

Letters of credit (including standby letters of credit), guarantees and acceptances commit the Bank to make payments on behalf of customers upon failure of the customers to perform under the terms of the contract.

Commitment to extend credit represents contractual commitments to financing and revolving credits. Commitments generally have fixed expiration dates, or other termination clauses. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements. The Bank has the following credit related commitments:

	2023	2022
	KD 000	KD 000
Acceptances	**31,335**	27,833
Letters of credit	**39,288**	71,015
Guarantees	**412,195**	428,530
	482,818	527,378

Irrevocable credit commitments to extend credit at the reporting date amounted to KD Nil (2022: KD 71 thousand).

b) Capital commitment

The capital commitment for purchase of assets as at 31 December 2023 is KD 392 thousand (2022: KD 477 thousand).

23. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING

Islamic forward agreements (Waad)

In the ordinary course of business, the Bank enters into various types of transactions that involve financial instruments represented in forward foreign exchange agreements (Waad) to mitigate foreign currency risk. A Waad is a financial transaction between two parties where payments are dependent upon movements in price of one or more underlying financial instruments, reference rate or index in accordance with Islamic Sharia'a.

The notional amount, disclosed gross, is the amount of a Waad's underlying asset/liability and is the basis upon which changes in the value are measured.

The notional amounts indicate the volume of transactions outstanding at the year-end and are neither indicative of the market risk nor credit risk.

Most of the Bank's islamic forward agreements relate to deals with customers, which are normally matched by entering into reciprocal deals with counterparties.

Profit rate swaps

Profit rate swaps are contractual agreements between two parties and may involve exchange of profit or exchange of both principal and profit for a fixed period of time based on contractual terms.

The notional amounts indicate the volume of transactions outstanding at the period-end and are neither indicative of the market risk nor credit risk. Most of the Bank's profit rate swaps are held for hedging.

23. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING (CONTINUED)

The fair value of derivative financial instruments included in the financial records, together with their notional amounts is summarised as follows:

2023	**Assets (Positive)**	**Liabilities (Negative)**	***Notional amount*** **Less than 1 month**	**1 to 3 months**	**3 to 12 months**	**More than 12 months**	**Total**
	KD 000	**KD 000**	**KD 000**	**KD 000**	**KD 000**	**KD 000**	**KD 000**
Waad	**14**	**5**	**3,030**	**1,978**	**-**	**-**	**5,008**
Profit rate swaps (held as fair value hedge)	**3,167**	**730**	**-**	**8,282**	**17,485**	**74,773**	**100,540**
	3,181	**735**	**3,030**	**10,260**	**17,485**	**74,773**	**105,548**

2022	Assets (Positive)	Liabilities (Negative)	*Notional amount* Less than 1 month	1 to 3 months	3 to 12 months	More than 12 months	Total
	KD 000	KD 000	KD 000	KD 000	KD 000	KD 000	KD 000
Waad	166	161	5,473	2,596	554	-	8,623
Profit rate swaps (held as fair value hedge)	15,791	-	-	-	15,316	173,657	188,973
	15,957	161	5,473	2,596	15,870	173,657	197,596

Fair value hedges

The net fair value of Profit rate swaps held as fair value hedges as at 31 December 2023 is positive KD 2,437 thousands (2022: positive KD 15,791 thousands) which is offset by loss recognised on the hedged items at 31 December 2023, attributable to the hedged risk KD 2,437 thousand (2022: gain KD 15,791 thousand). These offsetting gains and losses are included in 'Foreign exchange gains' in the statement of profit or loss during the years ended 31 December 2023 and 2022.

Hedging instruments are issued to hedge against profit rate risk pertaining to hedged items. Hedged items include certain investment securities at amortised cost amounting to KD 112,445 thousand (2022: KD 199,209 thousand).

24. FAIR VALUE MEASUREMENT

The following table provides the fair value measurement hierarchy of the Bank's financial instruments:

Fair value measurement hierarchy for assets and liabilities as at 31 December 2023 is as follows:

2023	**Level: 2 KD 000**	**Level: 3 KD 000**	**Total KD 000**
Assets measured at fair value			
Financial assets			
Investments securities	**579**	**4,168**	**4,747**
Derivative financial instruments			
Waad	**14**	**-**	**14**
Profit rate swaps	**3,167**	**-**	**3,167**
	3,181	-	**3,181**
	3,760	**4,168**	**7,928**

2023	**Level: 2 KD 000**	**Level: 3 KD 000**	**Total KD 000**
Liability measured at fair value			
Derivative financial instruments			
Waad	**5**	**-**	**5**
Profit rate swaps	**730**	**-**	**730**
	735	**-**	**735**

2022	Level: 2 KD 000	Level: 3 KD 000	Total KD 000
Assets measured at fair value			
Financial assets			
Investments securities	681	4,485	5,166
Derivative financial instruments			
Waad	166	-	166
Profit rate swaps	15,791	-	15,791
	15,957	-	15,957
	16,638	4,485	21,123

2022	Level: 2 KD 000	Level: 3 KD 000	Total KD 000
Liability measured at fair value			
Derivative financial instruments			
Waad	161	-	161
	161	-	161

24. FAIR VALUE MEASUREMENT (CONTINUED)

Investments classified under Level 1 are valued based on the quoted bid price. Equity securities and funds classified under Level 2 are valued based on market multiples and declared NAV's. Equity securities and funds classified under Level 3 are valued based on discounted cash flows and dividend discount models. The movement in Level 3 is mainly on account of change in fair value of financial assets during the year.

The significant inputs for valuation of unquoted equity securities classified under Level 3 are annual growth rate of cash flows and discount rates and for funds it is the illiquidity discount. Lower growth rate and higher discount rate, illiquidity discount will result in a lower fair value.

The impact on the statement of financial position or the statement of shareholders' equity would be immaterial if the relevant risk variables used to fair value the unquoted equity securities were altered by 5 per cent. There were no material changes in the valuation techniques used for the purpose of measuring fair value of investment securities as compared to the previous year.

The fair value of sukuks measured at amortised cost as at 31 December 2023 is KD 308,954 thousand (2022: KD 442,274 thousand). Other financial assets and liabilities are carried at amortised cost and the carrying values are not materially different from their fair values as most of these assets and liabilities are of short-term maturities or are repriced immediately based on market movement in profit rates. Fair values of remaining financial assets and liabilities carried at amortised cost are estimated mainly using based on discounted cash flows, with most significant inputs being the discount rate that reflects the credit risk of counterparties.

25. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below summarises the maturity profile of the Bank's assets and liabilities analysed according to remaining contractual maturity:

2023	Up to 3 months KD 000	3 to 12 months KD 000	Over 1 year KD 000	Total KD 000
ASSETS				
Cash and balances with banks	**288,477**	**-**	**-**	**288,477**
Deposits with the Central Bank of Kuwait	**139,694**	**67,577**	**-**	**207,271**
Deposits with other banks	**361,295**	**22,689**	**-**	**383,984**
Financing receivables	**2,304,487**	**392,722**	**497,472**	**3,194,681**
Investment securities	**44,121**	**41,223**	**236,628**	**321,972**
Investment in an associate	**-**	**-**	**9,413**	**9,413**
Investment properties	**-**	**-**	**25,926**	**25,926**
Premises and equipment	**-**	**-**	**42,110**	**42,110**
Other assets	**19,914**	**2,669**	**2,520**	**25,103**
Total assets	**3,157,988**	**526,880**	**814,069**	**4,498,937**
LIABILITIES				
Deposits from banks and other financial institutions	**553,837**	**-**	**-**	**553,837**
Deposits from customers	**2,285,023**	**830,533**	**42,116**	**3,157,672**
Other liabilities	**53,934**	**19,930**	**28,739**	**102,603**
Total liabilities	**2,892,794**	**850,463**	**70,855**	**3,814,112**
NET LIQUIDITY GAP	**265,194**	**(323,583)**	**743,214**	**684,825**

25. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (CONTINUED)

2022	Up to 3 months KD 000	3 to 12 months KD 000	Over 1 year KD 000	Total KD 000
ASSETS				
Cash and balances with banks	228,804	-	-	228,804
Deposits with the Central Bank of Kuwait	168,685	69,479	-	238,164
Deposits with other banks	229,581	31,835	-	261,416
Financing receivables	2,405,337	463,974	535,693	3,405,004
Investment securities	70,284	40,193	342,976	453,453
Investment in an associate	-	-	8,761	8,761
Investment properties	-	-	20,297	20,297
Premises and equipment	-	-	40,836	40,836
Other assets	22,856	15,026	17,070	54,952
Total assets	3,125,547	620,507	965,633	4,711,687
LIABILITIES				
Deposits from banks and other financial institutions	706,967	3,063	-	710,030
Deposits from customers	2,599,616	607,311	34,419	3,241,346
Other liabilities	43,142	14,166	35,843	93,151
Total liabilities	3,349,725	624,540	70,262	4,044,527
NET LIQUIDITY GAP	(224,178)	(4,033)	895,371	667,160

26. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

STRATEGY IN USING FINANCIAL INSTRUMENTS

As an Islamic commercial bank, the Bank’s activities are principally related to the sourcing of funds through Sharia’a compliant financial instruments, within the guidelines prescribed by the Central Bank of Kuwait (‘the CBK’) and deploying these funds in Sharia’a compliant financing and investment activities, to earn a profit. The profit is shared between the shareholders and profit-sharing deposit account holders, as per the Bank’s policies approved by the Board of Directors and Fatwa and Sharia’a Supervisory Board. The funds raised vary in maturity between short and long term and are mainly in Kuwaiti Dinars, apart from major foreign currencies and GCC currencies. While deploying the funds, the Bank focuses on the safety of the funds and maintaining sufficient liquidity to meet all claims that may fall due. Safety of shareholder and depositor funds is further enhanced by diversification of financing activities across economic and geographic sectors, and types of financed parties.

RISK MANAGEMENT

The use of financial instruments also brings with it associated inherent risks. The Bank recognises the relationship between returns and risks associated with the use of financial instruments and the management of risks forms an integral part of the Bank’s strategic objectives.

The strategy of the Bank is to maintain a strong risk management culture and manage the risk/reward relationship within and across each of the Bank’s major risk-based lines of business. The Bank continuously reviews its risk management policies and practices to ensure that it is not subject to large asset valuation and earnings volatility.

26. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

STRATEGY IN USING FINANCIAL INSTRUMENTS (CONTINUED)

RISK MANAGEMENT (CONTINUED)

The Bank's objectives, policies and process for managing its risk are explained in detail in the Pillar 3 disclosures of the Annual Report. The following sections describe the several risks inherent in the banking process, their nature, techniques used to minimise the risks, their significance and impact on profit and loss and equity due to future expected changes in market conditions.

A. CREDIT RISK

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Bank attempts to control risk by monitoring credit exposures, limiting transactions with reputable counterparties, and continually assessing the creditworthiness of counterparties.

Concentration of credit risk arises when a number of counterparties are engaged in similar business activities or activities in the same geographic region or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions.

Concentration of credit risk indicates the relative sensitivity of the Bank's performance to developments, affecting a particular industry or geographic location.

The Bank seeks to manage its credit risk exposure through diversification of financing activities to avoid undue concentrations of risks with individuals or groups of customers in specific locations or businesses. It also obtains collateral, when appropriate. The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained include charges over bank deposits and balances, listed securities acceptable to the Bank, real estate, plant and equipment, inventory and trade receivables.

Management monitors the market value of collateral on a daily basis for quoted shares and periodically for others, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

Assessment of expected credit losses

Definition of default

The Bank considers a financial asset to be in default and therefore Stage 3 (credit impaired) for ECL calculations when for those facilities where any payment of principal or profit is overdue by more than 90 days or there are any known difficulties in the cash flows including the sustainability of the counterparty's business plan, credit rating downgrades, breach of original terms of the contract, its ability to improve performance once a financial difficulty has arisen, deterioration in the value of collateral etc. In such cases, the Bank recognises a loss allowance for the lifetime ECL.

Any credit impaired or stressed facility that has been restructured during the year would also be considered as in default. The Bank considers externally rated exposures with ratings 'D' for S&P and Fitch, and 'C' for Moody's as defaulted.

26. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

STRATEGY IN USING FINANCIAL INSTRUMENTS (CONTINUED)

RISK MANAGEMENT (CONTINUED)

A. CREDIT RISK (continued)

Assessment of expected credit losses (continued)

Definition of default (continued)
The Bank considers a variety of indicators that may indicate unlikeliness to pay as part of a qualitative assessment of whether a customer is in default. Such indicators include:

- breaches of covenants
- customer having past due liabilities to public creditors or employees
- customer is deceased

Significant increase in credit risk
The Bank continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12 months ECL or lifetime ECL, the Bank assess whether there has been a significant increase in credit risk since initial recognition. The Bank applies a consistent quantitative criterion for internally and externally rated portfolio to assess significant increase in credit risk.

Internal rating and Probability of default (PD) estimation process
Bank's internal grading system uses various qualitative assessments. Other than the staging rules mentioned in Note 2.5.1, the Bank also complies with the guidelines mentioned in the CBK Instructions, as follows:

- Credit facilities except consumer financing, are classified under Stage 2 where there has been a default in principal or profit payment for more than 30 days and for consumer financing, the default period is more than 60 days;
- Credit facilities are classified under Stage 2 when there has been a downgrade in the facility's credit rating by 2 grades for the facilities with Investment Grade and by 1 grade for those with Non-Investment Grade;

IFRS 9 requires the use of separate PD for a 12-month duration and lifetime duration depending on the stage allocation of the obligor. A PD used for IFRS 9 should reflect the Bank's estimate of the future asset quality. The Bank uses Point In Time PD (PIT PD) for each rating to calculate the ECL. The minimum PD is 0.75% for Investment Grade credit facilities and 1% for Non-Investment Grade credit facilities except for credit facilities granted to Government and Groups rated as Investment Grade by an external rating agency and financing transactions related to consumer and instalment financing (except for credit cards).

Measurement of ECLs
ECLs are probability weighted estimates of credit losses and are measured as the present value of all cash shortfalls discounted at the effective profit rate of the financial instrument. Cash shortfalls represent the difference between cash flows due to the Bank in accordance with the contract and the cash flows that the Bank expects to receive. The key elements in the measurement of ECL include probability of default (PD), loss given default (LGD) and exposure at default (EAD). The Bank estimates these elements using appropriate credit risk models taking into consideration the internal and external credit ratings of the assets, forward looking macro-economic scenarios etc.

26. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

STRATEGY IN USING FINANCIAL INSTRUMENTS (CONTINUED)

RISK MANAGEMENT (CONTINUED)

A. CREDIT RISK (CONTINUED)

Assessment of expected credit losses (continued)

Incorporation of forward-looking information
The Bank considers key economic variables that are expected to have an impact on the credit risk and the ECL in order to incorporate forward looking information into the ECL models. These primarily reflect reasonable and supportable forecasts of the future macro-economic conditions. The consideration of such factors increases the degree of judgment in determination of ECL. The Bank employs statistical models to incorporate macro-economic factors on historical default rates. The Bank considers 3 scenarios (base case, upside case, and a downside case) of forecasts of macro-economic data and appropriate probability weights are applied to these scenarios to derive a probability weighted outcome of expected credit loss. The management reviews the methodologies and assumptions including any forecasts of future economic conditions on a regular basis.

The Bank employs statistical models to incorporate macro-economic factors on historical default rates. Incorporating forward looking information increases the level of judgement as to how changes in these macro-economic factors will affect the Expected Credit Loss (ECL) applicable to the stage 1 and stage 2 exposures which are considered as performing. The methodologies and assumptions involved, including any forecasts of future economic conditions, are reviewed periodically.

The assessment of SICR and the calculation of ECL both incorporate forward-looking information. The Bank uses mathematical function which links the credit cycle index (CCI) with PD as a key input to ECL. These economic variables and their associated impact on the PD, EAD and LGD vary by financial instrument. Forecasts of these economic variables (the “base economic scenario”) are updated from the World economic outlook: IMF country data and economic forecast periodically published by Oxford Economic data bank, which provide the best estimate view of the economy and commodity prices over the coming one to four years. The macro-economic variable forecasts till remaining lifetime of the exposures post four years is obtained through time series analysis i.e. moving average/ mean reversion as applicable.

Scenarios are incorporated through the forward looking factors selected which are essentially credit cycle index factors (CCI) that are conditioned and then used as an input to the various ECL components. The CCI calculation is derived through the construction of suitable credit cycles based on economic variables that can be used as proxy to describe credit activities. CCI can be derived from a number of historical factors, such as risky yields, credit growth, credit spreads, default or NPL rates data. Interdependency exists between macro-economic factors as well as risk drivers for a range of scenarios and the CCI, given its integral part in driving the economic or business cycles.

The most significant period-end assumptions used for the ECL estimate as at 31 December 2023 were Consumer Price Index (2024: 4.0%; 2025: 3.4%; 2026: 2.6%; 2027: 2.5%; 2028: 2.6%) and Government Expenditure as percentage of GDP (2024: 41.4%; 2025: 41.8%; 2026: 42.5%; 2027: 42%; 2028: 41.4%).

The weightings assigned to each macro-economic scenario based on CCI, as at 31 December 2023, were 30% to Base Case, 60% to Downside and 10% Upside Case (2022: 30% to Base Case, 60% to Downside and 10% Upside Case).

26. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

RISK MANAGEMENT (CONTINUED)

A. CREDIT RISK (CONTINUED)

Assessment of expected credit losses (continued)

Incorporation of forward-looking information (continued)

The table below shows the loss allowance on financing receivables from customers assuming each forward-looking scenario (e.g. base, upside and downside) were weighted 100% instead of applying scenario probability weights across the three scenarios.

	2023 KD 000	2022 KD 000
100% Base case, loss allowance would be higher / (lower) by	**(6,522)**	(7,021)
100% Upside case, loss allowance would be higher / (lower) by	**(15,216)**	(13,275)
100% Downside case, loss allowance would be higher / (lower) by	**5,798**	5,723

Maximum exposure to credit risk

The table below shows the maximum exposure net of provision to credit risk for the components of the statement of financial position and off-balance sheet items without taking account of any collateral and other credit enhancements.

	Maximum exposure 2023 KD 000	Maximum exposure 2022 KD 000
Credit risk exposures relating to statement of financial position items:		
Balances with banks	**268,419**	212,076
Deposits with the Central Bank of Kuwait	**207,271**	238,164
Deposits with other banks	**383,984**	261,416
Financing receivables	**3,194,681**	3,405,004
Investment securities	**317,225**	448,287
Other assets	**24,123**	52,617
	4,395,703	4,617,564

	Maximum exposure 2023 KD 000	Maximum exposure 2022 KD 000
Credit risk exposures relating to off - balance sheet items: (Note 22a)		
Acceptances, letters of credit, and guarantees	**482,818**	527,378
Irrevocable credit commitments	**-**	71
	482,818	527,449

26. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

RISK MANAGEMENT (CONTINUED)

A. CREDIT RISK (CONTINUED)

Maximum exposure to credit risk (continued)

The gross maximum credit exposure to a single client or counterparty as of 31 December 2023 is KD 99,216 thousand (2022: KD 91,435 thousand) before taking account of any collaterals.

Geographical and industry-wise concentration of assets and off-balance sheet items are as follows:

2023	**Assets representing credit risk KD 000**	**Contingencies & commitments representing credit risk KD 000**
Geographic region:		
Kuwait	**3,884,339**	**402,737**
Other GCC	**383,570**	**27,171**
Europe	**40,506**	**47,470**
North America	**6,614**	**2,005**
Other countries	**80,674**	**3,435**
	4,395,703	**482,818**

2023	**Assets representing credit risk KD 000**	**Contingencies & commitments representing credit risk KD 000**
Industry sector:		
Trading and manufacturing	**507,337**	**182,233**
Banks and financial institutions	**1,192,764**	**77,106**
Construction and real estate	**1,289,916**	**126,660**
Other	**1,405,686**	**96,819**
	4,395,703	**482,818**

26. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

RISK MANAGEMENT (CONTINUED)

A. CREDIT RISK (CONTINUED)

Maximum exposure to credit risk (continued)

2022	Assets representing credit risk KD 000	Contingencies & commitments representing credit risk KD 000
Geographic region:		
Kuwait	3,963,021	427,052
Other GCC	414,059	35,213
Europe	43,891	53,250
North America	51,088	2,437
Other countries	145,505	9,497
	4,617,564	527,449

2022	Assets representing credit risk KD 000	Contingencies & commitments representing credit risk KD 000
Industry sector:		
Trading and manufacturing	566,505	198,758
Banks and financial institutions	1,105,024	81,125
Construction and real estate	1,374,552	138,037
Other	1,571,483	109,529
	4,617,564	527,449

Credit quality of the financial assets is managed by the Bank with a combination of external and internal ratings mechanisms. It is the Bank's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates management to focus on the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk.

All internal risk ratings are tailored to the various categories and are derived in accordance with the Bank's rating policy. The credit quality of class of assets with underlying credit risks are as follows:

Neither past due nor impaired				**(KD 000)**
2023	**High grade**	**Standard grade**	**Closely monitored**	**Total**
Balances with banks	**268,419**	**-**	**-**	**268,419**
Deposits with the Central Bank of Kuwait	**207,271**	**-**	**-**	**207,271**
Deposits with other banks	**383,984**	**-**	**-**	**383,984**
Financing receivables	**3,016,595**	**107,456**	**349**	**3,124,400**
Investment securities	**317,225**	**-**	**-**	**317,225**
Other assets	**24,123**	**-**	**-**	**24,123**
	4,217,617	**107,456**	**349**	**4,325,422**

26. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

RISK MANAGEMENT (CONTINUED)

A. CREDIT RISK (CONTINUED)

Maximum exposure to credit risk (continued)

Neither past due nor impaired (KD 000)

2022	High grade	Standard grade	Closely monitored	Total
Balances with banks	212,076	-	-	212,076
Deposits with the Central Bank of Kuwait	238,164	-	-	238,164
Deposits with other banks	261,416	-	-	261,416
Financing receivables	3,277,780	70,981	24	3,348,785
Investment securities	448,287	-	-	448,287
Other assets	52,617	-	-	52,617
	4,490,340	70,981	24	4,561,345

Financial assets by class that are past due but not impaired:

2023	**Past due up to 30 days KD 000**	**Past due 31 to 60 days KD 000**	**Past due 61 to 90 days KD 000**	**Total KD 000**
Financing receivables				
-Retail financing	**6,750**	**2,434**	**1,051**	**10,235**
-Commercial financing	**13,642**	**1,983**	**7,923**	**23,548**
	20,392	**4,417**	**8,974**	**33,783**
Fair value of collateral				**22,721**

2022	Past due up to 30 days KD 000	Past due 31 to 60 days KD 000	Past due 61 to 90 days KD 000	Total KD 000
Financing receivables				
-Retail financing	6,318	2,280	818	9,416
-Commercial financing	3,737	974	1,205	5,916
	10,055	3,254	2,023	15,332
Fair value of collateral				5,815

Financial assets by class that are impaired:

2023	**Gross exposure KD 000**	**Impairment provision KD 000**	**Fair value of collateral KD 000**
Financing receivables			
-Retail financing	**4,381**	**1,746**	**-**
-Commercial financing	**47,952**	**14,089**	**31,493**
	52,333	**15,835**	**31,493**

26. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

RISK MANAGEMENT (CONTINUED)

A. CREDIT RISK (CONTINUED)

Financial assets by class that are impaired: ***(continued)***

2022	Gross exposure KD 000	Impairment provision KD 000	Fair value of collateral KD 000
Financing receivables			
-Retail financing	10,585	7,989	-
-Commercial financing	51,570	13,279	36,140
	62,155	21,268	36,140

The factors the Bank considered in determining impairment are disclosed in the accounting policy given in Note 2.5.1 *Financial instruments*.

B. LIQUIDITY RISK

Liquidity risk is the risk that the Bank will be unable to meet its net funding requirements. Liquidity risk can also be caused by market disruptions or credit downgrades which may cause certain sources of funding to dry up immediately. To guard against this risk, management has diversified funding sources and assets are managed with liquidity in mind, maintaining an adequate balance of cash, cash equivalents, and readily marketable securities.

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Bank's financial liabilities based on contractual undiscounted repayment obligations including profit share. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment earlier than the contractual date and the table also does not reflect the expected cash flows indicated by the Bank's deposit retention history.

	Less than 1 month KD 000	**1 to 3 months KD 000**	**3 to 12 months KD 000**	**1 to 5 years KD 000**	**Total KD 000**
2023					
Deposits from banks and other financial institutions	**551,085**	**3,915**	**2,082**	**51**	**557,133**
Deposits from customers	**1,405,646**	**887,174**	**849,458**	**45,704**	**3,187,982**
Other liabilities	**38,731**	**15,203**	**19,930**	**28,739**	**102,603**
	1,995,462	**906,292**	**871,470**	**74,494**	**3,847,718**

	Less than 1 month KD 000	1 to 3 months KD 000	3 to 12 months KD 000	1 to 5 years KD 000	Total KD 000
2022					
Deposits from banks and other financial institutions	696,232	12,179	5,564	-	713,975
Deposits from customers	1,479,911	1,128,387	619,466	36,835	3,264,599
Other liabilities	29,383	13,759	14,166	35,843	93,151
	2,205,526	1,154,325	639,196	72,678	4,071,725

26. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

RISK MANAGEMENT (CONTINUED)

B. LIQUIDITY RISK (CONTINUED)

Analysis of financial liabilities by remaining contractual maturities (continued)
The table below shows the contractual expiry by maturity of the Bank's credit related contingent liabilities and commitments as disclosed in Note 22:

	Less than 1 month KD 000	**1 to 3 months KD 000**	**3 to 12 months KD 000**	**1 to 5 years KD 000**	**Over 5 years KD 000**	**Total KD 000**
2023						
Credit related contingent liabilities	**22,672**	**72,345**	**221,054**	**164,226**	**2,521**	**482,818**
	22,672	**72,345**	**221,054**	**164,226**	**2,521**	**482,818**

	Less than 1 month KD 000	1 to 3 months KD 000	3 to 12 months KD 000	1 to 5 years KD 000	Over 5 years KD 000	Total KD 000
2022						
Credit related contingent liabilities	25,709	65,958	240,616	171,624	23,471	527,378
Irrevocable credit commitments	-	-	-	71	-	71
	25,709	65,958	240,616	171,695	23,471	527,449

C. MARKET RISK

The Bank defines market risk as the uncertainty in future earnings on the Bank's on and off-balance sheet positions resulting from changes in market variables such as profit rate risk, currency risk and equity price risk.

C.1 PROFIT RATE RISK

In accordance with the provisions of Islamic Shari'a, the Bank generates assets and liabilities that have cash inflows and outflows, or fair values and their profitability and performance is evaluated through the sensitivity of profit rates fluctuations. The Bank manages the risk arising from these exposures to maximise profit for shareholders and depositors.

Following the decision by global regulators to phase out IBORs and replace them with alternative reference rates and to manage our transition to ABRs, the Bank has implemented a comprehensive Bank-wide program and governance structure that addresses the key areas of impact including contract remediation, funding and liquidity planning, risk management, financial reporting and valuation, systems, processes and client education and communication. The Bank successfully completed the transition of a significant portion of its IBOR exposure to RFRs in 2022 and 2023. The Bank will be using Secured Overnight Financing Rate (SOFR) and Sterling Overnight Index Average (SONIA) as alternative benchmark profit rates. The Bank is now confident that it has the operational capability to process the remaining transitions to RFRs for those interest rate benchmarks, including exposures to USD LIBOR 3 month and 12 month, that will cease to be available after 30 June 2023.

IBOR reform exposes the Bank to various risks, which the project is managing and monitoring closely. These risks include but are not limited to the following:

- Conduct risk arising from discussions with clients and market counterparties due to the amendments required to existing contracts necessary to effect IBOR reform.
- Financial risk to the Bank and its clients that markets are disrupted due to IBOR reform giving rise to financial losses.
- Pricing risk from the potential lack of market information if liquidity in IBORs reduces and RFRs are illiquid and unobservable.

26. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

RISK MANAGEMENT (CONTINUED)

C. MARKET RISK (CONTINUED)

C.1 PROFIT RATE RISK (CONTINUED)

- Operational risk arising from changes to the Bank's IT systems and processes, also the risk of payments being disrupted if an IBOR ceases to be available.
- Accounting risk if the Bank's hedging relationships fail and from unrepresentative income statement volatility as financial instruments transition to RFRs.

The tables below show the Bank's exposure to significant IBORs subject to reform that have yet to transition to RFRs as at the current year end and the prior year end. The tables exclude exposures to IBOR that will expire before transition is required.

31 December 2023 **Currency**	**Assets** **KD 000**	**Derivatives Notional amounts** **KD 000**
USD LIBOR**	**13,879**	**-**
	13,879	**-**

**Only deals maturing beyond 30 June 2023

Instruments referenced to USD LIBOR will transition no later than immediately after 30 June 2023.

31 December 2022 Currency	Assets KD 000	Derivatives Notional amounts KD 000
USD LIBOR	22,543	184,379
	22,543	184,379

The Bank's exposure to IBOR linked financial liabilities is relatively insignificant.

C.2 CURRENCY RISK

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within established limits.

The Bank had the following net exposures denominated in foreign currencies.

The effect on profit before tax, as a result of change in currency rate, with all other variables held constant is shown below:

		Effect on profit before tax	
Currency	**Change in currency rate in %**	**2023** **KD 000**	2022 KD 000
US Dollars	+/-5 %	**69**	56

A 5 percent decrease of the above currency against the Kuwaiti Dinar would have had equal, but opposite, effect of the amount shown above, on the basis that all other variables remain constant.

26. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

RISK MANAGEMENT (CONTINUED)

C. MARKET RISK (CONTINUED)

C.2 CURRENCY RISK (CONTINUED)

Sensitivity to currency rate movements will be on a symmetric basis, as financial instruments giving rise to non-symmetric movements are not significant. There is no significant impact on the equity.

C.3 EQUITY PRICE RISK

Equity price risk is the risk that the fair values of equity investments decrease as a result of the changes in the level of equity indices and the value of the individual stocks. The non-trading equity price risk exposure arises from the Bank's investment portfolio.

The Bank does not have any material exposure to equity price risk on its listed equity investments.

At the reporting date, the exposure to non-listed equity investments at fair value was KD 4,747 thousand (2022: KD 5,166 thousand).

D. OPERATIONAL RISK

The Bank has a set of policies and procedures approved by the Board of Directors and are applied to identify, assess and supervise operational risk in addition to other types of risk relating to the banking and financial activities of the Bank. Operational risk is managed by the Risk Management Division. This Division ensures compliance with policies and procedures to identify, assess, supervise and monitor operational risk as part of overall Global Risk Management.

The Bank manages operational risks in line with the Central Bank of Kuwait instructions dated 14 November 1996 regarding general guidelines for internal control systems and directives issued on 13 October 2003 regarding "Sound Practices for the Management and Control of Operational Risks".

27. SEGMENT REPORTING

The Bank's operating segments are determined based on the reports reviewed by the Chief Operating decision maker that are used for strategic decisions. These segments are strategic business units having similar economic characteristics that offer different products and services. These operating segments are monitored separately by the Bank for the purpose of making decisions about resource allocation and performance assessment.

These operating segments meet the criteria for reportable segments and are as follows:

- Retail and Commercial Banking – comprising a full range of banking operations covering credit and deposit services provided to customers and correspondent banking. The Bank uses a common marketing and distribution strategy for its commercial banking operations.
- Treasury and Investment Management – comprising clearing, money market, foreign exchange, sukuk, other treasury and miscellaneous operations, proprietary investment, securities trading activities and fiduciary fund management activities.

Segment results include revenue and expenses directly attributable to a segment and an allocation of overhead cost.

The Bank measures the performance of operating segments through measure of segment profit or loss net of taxes in management and reporting systems.

27. SEGMENT REPORTING (CONTINUED)

Segment assets and liabilities comprise those operating assets and liabilities that are directly attributable to the segment.

	Retail and Commercial Banking		*Treasury and Investment Management*		*Total*	
	2023 KD 000	2022 KD 000	**2023 KD 000**	2022 KD 000	**2023 KD 000**	2022 KD 000
Net financing income	**45,702**	55,994	**27,490**	22,016	**73,192**	78,010
Fees, commissions and others	**5,280**	6,494	**7,910**	6,317	**13,190**	12,811
Total operating income	**50,982**	62,488	**35,400**	28,333	**86,382**	90,821
Provision and impairment losses	**(7,181)**	(15,037)	**3,631**	423	**(3,550)**	(14,614)
Operating expenses and Taxation	**(32,432)**	(32,002)	**(7,873)**	(7,798)	**(40,305)**	(39,800)
Segment result	**11,369**	15,449	**31,158**	20,958	**42,527**	36,407
Profit for the year					**42,527**	36,407

	Retail and Commercial Banking		*Treasury and Investment Management*		*Total*	
	2023 KD 000	2022 KD 000	**2023 KD 000**	2022 KD 000	**2023 KD 000**	2022 KD 000
Segment assets	**3,234,071**	3,453,910	**1,264,866**	1,257,777	**4,498,937**	4,711,687
Segment liabilities	**2,887,634**	2,778,937	**926,478**	1,265,590	**3,814,112**	4,044,527

The Bank primarily operates in Kuwait.

28. CAPITAL MANAGEMENT

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

The Bank actively manages its capital base in order to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision (BIS rules/ratios) and adopted by the Central Bank of Kuwait in supervising the Bank.

The Bank's regulatory capital and capital adequacy ratios (Basel III) for the year ended 31 December 2023 are calculated in accordance with the CBK circular number 2/RB, RBA/336/2014 dated 24 June 2014 are shown below:

	2023 KD 000	2022 KD 000
Risk weighted assets	**3,652,071**	3,905,529
Total capital required	**493,030**	468,663

28. CAPITAL MANAGEMENT (CONTINUED)

	2023 KD 000	2022 KD 000
Capital available		
Tier 1 capital	**682,825**	672,636
Tier 2 capital	**44,112**	47,498
Total capital	**726,937**	720,134

	2023	2022
Tier 1 capital adequacy ratio	**18.70%**	17.22%
Total capital adequacy ratio	**19.90%**	18.44%

The Bank's financial leverage ratio for the year ended 31 December 2023 is calculated in accordance with the CBK circular number 2/IBS/ 343/2014 dated 21 October 2014 is shown below:

	2023 KD 000	2022 KD 000
Tier 1 capital	**682,825**	672,636
Total exposure	**5,080,229**	5,412,081
Financial leverage ratio	**13.44%**	12.43%

29. FIDUCIARY ASSETS

The aggregate value of assets held in a trust or fiduciary capacity by the Bank at 31 December 2023 amounted to KD 773 thousand (2022: KD 982 thousand).