NATIONAL BANK OF KUWAIT GROUP

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2022

Consolidated Financial Statements

Page No.

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INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF NATIONAL BANK OF KUWAIT S.A.K.P.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of National Bank of Kuwait S.A.K.P. (the "Bank") and its subsidiaries (together, "the Group"), which comprise the consolidated statement of financial position as at 31 December 2022, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs"), as adopted by 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 Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with 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 consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each key audit matter below, our description of how our audit addressed the matter is provided in that context.

INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF NATIONAL BANK OF KUWAIT S.A.K.P.
(continued)

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

Key Audit Matters (continued)

We have identified the following key audit matters:

a) Credit losses on loans, advances and Islamic financing to customers

The recognition of credit losses on loans, advances and Islamic financing ("credit facilities") to customers is the higher of Expected Credit Loss ("ECL") under International Financial Reporting Standard 9: Financial Instruments ("IFRS 9"), determined in accordance with the CBK guidelines, and the provision required by the CBK rules on classification of credit facilities and calculation of their provision (the "CBK rules") as disclosed in the accounting policies and in Note 13 to the consolidated financial statements.

Recognition of ECL under IFRS 9, determined in accordance with CBK guidelines, is a complex accounting policy, which requires considerable judgement in its implementation. ECL is dependent on management's judgement in assessing significant increase in credit risk and classification of credit facilities into various stages, determining when a default has occurred, development of models for assessing the probability of default of customers and estimating cash flows from recovery procedures or realization of collateral.

Recognition of specific provision on impaired facility under the CBK rules is based on the instructions by CBK on the minimum provision to be recognized together with any additional provision to be recognised based on management estimate of expected cash flows related to that credit facility.

Due to the significance of credit facilities and the related estimation uncertainty and judgement in the impairment calculation, this was considered as a key audit matter. This is further heightened by the high degree of estimation uncertainty due to the current inflationary pressure and high interest rate environment.

Our audit procedures included assessing the design and implementation of controls over the inputs and assumptions used by the Group in developing the models, its governance and review controls performed by the management in determining the adequacy of credit losses. Further, our audit procedures were updated to incorporate consideration of the current inflationary pressure and high interest rate environment, including a focus on rescheduled credit facilities.

INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF NATIONAL BANK OF KUWAIT S.A.K.P. (continued)

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

Key Audit Matters (continued)

a) Credit losses on loans, advances and Islamic financing to customers (continued)

With respect to the ECL based on IFRS 9, determined in accordance with the CBK guidelines, we have selected samples of credit facilities outstanding as at the reporting date, which included rescheduled credit facilities, and evaluated the Group's determination of significant increase in credit risk and the resultant basis for classification of the credit facilities into various stages. We involved our specialists to review the ECL model in terms of key data, methods and assumptions used to ensure they are in line with IFRS 9 requirements, determined in accordance with CBK guidelines. For a sample of credit facilities, we have evaluated the Group's staging criteria, Exposure at Default ("EAD") Probability of Default ("PD") and Loss Given Default ("LGD") including the eligibility and value of collateral considered in the ECL models used by the Group and the overlays considered by management in view of the ongoing economic impacts, in order to determine ECL taking into consideration CBK guidelines. We have also evaluated the various inputs and assumptions used by the Group's management to determine ECL.

Further, for the CBK rules 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, it has been computed accordingly. For the samples selected, which included rescheduled credit facilities, we have verified whether all impairment events have been identified by the Group's management. For the selected samples which also included impaired credit facilities, we have assessed the valuation of collateral and checked the resultant provision calculations.

b) Impairment of goodwill in Egypt

The Group has goodwill with carrying value of KD 25,149 thousand in respect of component of Egypt as at 31 December 2022. The impairment tests of goodwill performed by management in the component of Egypt are significant to our audit because the assessment of the recoverable amount of goodwill under the value-in-use basis is complex and requires considerable judgments on part of management, especially due to the current inflationary pressure and high interest rate environment. Estimates of future cash flows are based on management's views of variables such as the growth in the banking sector, economic conditions such as the economic growth and expected inflation rates and yield. Therefore, we identified the impairment testing of goodwill in the component of Egypt as a key audit matter.

INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF NATIONAL BANK OF KUWAIT S.A.K.P.
(continued)

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

Key Audit Matters (continued)

b) Impairment of goodwill in Egypt (continued)

As part of our audit procedures, we have verified prevailing market prices where management has used these as a benchmark to compute the recoverable value. Where "value in use" is the basis to compute the recoverable value we obtained management's impairment calculations and tested the reasonableness of key assumptions, including profit forecasts and the selection of growth rates and discount rates. We also involved our valuation specialists and challenged management to substantiate the assumptions, including the comparison of relevant assumptions to industry benchmarks and economic forecasts. We tested the integrity of supporting calculations and corroborated certain information with third party sources. We agreed the underlying cash flows to approved budgets and assessed growth rates and discount rates by comparison with third party information, the Group's cost of capital and relevant risk factors. Future cash flow assumptions were also assessed through comparison to current trading performance against budget and forecasts, considering the historical accuracy of budgeting and forecasting and the understanding of the reasons for growth profiles used. We further evaluated management's sensitivity analysis to ascertain the impact of reasonably possible changes to key assumptions.

We also assessed the adequacy of the Group's disclosures regarding those assumptions, which are disclosed in Note 15 to the consolidated financial statements, against the requirements of IFRSs.

Other Information included in the Group's 2022 Annual Report

Management is responsible for the other information. Other information consists of the information included in the Group's 2022 Annual Report, other than the consolidated 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 Group's Annual Report for the year ended 31 December 2022 after the date of our auditors' report.

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

In connection with our audit of the consolidated 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 consolidated 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 other information; we are required to report that fact. We have nothing to report in this regard.

INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF NATIONAL BANK OF KUWAIT S.A.K.P.
(continued)

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

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the IFRSs as adopted by CBK for use by the State of Kuwait, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control.

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

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INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF NATIONAL BANK OF KUWAIT S.A.K.P.
(continued)

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements (continued)

- 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 Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with 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.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated 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.

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF NATIONAL BANK OF KUWAIT S.A.K.P. (continued)

Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion proper books of account have been kept by the Bank and the consolidated financial statements, together with the contents of the report of the Bank's Board of Directors relating to these consolidated 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 consolidated financial statements incorporate all information that is required by the Capital Adequacy Regulations and Financial Leverage Ratio Regulations issued by the Central Bank of Kuwait ("CBK") as stipulated in CBK Circular Nos. 2/RB, RBA/336/2014 dated 24 June 2014 and its amendments, and 2/BS/342/2014 dated 21 October 2014, and its amendments, respectively, the Companies Law No. 1 of 2016, as amended, and its executive regulations, as amended, or 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/BS/342/2014 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 2022 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 2022 that might have had a material effect on the business of the Bank or on its financial position.

ABDULKARIM ALSAMDAN	BADER A. AL-WAZZAN
LICENCE NO. 208 A	LICENCE NO. 62 A
EY	DELOITTE & TOUCHE
AL-AIBAN, AL-OSAIMI & PARTNERS	AL WAZZAN & CO.

29 January 2023
Kuwait

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2022

	Notes	***2022*** ***KD 000's***	*2021* *KD 000's*
Interest income	4	**947,589**	661,056
Interest expense	5	**363,821**	154,889
Net interest income		**583,768**	506,167
Murabaha and other Islamic financing income		**287,558**	227,849
Finance cost and Distribution to depositors		**115,487**	64,757
Net income from Islamic financing		**172,071**	163,092
Net interest income and net income from Islamic financing		**755,839**	669,259
Net fees and commissions	6	**181,778**	168,836
Net investment income	7	**15,736**	27,905
Net gains from dealing in foreign currencies		**55,379**	29,739
Other operating income		**1,009**	4,054
Non-interest income		**253,902**	230,534
Net operating income		**1,009,741**	899,793
Staff expenses		**220,125**	201,113
Other administrative expenses		**125,430**	115,609
Depreciation of premises and equipment		**38,922**	34,049
Amortisation of intangible assets	15	**1,647**	1,647
Operating expenses		**386,124**	352,418
Operating profit before provision for credit losses and impairment losses		**623,617**	547,375
Provision charge for credit losses and impairment losses	8	**45,363**	132,498
Operating profit before taxation and directors' remuneration		**578,254**	414,877
Taxation	9	**47,422**	34,136
Directors' remuneration	27	**770**	120
Profit for the year		**530,062**	380,621
Attributable to:			
Shareholders of the Bank		**509,085**	362,249
Non-controlling interests		**20,977**	18,372
		530,062	380,621
Basic earnings per share attributable to shareholders of the Bank	10	**65 fils**	45 fils

The attached notes 1 to 32 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2022

	Note	***2022 KD 000's***	*2021 KD 000's*
Profit for the year		**530,062**	380,621
Other comprehensive income:			
Investment in debt securities measured at FVOCI:			
Net change in fair value		**3,158**	48,123
Net transfer to consolidated statement of income		**5,129**	(10,818)
		8,287	37,305
Exchange differences on translation of foreign operations		**(125,273)**	(5,924)
Other comprehensive (loss) income for the year reclassifiable to consolidated statement of income in subsequent years		**(116,986)**	31,381
Net loss on investments in equity instruments designated at FVOCI		**(4,446)**	(1,009)
Actuarial gain (loss) in respect of defined benefit plans	18	**8,252**	(484)
Other comprehensive income (loss) for the year not reclassifiable to consolidated statement of income in subsequent years		**3,806**	(1,493)
Other comprehensive (loss) income for the year		**(113,180)**	29,888
Total comprehensive income for the year		**416,882**	410,509
Attributable to:			
Shareholders of the Bank		**398,266**	391,438
Non-controlling interests		**18,616**	19,071
		416,882	410,509

The attached notes 1 to 32 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2022

	Notes	**2022 KD 000's**	2021 KD 000's
Assets			
Cash and short term funds	11	**5,323,452**	5,081,991
Central Bank of Kuwait bonds	14	**881,241**	830,054
Kuwait Government treasury bonds	14	**211,629**	417,016
Deposits with banks	12	**1,490,286**	885,280
Loans, advances and Islamic financing to customers	13	**20,998,416**	19,722,471
Investment securities	14	**5,634,672**	4,910,798
Investment in associates		**3,119**	3,746
Land, premises and equipment		**474,724**	456,209
Goodwill and other intangible assets	15	**534,936**	581,264
Other assets	16	**785,888**	367,757
Total assets		**36,338,363**	33,256,586
Liabilities			
Due to banks		**4,017,979**	4,098,688
Deposits from other financial institutions		**3,740,877**	3,135,629
Customer deposits		**20,178,062**	18,280,989
Certificates of deposit issued		**1,801,623**	1,339,354
Other borrowed funds	17	**1,243,563**	1,266,582
Other liabilities	18	**721,313**	668,227
Total liabilities		**31,703,417**	28,789,469
Equity			
Share capital	19	**755,233**	719,269
Proposed bonus shares	20	**37,762**	35,964
Statutory reserve	19	**377,618**	359,637
Share premium account	19	**803,028**	803,028
Treasury share reserve	19	**34,961**	34,961
Other reserves	19	**1,614,386**	1,586,708
Equity attributable to shareholders of the Bank		**3,622,988**	3,539,567
Perpetual Tier 1 Capital Securities	21	**439,032**	439,032
Non-controlling interests	24	**572,926**	488,518
Total equity		**4,634,946**	4,467,117
Total liabilities and equity		**36,338,363**	33,256,586

Hamad Mohamed Al-Bahar
Chairman

Isam J. Al Sager
Vice Chairman and Group Chief Executive Officer

The attached notes 1 to 32 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2022

	Notes	***2022 KD 000's***	*2021 KD 000's*
Operating activities			
Profit for the year		**530,062**	380,621
Adjustments for:			
Net investment income	7	**(15,736)**	(27,905)
Depreciation of premises and equipment		**38,922**	34,049
Amortisation of intangible assets	15	**1,647**	1,647
Provision charge for credit losses and impairment losses	8	**45,363**	132,498
Taxation	9	**47,422**	34,136
Cash flows from operating activities before changes in operating assets and liabilities		**647,680**	555,046
Changes in operating assets and liabilities:			
Central Bank of Kuwait bonds		**(51,187)**	-
Kuwait Government treasury bonds		**188,596**	45,906
Deposits with banks		**(612,423)**	129,375
Loans, advances and Islamic financing to customers		**(1,528,359)**	(2,341,207)
Other assets		**(122,294)**	(159,753)
Due to banks		**(79,345)**	1,046,362
Deposits from other financial institutions		**605,672**	206,382
Customer deposits		**2,254,665**	1,176,757
Certificates of deposit issued		**462,269**	420,492
Other liabilities		**90,519**	(25,576)
Tax paid		**(33,856)**	(28,500)
Net cash from operating activities		**1,821,937**	1,025,284
Investing activities			
Purchase of investment securities		**(4,131,965)**	(3,322,569)
Proceeds from sale/redemption of investment securities		**2,871,878**	3,121,755
Dividend income	7	**2,272**	2,399
Proceeds from sale of a foreign branch		**25,597**	-
Proceeds from sale of land, premises and equipment		**2,732**	592
Purchase of land, premises and equipment		**(61,505)**	(56,117)
Change in holding in subsidiaries		**(7,889)**	4,424
Purchase of investment properties		**(22,914)**	-
Proceeds from sale of investment properties		**12,625**	26,636
Net cash used in investing activities		**(1,309,169)**	(222,880)
Financing activities			
Proceeds from issue of unsecured sukuk by a subsidiary		**152,225**	-
Redemption of Global Medium term notes		**(229,238)**	-
Proceeds from capital increase in a subsidiary		**80,238**	-
Net proceeds from issue of Perpetual Tier 1 Capital Securities		**-**	210,436
Redemption of Perpetual Tier 1 Capital Securities		**-**	(210,700)
Interest paid on Perpetual Tier 1 Capital Securities		**(18,119)**	(19,881)
Net Proceeds from issuance of Perpetual Tier 1 Sukuk by a subsidiary		**-**	149,775
Redemption of Perpetual Tier 1 Sukuk by a subsidiary		**-**	(75,388)
Profit distribution on Perpetual Tier 1 Sukuk by a subsidiary		**(6,068)**	(5,421)
Net movement in other medium and short term borrowing		**47,335**	464,399
Dividends paid	20	**(291,304)**	(137,004)
Dividends paid by subsidiaries to non-controlling interests		**(6,376)**	-
Net cash (used in) from financing activities		**(271,307)**	376,216
Increase in cash and short term funds		**241,461**	1,178,620
Cash and short term funds at the beginning of the year		**5,081,991**	3,903,371
Cash and short term funds at the end of the year	11	**5,323,452**	5,081,991

The attached notes 1 to 32 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2022

KD 000's

	Equity attributable to shareholders of the Bank									
	Share capital	***Proposed bonus shares***	***Statutory reserve***	***Share premium account***	***Treasury share reserve***	***Other reserves*** *(Note 19e)*	***Total***	***Perpetual Tier 1 Capital Securities***	***Non - controlling interests***	***Total equity***
Balance as at 1 January 2022	**719,269**	**35,964**	**359,637**	**803,028**	**34,961**	**1,586,708**	**3,539,567**	**439,032**	**488,518**	**4,467,117**
Profit for the year	**-**	**-**	**-**	**-**	**-**	**509,085**	**509,085**	**-**	**20,977**	**530,062**
Other comprehensive loss	**-**	**-**	**-**	**-**	**-**	**(110,819)**	**(110,819)**	**-**	**(2,361)**	**(113,180)**
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**398,266**	**398,266**	**-**	**18,616**	**416,882**
Transfer to statutory reserve (Note 19b)	**-**	**-**	**17,981**	**-**	**-**	**(17,981)**	**-**	**-**	**-**	**-**
Issue of bonus shares (Note 19a)	**35,964**	**(35,964)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Dividend paid	**-**	**-**	**-**	**-**	**-**	**(215,781)**	**(215,781)**	**-**	**-**	**(215,781)**
Interim cash dividend paid – 10 fils per share	**-**	**-**	**-**	**-**	**-**	**(75,523)**	**(75,523)**	**-**	**-**	**(75,523)**
Interest paid on perpetual Tier 1 Capital Securities	**-**	**-**	**-**	**-**	**-**	**(18,119)**	**(18,119)**	**-**	**-**	**(18,119)**
Profit distribution on Perpetual Tier 1 Sukuk by a subsidiary	**-**	**-**	**-**	**-**	**-**	**(3,642)**	**(3,642)**	**-**	**(2,426)**	**(6,068)**
Change in holding in subsidiaries	**-**	**-**	**-**	**-**		**(2,557)**	**(2,557)**	**-**	**(5,332)**	**(7,889)**
Capital increase in a subsidiary	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**80,238**	**80,238**
Dividend paid to non-controlling interests by a subsidiary	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(6,376)**	**(6,376)**
Proposed bonus shares (Note 20)	**-**	**37,762**	**-**	**-**	**-**	**(37,762)**	**-**	**-**	**-**	**-**
Other movements	**-**	**-**	**-**	**-**	**-**	**777**	**777**	**-**	**(312)**	**465**
At 31 December 2022	**755,233**	**37,762**	**377,618**	**803,028**	**34,961**	**1,614,386**	**3,622,988**	**439,032**	**572,926**	**4,634,946**

The attached notes 1 to 32 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2022

KD 000's

	Equity attributable to shareholders of the Bank									
	Share capital	*Proposed bonus shares*	*Statutory reserve*	*Share premium account*	*Treasury share reserve*	*Other reserves (Note 19e)*	*Total*	*Perpetual Tier 1 Capital Securities*	*Non - controlling interests*	*Total equity*
Balance as at 1 January 2021	685,019	34,250	342,511	803,028	34,961	1,410,240	3,310,009	438,438	392,608	4,141,055
Profit for the year	-	-	-	-	-	362,249	362,249	-	18,372	380,621
Other comprehensive loss	-	-	-	-	-	29,189	29,189	-	699	29,888
Total comprehensive income	-	-	-	-	-	391,438	391,438	-	19,071	410,509
Transfer to statutory reserve (Note 19b)	-	-	17,126	-	-	(17,126)	-	-	-	-
Issue of bonus shares (Note 19a)	34,250	(34,250)	-	-	-	-	-	-	-	-
Dividend paid	-	-	-	-	-	(137,004)	(137,004)	-	-	(137,004)
Issuance of Perpetual Tier 1 Capital Securities (Note 21)	-	-	-	-	-	-	-	211,294	-	211,294
Redemption of Perpetual Tier 1 Capital Securities	-	-	-	-	-	-	-	(210,700)	-	(210,700)
Transaction cost on issue of Perpetual Tier 1 Capital Securities	-	-	-	-	-	(858)	(858)	-	-	(858)
Interest paid on perpetual Tier 1 Capital Securities	-	-	-	-	-	(19,881)	(19,881)	-	-	(19,881)
Profit distribution on Perpetual Tier 1 Sukuk by a subsidiary	-	-	-	-	-	(3,247)	(3,247)	-	(2,174)	(5,421)
Issuance of Perpetual Tier 1 Sukuk by a subsidiary (Note 24)	-	-	-	-	-	-	-	-	150,385	150,385
Redemption of Perpetual Tier 1 Sukuk by a subsidiary	-	-	-	-	-	-	-	-	(75,388)	(75,388)
Transaction cost on issue of Perpetual Tier 1 Sukuk by a subsidiary	-	-	-	-	-	(365)	(365)	-	(245)	(610)
Change in holding in subsidiaries	-	-	-	-	-	-	-	-	4,424	4,424
Proposed bonus shares (Note 20)	-	35,964	-	-	-	(35,964)	-	-	-	-
Other movements	-	-	-	-	-	(525)	(525)	-	(163)	(688)
At 31 December 2021	719,269	35,964	359,637	803,028	34,961	1,586,708	3,539,567	439,032	488,518	4,467,117

The attached notes 1 to 32 form part of these consolidated financial statements.

1 INCORPORATION AND REGISTRATION

The consolidated financial statements of National Bank of Kuwait S.A.K.P. (the "Bank") and its subsidiaries (collectively the "Group") for the year ended 31 December 2022 were authorised for issue in accordance with a resolution of the directors on 11 January 2023. The Annual General Meeting of the shareholders has the power to amend these consolidated financial statements after issuance. The Bank is a public shareholding company incorporated in Kuwait in 1952 and is registered as a bank (commercial registration number - 8490) with the Central Bank of Kuwait. The Bank's registered office is at Al Shuhada Street, P.O. Box 95, Safat 13001, Kuwait. The principal activities of the Bank are described in Note 3.

2 SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

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

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

- Modification losses on financial assets, arising from payment holidays to customers extended during the financial year ended 31 December 2020 as a result of Covid-19, was recognised in retained earnings as required by the CBK circular no. 2/BS/IBS/461/2020 instead of statement of income in accordance with IFRS 9. However, modification losses on financial assets, arising from any other payment holidays to customers including payment holidays extended during the year ended 31 December 2021 was recognized in the statement of income. The application of the policy resulted in application of different accounting presentation for modification losses in 2020 compared to 2021.

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

The consolidated financial statements are prepared under the historical cost convention except for the measurement at fair value of derivatives, investment securities measured at fair value and investment properties. In addition and as more fully described below, assets and liabilities that are hedged in fair value hedging relationships are carried at fair value to the extent of the risk being hedged.

Certain prior year amounts have been reclassified in order to conform to the current year presentation. Such reclassifications do not affect previously reported assets, liabilities, equity and profit for the year.

2.2 Changes in accounting policies

New and amended standards and interpretations

The Group applied the following amendments effective from 1 January 2022:

Amendments to IAS 16 Property , plant and equipment (PP&E)- proceeds before intended use
The amendment prohibits entities from deducting from the cost of an item of PP&E, any proceeds of the sale of items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in consolidated statement of income.

Amendments to IFRS 9 financial instruments - fees in the 10% test for De-recognition *of financial liabilities.*
The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf.

Other amendments to IFRSs which are effective for annual accounting period starting from 1 January 2022 did not have any material impact on the accounting policies, financial position or performance of the Group.

2.2 Changes in accounting policies (continued)

Standards issued but not yet effective

A number of new standards, amendments to standards and interpretations which are effective for annual periods beginning on or after 1 January 2023 have not been early adopted in the preparation of the Group's consolidated financial statements. None of these are expected to have a significant impact on the Group's consolidated financial statements.

2.3 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank as at 31 December each year and its subsidiaries as at the same date or a date not earlier than three months from 31 December. The financial statements of subsidiaries and associates are prepared using consistent accounting policies and are adjusted, where necessary, to bring the accounting policies in line with those of the Group. All intercompany balances and transactions, including unrealised profits arising from intra-group transactions have been eliminated on consolidation.

a. Subsidiaries

Subsidiaries are all entities over which the Bank has control. The control is achieved when the Bank is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Refer Note 24 for the list of major subsidiaries, their principal businesses and the Group's effective holding.

b. Non-controlling interest

Interest in the equity of subsidiaries not attributable to the Group is reported as non-controlling interest in the consolidated statement of financial position. Non-controlling interest in the acquiree is measured at the proportionate share in the recognised amounts of the acquiree's identifiable net assets. Losses are allocated to the non-controlling interest even if they exceed the non-controlling interest's share of equity in the subsidiary. Transactions with non-controlling interests are treated as transactions with equity owners of the Group. Gains or losses on changes in non-controlling interests without loss of control are recorded in equity.

c. Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investment in an associate is initially recognised at cost and subsequently accounted for by the equity method of accounting. The Group's investment in associates includes goodwill identified on acquisition. The Group's share of its associates' post-acquisition profits or losses is recognised in the consolidated statement of income, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

The Group 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 Group 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 consolidated statement of income. Upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Gain or loss on this transaction is computed by comparing the carrying amount of the associate at the time of loss of significant influence with the aggregate of fair value of the retained investment and proceeds from disposal. This is recognised in the consolidated statement of income.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Foreign currencies

The consolidated financial statements are presented in Kuwaiti Dinars (thousand) which is also the Bank's functional currency.

a. Translation of foreign currency transactions

Transactions in foreign currencies are initially recorded in the functional currency rate of exchange ruling at the date of the transaction. Monetary assets and monetary liabilities in foreign currencies (other than monetary items that form part of the net investment in a foreign operation) are translated into functional currency at rates of exchange prevailing at the reporting date. Any gains or losses are taken to the consolidated statement of income. Exchange differences arising on monetary items that form part of the net investment in a foreign operation are determined using closing rates and recognised in other comprehensive income and presented in the foreign currency translation reserve in equity. When a foreign operation is disposed of, the cumulative amount in foreign currency translation reserve relating to that foreign operation is recognised in the consolidated statement of income. Goodwill, intangible assets and any fair value adjustments to the carrying value of assets and liabilities are recorded at the functional currency of the foreign operation and are translated to the presentation currency at the rate of exchange prevailing at the reporting date. All resulting exchange differences are recognised in other comprehensive income and accumulated in foreign currency translation reserve within equity.

Translation gains or losses on non-monetary items are recognised in other comprehensive income when non-monetary items are measured at fair value through other comprehensive income. Translation gains or losses on non-monetary items measured at fair value through profit or loss are recognised in consolidated statement of income.

b. Translation of financial statements of foreign entities

The results and financial position of all the Group entities that have a functional currency different from the presentation currency are translated to presentation currency as follows:

The assets and liabilities are translated at rates of exchange ruling at the reporting date. Income and expense items are translated at average exchange rates for the year. All resulting exchange differences are recognised in other comprehensive income and accumulated in foreign currency translation reserve within equity and duly recognised in the consolidated statement of income on disposal of the foreign operation.

2.5 Interest income and expenses

Interest income and expense for all interest-bearing financial instruments are recognised within 'interest income' and 'interest expense' in the consolidated statement of income using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. Fees which are considered as an integral part of the effective yield of a financial asset are recognised using effective yield method. Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

2.6 Murabaha and other Islamic financing income

Income from Murabaha, Wakala and Leased assets is recognized on a pattern reflecting a constant periodic return on the outstanding net investment.

2.7 Fees and commissions income

Fees and commission income are recognised when the Group satisfies the performance obligation by transferring the promised service to customers. At inception of the contract, the Group determines whether it satisfies the performance obligation over a period of time or at a point in time. Fees income earned from services provided over a period of time is recognised over the period of service. Fees and commissions arising from providing a transaction service are recognised at a point in time on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-apportioned basis. Asset management fees related to investment funds are recognised over the period in which the service is provided. The same principle is applied for wealth management and custody services that are continuously provided over an extended period of time.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Dividend income
Dividend income is recognised when the right to receive payment is established.

2.9 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.

2.10 Impairment of financial assets
The Group computes Expected Credit Losses (ECL) on the following financial instruments that are not measured at fair value through profit or loss:

- loans and advances, Islamic financing to customers including credit commitments
- letters of credit and financial guarantee contracts including commitments
- investment in debt securities measured at amortised cost or FVOCI
- balances and deposits with banks

Equity investments are not subject to Expected Credit Losses.

Impairment of credit facilities
Credit facilities granted by the Group consists of loans and advances, Islamic financing to customers, letters of credit and financial guarantee contracts and commitments to grant credit facilities. Impairment on credit facilities shall be recognised in the consolidated statement of financial position at an amount equal to the higher of ECL under IFRS 9 according to the CBK guidelines, and the provisions required by the CBK instructions.

Impairment of financial assets other than credit facilities
The Group recognises ECL on investment in debt securities measured at amortised cost or FVOCI and on balances and deposits with banks.

Expected Credit Losses
The Group applies a three-stage approach to measure the expected credit loss as follows:

Stage 1: 12 month ECL
The Group 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 Group 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 Group 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 Group measures loss allowances at an amount equal to lifetime ECL on financial assets that are determined to be credit impaired based on objective evidence of impairment.

Life time ECL is the ECL that result from all possible default events over the expected life of a financial instrument. The 12 month 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 either on an individual basis or on a collective basis depending on the nature of the underlying portfolio of financial instruments.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.10 Impairment of financial assets (continued)

Expected Credit Losses (continued)

Determining the stage of Expected Credit Loss
At each reporting date, the Group assesses whether there has been significant increase in credit risk since initial recognition by comparing the risk of default occurring over the remaining expected life from the reporting date with the risk of default at the date of initial recognition. 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 30 days past due are generally 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 unless this is rebutted.

At each reporting date, the Group also assesses whether a financial asset or group of financial assets is credit-impaired. The Group considers a financial asset to be credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred or when contractual payments are 90 days past due. All credit-impaired financial assets are classified as stage 3 for ECL measurement purposes. Evidence of credit impairment includes observable data about the following:

- Significant financial difficulty of the borrower or issuer
- A breach of contract such as default or past due event
- The lender having granted to the borrower a concession, that the lender would otherwise not consider, for economic or contractual reasons relating to the borrower's financial difficulty
- The disappearance of an active market for a security because of financial difficulties
- Purchase of a financial asset at a deep discount that reflects the incurred credit loss

At the reporting date, if the credit risk of a financial asset or group of financial assets has not increased significantly since initial recognition or not become credit impaired, these financial assets are classified as stage 1.

Measurement of ECLs
ECL is probability weighted estimates of credit losses and are measured as the present value of all cash shortfalls discounted at the effective interest rate of the financial instrument. Cash shortfall represents the difference between cash flows due to the Group in accordance with the contract and the cash flows that the Group 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 Group estimates these elements using appropriate credit risk models taking into consideration the internal and external credit ratings of the assets, nature and value of collaterals, forward-looking macroeconomic scenarios, etc.

Incorporation of forward-looking information
The Group 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 management reviews the methodologies and assumptions including any forecasts of future economic conditions on regular basis.

Modification of loans and Islamic financing to customers
Under certain circumstances, the Group seeks to restructure loans and Islamic financing to customers rather than taking possession of collateral. This may involve extending the payment arrangements, reduction in the amount of principal or interest and the agreement of new loan or financing conditions. If the modifications are substantial, such a facility is derecognised and a new facility is recognised with substantially different terms and conditions. The facility will have a loss allowance measured based on 12 month ECL except in rare occasions where the new facility is considered to be originated and credit impaired. Management continuously reviews modified loans and islamic financing to customers 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. When loans and Islamic financing to customers have been modified but not derecognised, any impairment is measured using the original effective interest rate as calculated before the modification of terms.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.10 Impairment of financial assets (continued)

Expected Credit Losses (continued)

Write off
The gross carrying amount of a financial asset is written off (either partially or in full) when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

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 Group recognises the ECL charge in the consolidated statement of income and a corresponding amount is recognised in other comprehensive income with no reduction in the carrying amount of the financial asset in the consolidated statement of financial position. ECL for loan commitments, letters of credit and financial guarantee contracts are recognised in other liabilities. When the Group is unable to identify the ECL on the undrawn portion of credit commitments separately from drawn portion of commitments, the combined amount of ECL is presented as a deduction from the gross carrying amount of the drawn portion.

Provisions for credit losses in accordance with CBK instructions
The Group is required to calculate provisions for credit losses on credit facilities in accordance with the instructions of CBK on the classification of credit facilities and calculation of provisions. Credit facilities 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 credit facility is classified as past due and impaired when the interest/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 but not impaired and past due and impaired loans 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 provisions***
Watch list	Irregular for a period of 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 Group 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.

2.11 Impairment of non-financial assets
Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in the consolidated statement of income for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. If previously recognised impairment losses have decreased, such excess impairment provision is reversed in the consolidated statement of income for non-financial assets other than goodwill.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.12 Share based compensation

Cash settled share based compensation

The fair value of the employee services received in exchange for the cash settled share based payment is recognised as an expense, together with a corresponding increase in liability. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options determined using the Black Scholes model. The liability is remeasured to fair value at each reporting date up to and including the settlement date, with changes in fair value recognised in the consolidated statement of income.

2.13 Post-employment benefits

The Group is liable to make defined contributions to State plans and lump sum payments under defined benefit plans to employees at cessation of employment, in accordance with the laws of the place they are employed. The defined benefit plans are unfunded. The present value of the defined benefit obligation is determined annually by actuarial valuations using the projected unit credit method. An actuarial valuation involves making various assumptions such as determination of the discount rate, future salary increases and mortality rates. These assumptions are reviewed at each reporting date. Current service cost, past service cost and net interest expense on the defined benefit plans are recognized in consolidated statement of income and is included in staff expenses. Any gains or losses on re-measurement of defined benefit plans attributable to changes in actuarial assumptions are recognized in other comprehensive income and is included in Actuarial Valuation reserve.

2.14 Taxation

Income tax payable on taxable profit (‘current tax’) is recognised as an expense in the period in which the profits arise in accordance with the fiscal regulations of the respective countries in which the Group operates. Deferred tax assets are recognised for deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent it is probable that taxable profit will be available to utilise these. Deferred tax liabilities are recognised for taxable temporary differences. Deferred tax assets and liabilities are measured using tax rates and applicable legislation enacted at the reporting date.

2.15 Recognition of financial assets and financial liabilities

Financial assets and financial liabilities are recognised when the Group becomes party to contractual provisions of the instrument and are initially measured at fair value. Transaction costs are included only for those financial instruments that are not measured at fair value through statement of income.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.16 Classification and measurement of financial assets

The Group determines the classification of financial assets based on the business model it uses to manage the financial assets and the contractual cash flow characteristics of the financial assets.

Business model assessment

The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. The Group's business model is not assessed on an instrument by instrument basis but at a higher level of aggregated portfolios and is based on a number of observable factors. The information considered includes:

- The stated policies and objectives for the portfolio and the operation of those policies in practice
- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity.

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

Assessment of whether contractual cash flows are solely payments of principal and interest (SPPI test)

The Group assesses the contractual terms of financial assets to identify whether they meet the SPPI test. 'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset. Interest is defined as consideration for time value of money and for the credit risk associated with the principal and for other basic lending risks and costs as well as a profit margin. In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. The Group considers:

- Contingent events that would change the amount and timing of cash flows;
- Leverage features;
- Prepayment and extension terms;
- Terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- Features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

Contractual terms that introduce a more than de minimus exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payment of principal and interest. In such cases, the financial asset is measured at fair value through profit or loss.

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

- Financial assets carried at amortised cost
- Financial assets carried at fair value through other comprehensive income (FVOCI)
- Financial assets carried at fair value through profit or loss (FVTPL)

Financial assets carried at Amortised cost:

A financial asset is carried at amortised cost if it meets both of the following conditions:

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.16 Classification and measurement of financial assets (continued)

Financial assets carried at Amortised cost (continued):
Financial assets carried at amortised cost are subsequently measured at amortised cost using the effective interest method. Interest income, foreign exchange gains and losses and charge for expected credit losses are recognised in the consolidated statement of income. Any gain or loss on de-recognition is recognised in the consolidated statement of income.

Financial assets carried at fair value through other comprehensive income (FVOCI):
(i) Debt Securities at FVOCI

A debt security is carried at FVOCI if it meets both of the following conditions:
- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Debt Securities at FVOCI are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment losses are recognised in the consolidated statement of income. 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 consolidated statement of income.

(ii) Equity investments at FVOCI
Upon initial recognition, the Group makes an irrevocable election to classify some of its equity investments as equity investments at FVOCI if 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 investments 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. Cumulative gains and losses previously recognised in other comprehensive income are transferred to retained earnings on de-recognition and are not recognised in the consolidated statement of income. Dividend income on equity investments at FVOCI are recognised in the consolidated statement of income unless they clearly represent a recovery of part of the cost of the investment. Equity investments at FVOCI are not subject to impairment assessment.

Financial assets carried at fair value through profit or loss:
Financial assets in this category are those assets which have been either designated by management upon initial recognition or are mandatorily required to be measured at fair value under IFRS 9. Management designates an instrument as FVTPL that otherwise meet the requirements to be measured at amortised cost or at FVOCI only if it eliminates, or significantly reduces, an accounting mismatch that would otherwise arise. Financial assets with contractual cash flows not representing solely payment of principal and interest are mandatorily required to be measured at FVTPL.

Financial assets at FVTPL are subsequently measured at fair value. Changes in fair value are recognised in the consolidated statement of income. Interest income is recognised using the effective interest method. Dividend income from equity investments measured at FVTPL is recognised in the consolidated statement of income when the right to the payment has been established.

The Group’s financial assets are classified and measured as follows:

Cash and short term funds
Cash and short term funds consist of cash in hand, current account and money at call with other banks and deposits with banks maturing within seven days. Cash and short term funds are classified and carried at amortised cost using effective interest rate.

Deposits with banks
Deposits with banks are classified and carried at amortised cost using the effective interest method. The carrying values of such assets which are being effectively hedged for changes in fair value are adjusted to the extent of the changes in fair value attributable to the risk being hedged.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.16 Classification and measurement of financial assets (continued)

Loans and advances to customers
Loans and advances are stated at amortised cost using the effective interest method. The carrying values of such assets which are being effectively hedged for changes in fair value are adjusted to the extent of the changes in fair value attributable to the risk being hedged.

Islamic financing to customers
Islamic financing to customers are financial assets with fixed or determinable payments that are not quoted in an active market. Major islamic financing products are:

a. Murabaha
Murabaha is an agreement relating to the sale of commodities at cost plus an agreed upon profit margin, whereby the seller informs the buyer of the price at which the deal will be completed and also the amount of profit to be recognized. Murabaha is a financial asset originated by the Group and is stated at amortised cost.

b. Wakala
Wakala is an agreement involving Al-Muwakkil (the Principal) who wishes to appoint Al-Wakil (the Agent) to be his agent with respect to the investment of Al-Muwakkil's fund, in accordance with regulations of the Islamic Sharia'a. Wakala is a financial asset originated by the Group and stated at amortised cost.

c. Leased assets - the Group as a lessor
Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating lease. Leased assets are stated at amortised cost using effective profit rate.

Financial investments
Group's financial investments consist of debt securities, equity investments and other investments.

Debt securities are classified as either at amortised cost or at fair value through other comprehensive income based on the business model in which these securities are managed.

Equity investments are generally carried at fair value through profit or loss except for those specific investments for which the Group has made an election to classify at fair value through other comprehensive income.

Other investments are carried at fair value through profit or loss.

2.17 Fair value 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 in the principal or, in its absence, in the most advantageous market to which the Group has access at that date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique.

When available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Group uses valuation techniques that include the use of valuation models that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction. 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.

If an asset or liability measured at fair value has a bid price and an ask price, then the Group measures assets at a bid price and liabilities at an ask price.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.17 Fair value measurement (continued)

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 and also considering the ability to generate economic benefits by using the property in its highest and best use.

2.18 Repurchase and resale agreements

Assets sold with a simultaneous commitment to repurchase at a specified future date at an agreed price (repos) are not derecognised in the consolidated statement of financial position. Amounts received under these agreements are treated as interest bearing liabilities and the difference between the sale and repurchase price treated as interest expense using the effective yield method. Assets purchased with a corresponding commitment to resell at a specified future date at an agreed price (reverse repos) are not recognised in the consolidated statement of financial position. Amounts paid under these agreements are treated as interest earning assets and the difference between the purchase and resale price treated as interest income using the effective yield method.

2.19 Offsetting of financial assets and liabilities

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

2.20 Modification of financial assets and and financial liabilities

If the terms of a financial asset are modified, the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value.

If the cash flows of the modified asset are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Group recalculates the gross carrying amount of the financial asset using the original effective interest rate and recognises the amount arising from adjusting the gross carrying amount as modification gain or loss in the Consolidated Statement of Income.

The Group derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in the Consolidated Statement of Income.

Interest Rate Benchmark Reform

In the context of IBOR reform, the Group's assessment of whether a change to a financial asset or financial liability is substantial is made after applying the practical expedient introduced by Interest Rate Benchmark Reform, Amendments to IFRS 9, Phase 2. This practical expedient allows changes to the basis for determining contractual cash flows as a direct result of interest rate benchmark reform to be treated as changes to a floating interest rate to that instrument, if the transition from the IBOR benchmark rate to the alternative RFR takes place on an economically equivalent basis. In such cases, the Group updates the effective interest rate to reflect the change in an interest rate benchmark from IBOR to Risk Free Rate (RFR) without adjusting the carrying amount.

When additional changes are made, which are not economically equivalent, the Group applies accounting policy on accounting for modification of financial assets and financial liabilities.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.21 De-recognition of financial assets and and financial liabilities

Financial assets
A financial asset (or where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired, or
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement, or
- the Group 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.

When the Group has transferred its rights 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 Group's continuing involvement in the asset. 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 that the Group could be required to repay.

Financial liabilities
A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability.

2.22 Derivative financial instruments and hedge accounting
The Group deals in interest rate swaps to manage its interest rate risk on interest bearing assets and liabilities. Similarly the Group deals in forward foreign exchange contracts for customers and to manage its foreign currency positions and cash flows. All derivative financial instruments of the Group are recorded in the consolidated statement of financial position at fair value. The fair value of a derivative is the equivalent of the unrealised gain or loss from marking to market the derivative using prevailing market rates or internal pricing models. Positive and negative fair values are reported as assets and liabilities respectively and are offset when there is both an intention to settle net and a legal right to offset exists.

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

In relation to fair value hedges which meet the conditions for hedge accounting, any gain or loss from remeasuring the hedging instrument is recognised immediately in the consolidated statement of income. The carrying amounts of hedged items are adjusted for fair value changes attributable to the risk being hedged and the difference is recognised in the consolidated statement of income.

In relation to cash flow hedges which meet the conditions for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised initially in equity and any ineffective portion is recognised in the consolidated statement of income. The gains or losses on cash flow hedges recognised initially in equity are transferred to the consolidated statement of income in the period in which the hedged transaction impacts the consolidated statement of income. Where the hedged transaction results in the recognition of an asset or liability, the associated gains or losses that had initially been recognised in equity are included in the initial measurement of the cost of the related asset or liability. For hedges that do not qualify for hedge accounting, any gains or losses arising from changes in fair value of the hedging instrument are taken directly to the consolidated statement of income.

Hedges of net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a way similar to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised as other comprehensive income while any gains or losses relating to the ineffective portion are recognised in the consolidated income statement. On disposal of the foreign operation, the cumulative value of any such gains or losses recorded in equity is transferred to the consolidated income statement.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.22 Derivative financial instruments and hedge accounting(continued)

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, no longer qualifies for hedge accounting or is revoked by the Group. For cash flow hedges, any cumulative gain or loss on the hedging instrument recognised in equity remains in equity until the forecast transaction occurs. In the case of fair value hedges of interest bearing financial instruments, any adjustment relating to the hedge is amortised over the remaining term to maturity. Where the hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the consolidated statement of income.

Based on the Amendments to IFRS 7 and IFRS 9 "Interest Rate Benchmark reforms : "Phase 2" issued in August 2020, the Group has availed reliefs that allow the Group's hedging relationships to continue upon the replacement of an existing interest rate benchmark rate with an RFR. The relief requires require the Group to amend hedge designations and hedge documentation. This includes redefining the hedged risk to reference an RFR, redefining the description of the hedging instrument and / or the hedged item to reference the RFR and amending the method for assessing hedge effectiveness. Updates to the hedging documentation must be made by the end of the reporting period in which a replacement takes place.

2.23 Trade and settlement date accounting

All "regular way" purchase and sale of financial assets other than investments in equity instruments are recognised on the settlement date, i.e. the date the asset is delivered to the Group. Investments in equity instruments are recognised on the trade date, i.e. the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by the regulation or convention in the market place.

2.24 Investment properties

Investment properties are properties held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is measured at cost on initial recognition and subsequently at fair value with any change therein recognised in consolidated statement of income. Cost includes expenditure that is directly attributable to the acquisition of the investment property. 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. Any gain or loss on disposal of an investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in consolidated statement of income. When the use of a property changes such that it is reclassified as Land, premises and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

2.25 Land, premises and equipment

Land and premises comprise mainly branches and offices. All premises and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Projects and work in progress are stated at cost less impairment if any. Costs are those expenses incurred by the Group that are directly attributable to the creation of the asset. When the asset is ready for use, capital work in progress is transferred to the appropriate category and depreciated in accordance with the Group's policies.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the consolidated statement of income during the period in which they are incurred.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.25 Land, premises and equipment (continued)

Land is not depreciated. Depreciation is provided on the depreciable amount of other items of premises and equipment on a straight line basis over their estimated useful life. The depreciable amount is the gross carrying value, less the estimated residual value at the end of its useful life. The estimated useful life of premises and equipment are as follows:

Building on leasehold land	term of lease (maximum 20 years)
Building on freehold land	50 years
IT systems and equipment	3-10 years

Residual values and useful lives of assets are reviewed, and adjusted if appropriate, at each reporting date. The carrying values of land, premises and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the consolidated statement of income.

2.26 Leases

At inception of a contract, the Group assesses whether the contract is a lease. A contract is a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for a consideration. If the contract is identified as a lease, the Group recognises a right-of-use asset and a lease liability at the lease commencement date. The Group elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and lease contracts for which the underlying asset is of low value.

Right-of-use assets
The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred. The right-of-use asset is subsequently depreciated using the straight-line method over the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any. The Group presents right-of-use assets in 'land, premises and equipment' in the consolidated statement of financial position.

Lease Liabilities
The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the Group's incremental borrowing rate. The lease liability is subsequently measured at amortised cost using the effective interest method. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, or a change in the lease payments. The Group presents lease liabilities in 'other liabilities' in the consolidated statement of financial position.

Based on the Amendments to IFRS 16 "Covid-19 Related Rent Concessions" issued in May 2020, the Group has elected not to follow lease modification accounting in respect of Covid-19 related rent concessions obtained from its lessors until 30 June 2022. Instead such rent concessions are accounted in the same way as if they were not a lease modification.

2.27 Business combinations

Business combinations are accounted for using the acquisition method of accounting. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. Non-controlling interest in the acquiree is measured at the proportionate share in the recognised amounts of the acquiree's identifiable net assets. Other acquisition related costs incurred are expensed and included in other administrative expenses.

If the business combination is achieved in stages, the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date and included in cost of acquisition. Any resulting gain or loss is recognised in consolidated statement of income. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated statement of income.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.28 Goodwill and intangible assets

a. Goodwill
Goodwill acquired in a business combination is initially measured at cost, being the excess of the cost of the acquisition over the net fair value of the identifiable assets and liabilities acquired. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Goodwill is recorded in the functional currency of the foreign operation and is translated to the presentation currency at the rate of exchange prevailing at the reporting date. When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative translation differences and goodwill is recognised in the consolidated statement of income.

b. Intangible assets
Intangible assets comprise separately identifiable intangible items arising from business combinations. An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefit will flow to the Group. Intangible assets are initially measured at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of the intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised on a straight line basis over the useful economic life of 5 to 15 years and tested for impairment whenever there is an indication that the intangible asset may be impaired. Intangible assets with indefinite useful lives are not amortised but tested for impairment annually or whenever there is an indication that the intangible asset may be impaired. If the carrying value of the intangible asset is more than the recoverable amount, the intangible asset is considered impaired and is written down to its recoverable amount. The excess of carrying value over the recoverable amount is recognised in the consolidated statement of income. Impairment losses on intangible assets recognised in the consolidated statement of income in previous periods are reversed when there is an increase in the recoverable amount.

2.29 Property acquired on settlement of debt
Property acquired on settlement of debt is stated at the lower of the related loans and advances and the current fair value of such assets. Gains or losses on disposal and revaluation losses are recognised in the consolidated statement of income.

2.30 Due to Banks and Deposits from other Financial Institutions, Customer deposits & Certificates of deposit issued
Due to Banks and Deposits from other Financial Institutions, Customer Deposits & Certificates of deposit issued are stated at amortised cost using effective interest method. The carrying values of such liabilities which are being effectively hedged for changes in fair value are adjusted to the extent of the changes in fair value being hedged.

2.31 Islamic customer deposits
Islamic customer deposits comprise of Investment accounts and Non-investment accounts.

Investment accounts
Investment accounts may take the form of investment deposits, which are valid for specified periods of time, and are automatically renewable on maturity for the same period, unless the concerned depositors give written notice to the contrary, or take the form of investment saving accounts for unspecified periods. In all cases, investment accounts receive a proportion of the profit, bear a share of loss and are carried at cost plus profit payable.

Non-investment accounts
Non-investment accounts represent, in accordance with Islamic Sharia'a, Qard Hasan from depositors to the Group. These accounts are neither entitled to profit nor do they bear any risk of loss, as the Group guarantees to pay the related balance. Investing Qard Hasan is made at the discretion of the Group and the results of such investments are attributable to the shareholders of the Group. Non-investment accounts are carried at cost.

2.32 Other borrowed funds
Other borrowed funds includes Tier 2 bonds, Global Medium Term Notes, Global Medium Term Sukuk, Medium and short term borrowings. These are financial liabilities and are initially recognised at their fair value being the issue proceeds net of transaction costs and are subsequently measured at their amortised cost using the effective interest rate method. The carrying values of such liabilities which are being effectively hedged for changes in fair value are adjusted to the extent of the changes in fair value being hedged.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.33 Financial guarantees

In the ordinary course of business, the Group gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the consolidated financial statements at fair value, being the premium received, in other liabilities. The premium received is recognised in the consolidated statement of income in 'net fees and commissions' on a straight line basis over the life of the guarantee. The guarantee liability is subsequently carried at initial measurement less amortisation. When a payment under the guarantee is likely to become payable, the present value of the expected net payments less the unamortised premium is charged to the consolidated statement of income.

2.34 Treasury shares

The Bank's holding of its own shares are accounted for as treasury shares and are stated at purchase consideration including directly attributable costs. When the treasury shares are sold, gains are credited to a separate account in equity (treasury share reserve) which is non 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 reserves. Gains realised subsequently on the sale of treasury shares are first used to offset any previously recorded losses in the order of reserves, retained earnings and the treasury share reserve amount. No cash dividends are distributed on these shares. The issue of bonus shares increases the number of shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

2.35 Fiduciary assets

Assets and related deposits held in trust or in a fiduciary capacity are not treated as assets or liabilities of the Group and accordingly are not included in the consolidated statement of financial position.

2.36 Significant accounting judgements and estimates

In the process of applying the Group's accounting policies, management has used judgements and made estimates in determining the amounts recognised in the consolidated financial statements. The most significant use of judgements and estimates are as follows:

Accounting Judgements

Classification of financial assets

The Group 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 interest on the principal amount outstanding. Judgments are required in determining the business model at an appropriate level that best reflects an aggregated group or portfolio of assets which are managed together to achieve a particular business objective. The Group also applies judgment to assess if there is a change in business model in circumstances when the assets with in that business model are realised differently than the original expectations. Refer Note 2.16 classification of financial assets for more information.

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:

Expected Credit Losses on financial assets

The Group estimates Expected Credit Loss (ECL) for all financial assets carried at amortised cost or fair value through other comprehensive income except for equity instruments.

Significant judgements are required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk
- Choosing appropriate models and assumptions for measurement of ECL
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing group of similar financial assets for the purpose of measuring ECL.

Information about significant judgements and estimates made by the Group in the above areas is set out in Note 28.1.1.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.36 Significant accounting judgements and estimates (continued)

Provision for credit losses
The Group reviews its Loans, advances and Islamic financing to customers on a quarterly basis to assess whether a provision for credit losses should be recorded in the consolidated statement of income. In particular, considerable judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty, and actual results may differ resulting in future changes to such provisions.

Impairment of goodwill
The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

Impairment of investment in associates
The Group 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 associates are impaired. The estimation of recoverable amount requires the Group to make an estimate of the expected future cash flows and selection of appropriate inputs for valuation.

Fair values of assets and liabilities including intangibles
Considerable judgment by management is required in the estimation of the fair value of the assets including intangibles with definite and indefinite useful life, liabilities and contingent liabilities acquired as a result of business combination.

Share based payments
The Group measures the share based payments to employees by reference to the fair value of the relevant equity instruments. Estimating fair value for share based payment transactions requires determination of the most appropriate valuation model. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share based payment transactions are disclosed in Note 22.

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 SEGMENTAL ANALYSIS

The Group organises and manages its operations by geographic territory in the first instance, primarily Domestic and International. Within its Domestic operations, the Group segments its business into Consumer and Private Banking, Corporate Banking, Investment Banking and Asset Management, Islamic Banking and Group Centre. All operations outside Kuwait are classified as International. Management treats the operations of these segments separately for the purposes of decision making, resource allocation and performance assessment.

Consumer and Private Banking
Consumer Banking provides a diversified range of products and services to individuals. The range includes consumer loans, credit cards, deposits, foreign exchange and other branch related services. Private Banking provides a comprehensive range of customised and innovative banking services to high net worth individuals and to institutional clients.

Corporate Banking
Corporate Banking provides a comprehensive product and service offering to business and corporate customers, including lending, deposits, trade finance, foreign exchange and advisory services.

Investment Banking and Asset Management
Investment Banking provides a full range of capital market advisory and execution services. The activities of Asset Management include wealth management, asset management, custody, brokerage and research.

Islamic Banking
Islamic banking represents the financial results of Boubyan Bank K.S.C.P., and its subsidiaries.

Group Centre
Group Centre includes treasury, investments, and other defined Group activities. Treasury provides a comprehensive range of treasury services and products to its clients, and is also responsible for the Bank’s liquidity and market risk management. Group Centre includes any residual in respect of transfer pricing and inter segment allocations.

International
International includes all branches, subsidiaries and associates outside the State of Kuwait.

3 SEGMENTAL ANALYSIS (continued)

The following table shows net interest income and net income from Islamic financing, net operating income, profit for the year, total assets and total liabilities information in respect of the Group's business segments:

2022

	Consumer and Private Banking KD 000's	*Corporate Banking KD 000's*	*Investment Banking and Asset Management KD 000's*	*Islamic Banking KD 000's*	*Group Centre KD 000's*	*International KD 000's*	*Total KD 000's*
Net interest income and net income from Islamic financing	**219,084**	**105,182**	**1,103**	**172,071**	**45,811**	**212,588**	**755,839**
Net operating income	**302,284**	**145,443**	**36,539**	**207,528**	**51,334**	**266,613**	**1,009,741**
Profit (loss) for the year	**165,318**	**199,544**	**22,657**	**54,273**	**(48,851)**	**137,121**	**530,062**
Total assets	**5,629,576**	**4,933,723**	**97,138**	**7,880,757**	**2,045,500**	**15,751,669**	**36,338,363**
Total liabilities	**6,946,140**	**2,459,515**	**15,934**	**6,901,058**	**208,334**	**15,172,436**	**31,703,417**

2021

Net interest income and net income from Islamic financing	225,184	90,930	590	163,092	12,942	176,521	669,259
Net operating income	299,054	137,023	34,157	193,275	12,927	223,357	899,793
Profit (loss) for the year	193,854	40,913	20,010	47,955	(14,331)	92,220	380,621
Total assets	5,102,009	4,907,015	84,129	7,351,899	2,605,969	13,205,565	33,256,586
Total liabilities	6,597,002	2,131,032	13,038	6,601,827	777,049	12,669,521	28,789,469

3 SEGMENTAL ANALYSIS (continued)

Geographic information:
The following table shows the geographic distribution of the Group's operating income based on the location of the operating entities.

Net operating income	***2022*** ***KD 000's***	*2021* *KD 000's*
Kuwait	**743,128**	676,436
Other Middle East and North Africa	**173,027**	158,493
Europe & UK	**55,059**	36,763
Others	**38,527**	28,101
	1,009,741	899,793

The following table shows the geographic distribution of the Group's non-current assets based on the location of the operating entities.

Non-current assets	***2022*** ***KD 000's***	*2021* *KD 000's*
Kuwait	**997,294**	1,006,066
Other Middle East and North Africa	**40,102**	51,717
Europe & UK	**9,881**	9,810
Others	**3,646**	3,838
	1,050,923	1,071,431

Non-current assets consist of land, premises and equipment, goodwill and other intangible assets, investment properties and property acquired on settlement of debts.

4 INTEREST INCOME

	2022 ***KD 000's***	*2021* *KD 000's*
Deposits with banks	**90,873**	18,926
Loans and advances to customers	**629,180**	486,023
Debt investment securities	**202,916**	138,706
Kuwait Government treasury bonds and CBK bonds	**24,620**	17,401
	947,589	661,056

5 INTEREST EXPENSE

	2022 ***KD 000's***	*2021* *KD 000's*
Due to banks	**64,625**	8,924
Deposits from other financial institutions	**58,846**	20,420
Customer deposits	**199,930**	108,068
Certificates of deposit issued	**22,712**	3,401
Other borrowed funds	**17,708**	14,076
	363,821	154,889

6 NET FEES AND COMMISSIONS

	2022	*2021*
	KD 000's	*KD 000's*
Fees and commissions income	**259,080**	227,709
Fees and commissions related expenses	**(77,302)**	(58,873)
Net fees and commissions	**181,778**	168,836

Fees and commissions income includes asset management fees of KD 52,270 thousand (2021: KD 46,259 thousand) earned on trust and fiduciary activities where the Group holds or invests assets on behalf of its customers.

7 NET INVESTMENT INCOME

	2022	*2021*
	KD 000's	*KD 000's*
Net realised (loss) gain on sale of investments	**(238)**	4,346
Net gains from investments carried at fair value through statement of income	**2,993**	17,287
Realized gain from disposal of a foreign branch	**1,283**	-
Dividend income	**2,272**	2,399
Share of results of associates	**786**	439
Other investment income	**8,640**	3,434
	15,736	27,905

8 PROVISION CHARGE FOR CREDIT LOSSES AND IMPAIRMENT LOSSES

	2022	*2021*
	KD 000's	*KD 000's*
Provision charge for credit losses (Note 13)	**5,350**	120,842
ECL charge (release) for investment in debt securities (Note 14)	**2,991**	(12,755)
ECL charge for other financial assets	**3,493**	12,718
Impairment loss on goodwill (Note 15)	**20,199**	-
Other impairment losses	**13,330**	11,693
	45,363	132,498

9 TAXATION

	2022	*2021*
	KD 000's	*KD 000's*
National Labour Support Tax	**13,116**	9,239
Zakat	**5,693**	4,048
Contribution to Kuwait Foundation for the Advancement of Sciences	**5,557**	3,651
Overseas tax	**23,056**	17,198
	47,422	34,136

10 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit for the year attributable to shareholders of the Bank (adjusted for interest and profit paid on Perpetual Tier 1 Capital Securities and Sukuk) by the weighted average number of shares outstanding during the year net of treasury shares. There are no dilutive potential shares that are convertible into shares.

	2022 KD 000's	*2021 KD 000's*
Profit for the year attributable to shareholders of the Bank	**509,085**	362,249
Less: Interest paid on Perpetual Tier 1 Capital Securities	**(18,119)**	(19,881)
Less: Profit distribution on Perpetual Tier 1 Sukuk by a subsidiary attributable to shareholders of the Bank	**(3,642)**	(3,247)
	487,324	339,121
Weighted average number of shares outstanding during the year net of treasury shares (thousand)	**7,552,329**	7,552,329
Basic earnings per share	**65 Fils**	45 fils

Earnings per share calculations for 2021 have been adjusted to take account of the bonus shares issued in 2022.

11 CASH AND SHORT TERM FUNDS

	2022 KD 000's	*2021 KD 000's*
Cash on hand	**213,598**	235,167
Current account with other banks	**2,925,399**	2,463,291
Money at call	**487,281**	586,478
Balances and deposits with the Central Bank of Kuwait	**1,124,507**	1,144,707
Deposits and Murabaha with banks maturing within seven days	**601,823**	679,141
	5,352,608	5,108,784
Expected credit losses	**(29,156)**	(26,793)
	5,323,452	5,081,991

12 DEPOSITS WITH BANKS

	2022 KD 000's	*2021 KD 000's*
Deposits with the Central Bank of Kuwait	**97,627**	105,805
Deposits with other banks	**1,395,489**	781,184
	1,493,116	886,989
Expected credit losses	**(2,830)**	(1,709)
	1,490,286	885,280

13 LOANS, ADVANCES AND ISLAMIC FINANCING TO CUSTOMERS

2022	*Middle East and North Africa KD 000's*	*North America KD 000's*	*Europe & UK KD 000's*	*Asia KD 000's*	*Others KD 000's*	*Total KD 000's*
Corporate	**11,145,896**	**599,238**	**1,638,332**	**455,489**	**378,088**	**14,217,043**
Retail	**7,604,694**	**-**	**4,620**	**-**	**-**	**7,609,314**
Loans, advances and Islamic financing to customers	**18,750,590**	**599,238**	**1,642,952**	**455,489**	**378,088**	**21,826,357**
Provision for credit losses						**(827,941)**
						20,998,416
2021						
Corporate	10,755,691	398,607	1,467,751	366,562	342,897	13,331,508
Retail	7,022,833	-	1,654	-	-	7,024,487
Loans, advances and Islamic financing to customers	17,778,524	398,607	1,469,405	366,562	342,897	20,355,995
Provision for credit losses						(633,524)
						19,722,471

In March 2007, the Central Bank of Kuwait issued a circular amending the basis of making general provisions on facilities changing the minimum rate from 2% to 1% for cash facilities and 0.5% for non-cash facilities. The required rates were effective from 1 January 2007 on the net increase in facilities, net of certain restricted categories of collateral, during the reporting period. Pending further directive from the Central Bank of Kuwait, the general provision in excess of 1% for cash facilities and 0.5% for non-cash facilities was retained as general provision.

Provisions for credit losses on cash facilities are as follows:

	Specific		*General*		*Total*	
	2022 KD 000's	*2021 KD 000's*	***2022 KD 000's***	*2021 KD 000's*	***2022 KD 000's***	*2021 KD 000's*
Balance at beginning of the year	**123,857**	171,053	**509,667**	516,171	**633,524**	687,224
(Release) provided during the year	**(157,433)**	68,281	**151,684**	54,797	**(5,749)**	123,078
Transfer	**-**	61,017	**-**	(61,017)	**-**	-
Amounts recovered (written off) net of exchange movements	**201,497**	(176,494)	**(1,331)**	(284)	**200,166**	(176,778)
Balance at end of the year	**167,921**	123,857	**660,020**	509,667	**827,941**	633,524

13 LOANS, ADVANCES AND ISLAMIC FINANCING TO CUSTOMERS (continued)

Further analysis of specific provision based on class of financial asset is given below:

	Corporate		***Retail***		***Total***	
	2022 KD 000's	*2021 KD 000's*	***2022 KD 000's***	*2021 KD 000's*	***2022 KD 000's***	*2021 KD 000's*
Balance at beginning of the year	**42,469**	70,880	**81,388**	100,173	**123,857**	171,053
(Release) provided during the year	**(184,247)**	68,037	**26,814**	244	**(157,433)**	68,281
Transfer	-	61,017	-	-	-	61,017
Amounts recovered (written off) net of exchange movements	**213,780**	(157,465)	**(12,283)**	(19,029)	**201,497**	(176,494)
Balance at end of the year	**72,002**	42,469	**95,919**	81,388	**167,921**	123,857

Analysis of total provision (release) charge for credit losses is given below:

	Specific		***General***		***Total***	
	2022 KD 000's	*2021 KD 000's*	***2022 KD 000's***	*2021 KD 000's*	***2022 KD 000's***	*2021 KD 000's*
Cash facilities	**(157,433)**	68,281	**151,684**	54,797	**(5,749)**	123,078
Non cash facilities	**10,637**	(2,248)	**462**	12	**11,099**	(2,236)
Provision (release) charge for credit losses	**(146,796)**	66,033	**152,146**	54,809	**5,350**	120,842

Non-performing loans, advances and Islamic financing to customers and related provisions are as follows:

	2022 KD 000's	*2021 KD 000's*
Loans, advances and Islamic financing to customers	**310,046**	211,154
Provisions	**159,870**	115,786

The fair value of collateral that the Group holds relating to loans, advances and Islamic financing to customers individually determined to be non-performing at 31 December 2022 amounts to KD 197,822 thousand (2021: KD 136,218 thousand). The collateral consists of cash, securities, bank guarantees and properties.

The available provision on non-cash facilities of KD 40,344 thousand (2021: KD 34,532 thousand) is included under other liabilities (Note 18). The total provision for cash and non cash credit facilities in accordance with CBK guidelines amounted to KD 868,285 thousand as at 31 December 2022 (31 December 2021: KD 668,056 thousand).

The Expected Credit Losses ("ECL") on credit facilities determined under IFRS 9 in accordance to the CBK guidelines amounted to KD 577,435 thousand as at 31 December 2022 (2021:KD 461,795 thousand). CBK guidelines prescribe certain parameters to determine the ECL on credit facilities such as floors for estimating Probability of Default (PD), eligible collateral with haircuts for determining Loss Given Default (LGD), deemed minimum maturity for Stage 2 exposures, 100% credit conversion factors for utilised cash and non-cash facilities, Stage 3 ECLs at 100% of the defaulted exposure net of eligible collateral after applying applicable haircuts etc.

An analysis of the carrying amounts of credit facilities by credit quality, and the corresponding ECL based on the staging criteria under IFRS 9 in accordance to the CBK guidelines is as follows:

13 LOANS, ADVANCES AND ISLAMIC FINANCING TO CUSTOMERS (continued)

2022	***Stage 1 KD 000's***	***Stage 2 KD 000's***	***Stage 3 KD 000's***	***Total KD 000's***
High	**18,187,036**	**862,868**	**-**	**19,049,904**
Standard	**1,509,061**	**957,346**	**-**	**2,466,407**
Impaired	**-**	**-**	**310,046**	**310,046**
Loans, advances and Islamic financing to customers	**19,696,097**	**1,820,214**	**310,046**	**21,826,357**
Contingent liabilities (Note 25)	**3,799,942**	**655,399**	**12,045**	**4,467,386**
Commitments (revocable and irrevocable) to extend credit	**7,505,629**	**1,165,237**	**6**	**8,670,872**
ECL allowance for credit facilities	**169,351**	**169,228**	**238,856**	**577,435**
2021				
High	16,975,662	713,831	-	17,689,493
Standard	1,502,733	952,615	-	2,455,348
Impaired	-	-	211,154	211,154
Loans, advances and Islamic financing to customers	18,478,395	1,666,446	211,154	20,355,995
Contingent liabilities (Note 25)	3,718,571	670,366	29,070	4,418,007
Commitments (revocable and irrevocable) to extend credit	6,903,552	962,718	279	7,866,549
ECL allowance for credit facilities	134,762	163,737	163,296	461,795

Ageing analysis of past due or impaired Loans, advances and Islamic financing to customers:

	Corporate		***Retail***		***Total***	
	Past due and not impaired KD 000's	***Impaired KD 000's***	***Past due and not impaired KD 000's***	***Impaired KD 000's***	***Past due and not impaired KD 000's***	***Impaired KD 000's***
2022						
Up to 30 days	**96,722**	**12,422**	**31,769**	**23**	**128,491**	**12,445**
31 - 60 days	**2,735**	**-**	**20,251**	**4**	**22,986**	**4**
61 - 90 days	**4,652**	**-**	**7,079**	**3**	**11,731**	**3**
91-180 days	**-**	**47,028**	**-**	**22,439**	**-**	**69,467**
More than 180 days	**-**	**124,931**	**-**	**103,196**	**-**	**228,127**
	104,109	**184,381**	**59,099**	**125,665**	**163,208**	**310,046**
2021						
Up to 30 days	50,137	2,235	29,396	17	79,533	2,252
31 - 60 days	8,401	43	25,258	12	33,659	55
61 - 90 days	2,479	3	6,558	-	9,037	3
91-180 days	-	6,203	-	11,263	-	17,466
More than 180 days	-	109,687	-	81,691	-	191,378
	61,017	118,171	61,212	92,983	122,229	211,154

Of the aggregate amount of gross past due or impaired loans, advances and Islamic financing to customers, the fair value of collateral that the Group held as at 31 December 2022 was KD 211,212 thousand (2021: KD 182,081 thousand).

13 LOANS, ADVANCES AND ISLAMIC FINANCING TO CUSTOMERS (continued)

An analysis of the changes in the ECL in relation to credit facilities (cash and non-cash facilities) computed under IFRS 9 in accordance to the CBK guidelines is as follows:

	Stage 1 *KD 000's*	*Stage 2* *KD 000's*	*Stage 3* *KD 000's*	*Total* *KD 000's*
ECL allowance as at 1 January 2022	**134,762**	**163,737**	**163,296**	**461,795**
Transfer between stages				
Transfer from Stage 1	**(5,870)**	**2,590**	**3,280**	**-**
Transfer from Stage 2	**24,258**	**(39,667)**	**15,409**	**-**
Transfer from Stage 3	**4,132**	**877**	**(5,009)**	**-**
Amounts (written off) recovered net of exchange movements	**(177)**	**-**	**200,878**	**200,701**
Net increase(decrease) in ECL for the year	**12,246**	**41,691**	**(138,998)**	**(85,061)**
At 31 December 2022	**169,351**	**169,228**	**238,856**	**577,435**
ECL allowance as at 1 January 2021	129,668	242,180	233,114	604,962
Transfer between stages				
Transfer from Stage 1	(4,944)	3,676	1,268	-
Transfer from Stage 2	47,411	(77,148)	29,737	-
Transfer from Stage 3	49,853	5,469	(55,322)	-
Amounts (written off) recovered net of exchange movements	(58)	(71)	(176,175)	(176,304)
Net (decrease) increase in ECL for the year	(87,168)	(10,369)	130,674	33,137
At 31 December 2021	134,762	163,737	163,296	461,795

14 FINANCIAL INVESTMENTS

The table below provides the details of the categorisation of financial investments:

2022	*Amortised cost* *KD 000's*	*Fair value through other comprehensive income* *KD 000's*	*Fair value through statement of income* *KD 000's*	*Total* *KD 000's*
Investment securities				
Debt securities - Government (Non Kuwait)	**929,170**	**2,320,660**	**-**	**3,249,830**
Debt securities - Non Government	**-**	**2,065,075**	**17,671**	**2,082,746**
Equities	**-**	**37,168**	**31,552**	**68,720**
Other investments	**-**	**-**	**249,938**	**249,938**
	929,170	**4,422,903**	**299,161**	**5,651,234**
Expected credit losses	**(16,562)**	**-**	**-**	**(16,562)**
	912,608	**4,422,903**	**299,161**	**5,634,672**
Central Bank of Kuwait bonds	**881,241**	**-**	**-**	**881,241**
Kuwait Government treasury bonds	**211,629**	**-**	**-**	**211,629**
	2,005,478	**4,422,903**	**299,161**	**6,727,542**

14 FINANCIAL INVESTMENTS (continued)

2021	*Amortised cost* KD 000's	*Fair value through other comprehensive income* KD 000's	*Fair value through statement of income* KD 000's	*Total* KD 000's
Investment securities				
Debt securities - Government (Non Kuwait)	988,892	2,059,801	-	3,048,693
Debt securities - Non Government	-	1,577,773	18,865	1,596,638
Equities	-	39,135	34,142	73,277
Other investments	-	-	210,651	210,651
	988,892	3,676,709	263,658	4,929,259
Expected credit losses	(18,461)	-	-	(18,461)
	970,431	3,676,709	263,658	4,910,798
Central Bank of Kuwait bonds	830,054	-	-	830,054
Kuwait Government treasury bonds	417,016	-	-	417,016
	2,217,501	3,676,709	263,658	6,157,868

The Group has classified certain unquoted equity investments at fair value through other comprehensive income on the basis that these are not held for trading. The dividend received on such investments during 2022 was KD 1,426 thousand (2021: KD 1,180 thousand).

An analysis of the carrying amounts of investments in debt securities, by credit quality, and the corresponding ECL based on the staging criteria under IFRS 9 in accordance to the CBK guidelines is as follows:

2022	***Stage 1*** ***KD 000's***	***Stage 2*** ***KD 000's***	***Stage 3*** ***KD 000's***	***Total*** ***KD 000's***
High	**3,770,532**	-	-	**3,770,532**
Standard	**1,355,818**	**188,078**	-	**1,543,896**
Impaired	-	-	**477**	**477**
Investments in debt securities	**5,126,350**	**188,078**	**477**	**5,314,905**
ECL allowance for debt securities	**16,676**	**15,778**	**8,269**	**40,723**
2021				
High	3,093,184	-	-	3,093,184
Standard	1,290,258	242,127	-	1,532,385
Impaired	-	-	897	897
Investments in debt securities	4,383,442	242,127	897	4,626,466
ECL allowance for debt securities	14,433	15,126	8,173	37,732

14 FINANCIAL INVESTMENTS (continued)

ECL allowance for investments in debt securities as at 31 December 2022 consists of KD 16,562 thousand (2021: KD 18,461 thousand) in respect of debt securities carried at amortised cost and KD 24,161 thousand (2021: KD 19,271 thousand) in respect of debt securities carried at fair value through other comprehensive income. Investments in debt securities carried at fair value through statement of income are not subject to Expected Credit Losses. Central Bank of Kuwait bonds and Kuwait Government treasury bonds are also not subject to Expected Credit Losses.

An analysis of changes in the gross carrying amount and the corresponding Expected Credit Losses in relation to Investment in debt securities are as follows:

2022	*Stage 1 KD 000's*	*Stage 2 KD 000's*	*Stage 3 KD 000's*	*Total KD 000's*
Gross carrying amount as at 1 January 2022	**4,383,442**	**242,127**	**897**	**4,626,466**
Assets purchased/(de-recognised) during the year -Net	**1,103,411**	**(55,639)**	-	**1,047,772**
Transfer between stages				
Transfer from Stage 1	-	-	-	-
Transfer from Stage 2	-	-	-	-
Transfer from Stage 3	-	-	-	-
Fair value and exchange movements	**(360,503)**	**1,590**	**(420)**	**(359,333)**
At 31 December 2022	**5,126,350**	**188,078**	**477**	**5,314,905**

2021				
Gross carrying amount as at 1 January 2021	4,055,602	402,299	1,136	4,459,037
Assets purchased/(de-recognised) during the year -Net	371,731	(159,223)	-	212,508
Transfer between stages				
Transfer from Stage 1	-	-	-	-
Transfer from Stage 2	-	-	-	-
Transfer from Stage 3	-	-	-	-
Fair value and exchange movements	(43,891)	(949)	(239)	(45,079)
At 31 December 2021	4,383,442	242,127	897	4,626,466

2022	*Stage 1 KD 000's*	*Stage 2 KD 000's*	*Stage 3 KD 000's*	*Total KD 000's*
ECL allowance as at 1 January 2022	**14,433**	**15,126**	**8,173**	**37,732**
Impact due to purchase/(de-recognition)	**4,943**	**(195)**	-	**4,748**
Impact due to transfer between stages				
Transfer from Stage 1	-	-	-	-
Transfer from Stage 2	-	-	-	-
Transfer from Stage 3	-	-	-	-
Re-measurement of ECL	**(2,700)**	**847**	**96**	**(1,757)**
Net charge to consolidated statement of income	**2,243**	**652**	**96**	**2,991**
At 31 December 2022	**16,676**	**15,778**	**8,269**	**40,723**

14 FINANCIAL INVESTMENTS (continued)

2021	*Stage 1 KD 000's*	*Stage 2 KD 000's*	*Stage 3 KD 000's*	*Total KD 000's*
ECL allowance as at 1 January 2021	23,207	22,230	5,050	50,487
Impact due to purchase/(de-recognition)	1,458	(1,289)	-	169
Impact due to transfer between stages				
Transfer from Stage 1	-	-	-	-
Transfer from Stage 2	-	-	-	-
Transfer from Stage 3	-	-	-	-
Re-measurement of ECL	(10,232)	(5,815)	3,123	(12,924)
Net (release) charge to consolidated statement of income	(8,774)	(7,104)	3,123	(12,755)
At 31 December 2021	14,433	15,126	8,173	37,732

15 GOODWILL AND OTHER INTANGIBLE ASSETS

	Goodwill KD 000's	***Intangible Assets KD 000's***	***Total KD 000's***
Cost			
At 1 January 2022	**406,734**	**221,194**	**627,928**
Exchange rate adjustments	**(24,482)**	**(7,239)**	**(31,721)**
At 31 December 2022	**382,252**	**213,955**	**596,207**
Accumulated amortisation & impairment			
At 1 January 2022	**-**	**46,664**	**46,664**
Amortisation charge for the year	-	**1,647**	**1,647**
Impairment charge for the year	**20,199**	**-**	**20,199**
Exchange rate adjustments	**-**	**(7,239)**	**(7,239)**
At 31 December 2022	**20,199**	**41,072**	**61,271**
Net book value			
At 31 December 2022	**362,053**	**172,883**	**534,936**

15 GOODWILL AND OTHER INTANGIBLE ASSETS (continued)

	Goodwill KD 000's	*Intangible Assets KD 000's*	*Total KD 000's*
Cost			
At 1 January 2021	405,704	220,888	626,592
Exchange rate adjustments	1,030	306	1,336
At 31 December 2021	406,734	221,194	627,928
Accumulated amortisation & impairment			
At 1 January 2021	-	44,711	44,711
Amortisation charge for the year	-	1,647	1,647
Exchange rate adjustments	-	306	306
At 31 December 2021	-	46,664	46,664
Net book value			
At 31 December 2021	406,734	174,530	581,264

Net book value of goodwill as at 31 December 2022 includes KD 334,531 thousand (2021: KD 334,531 thousand) in respect of Boubyan Bank K.S.C.P., KD 25,149 thousand (2021: KD 69,858 thousand) in respect of National Bank of Kuwait - Egypt S.A.E. and KD 2,373 thousand (2021: KD 2,345 thousand) in respect of Credit Bank of Iraq S.A.

Net book value of intangible assets as at 31 December 2022 includes banking licences and brand amounting to KD 158,623 thousand (2021: KD 158,623 thousand), customer relationships and core deposits amounting to KD 7,550 thousand (2021: KD 9,197 thousand) and brokerage licences amounting to KD 6,710 thousand (2021: KD 6,710 thousand). Intangible assets with indefinite useful life amounts to KD 165,333 thousand (2021: KD 165,333 thousand). Intangible assets with definite useful life amounting to KD 7,550 thousand (2021: KD 9,197 thousand) are amortised over a period of 15 years.

Impairment testing for goodwill and intangible assets with indefinite useful life

The carrying value of goodwill and intangible assets with indefinite useful life are tested for impairment on an annual basis (or more frequently if evidence exists that goodwill or intangible assets might be impaired) by estimating the recoverable amount of the cash generating unit (CGU) to which these items are allocated using value-in-use calculations unless fair value based on an active market price is higher than the carrying value of the CGU. The value in use calculations use pre-tax cash flow projections based on financial budgets approved by management over a five years period and a relevant terminal growth rate. These cash flows are then discounted to derive a net present value which is compared to the carrying value. The discount rate used is pre-tax and reflects specific risks relating to the relevant cash generating unit.

Since the fair value less cost of disposal of the Group's holding in Boubyan Bank K.S.C.P. is higher than its carrying value, there is no indication that the associated goodwill or intangible assets with indefinite useful life is impaired. Recoverable amount of other goodwill and other intangible assets with indefinite useful life is calculated using value-in-use method based on following inputs. The goodwill in respect of National Bank of Kuwait - Egypt S.A.E. is allocated to a single CGU which consists of identifiable net assets including intangible assets of National Bank of Kuwait - Egypt S.A.E. A discount rate of 21.5% (2021: 16%) and a terminal growth rate of 7% (2021: 5%) are used to estimate the recoverable amount of this cash generating unit. A discount rate of 13% (2021: 9%) and terminal growth rate of 2.6% (2021: 3%) are used to estimate the recoverable amount of the brokerage licence in Kuwait. The Group has also performed a sensitivity analysis by varying these input factors by a reasonable margin.

Based on such analysis, the Group has recorded an impairment loss of KD 20,199 thousand relating to the goodwill in respesct of National Bank of Kuwait – Egypt S.A.E .

There are no indications that the remaining goodwill or intangible assets with indefinite useful life are impaired.

16 OTHER ASSETS

	2022 KD 000's	2021 KD 000's
Interest receivable	**147,900**	84,726
Positive fair value of derivatives (Note 26)	**355,308**	28,647
Sundry debtors and prepayments	**58,039**	39,744
Investment properties	**33,618**	21,706
Properties acquired on settlement of debts	**7,645**	12,252
Government grant receivable	**139,582**	139,582
Others	**43,796**	41,100
	785,888	367,757

17 OTHER BORROWED FUNDS

	2022 KD 000's	2021 KD 000's
Global Medium Term Notes - USD 750,000 thousand	**-**	228,183
Global Medium Term Notes - USD 1,000,000 thousand	**304,459**	300,248
Global Medium Term Sukuk - USD 750,000 thousand	**231,947**	229,137
Global Medium Term Sukuk - USD 500,000 thousand	**144,896**	-
Subordinated Tier 2 bonds - KD 150,000 thousand	**149,638**	149,513
Subordinated Tier 2 bonds - USD 300,000 thousand	**91,757**	90,571
Medium and short term borrowing from banks and financial institutions	**320,866**	268,930
	1,243,563	1,266,582

Global Medium-Term senior unsecured notes of USD 750,000 thousand were issued in May 2017, with a tenor of 5 years, issued at 99.491 per cent of nominal value and carry a fixed interest rate of 2.75% per annum, payable semi-annually in arrears. These notes were redeemed during the year.

Global Medium-Term senior unsecured notes of USD 1,000,000 thousand were issued on 15 September 2021, under the Bank's USD 5 billion Global Medium Term Note programme, maturing on 15 September 2027 with first optional redemption date on 15 September 2026. These notes were issued at 99.518 per cent of nominal value and carry a fixed interest rate of 1.625% per annum payable semi-annually in arrears until the first optional redemption date, followed by a floating rate of SOFR + 105 basis points paid quarterly thereafter.

Global Medium-Term senior unsecured Sukuk of USD 750,000 thousand were issued by Boubyan Bank K.S.C.P, a subsidiary of the Group in February 2020, with a tenor of 5 years, issued at par and carry at a fixed profit rate of 2.593% per annum, payable semi-annually in arrears.

Global Medium-Term senior unsecured Sukuk of USD 500,000 thousand were issued by Boubyan Bank K.S.C.P, a subsidiary of the Group in March 2022, with a tenor of 5 years, issued at par and carry at a fixed profit rate of 3.389% per annum, payable semi-annually in arrears.

Subordinated Tier 2 bonds of KD 150,000 thousand were issued in November 2020 with a tenor of up to 10 years, comprising equal tranches of fixed rate bonds and floating rate bonds. Fixed rate bonds carry an interest rate of 4.75% per annum for the first five years and will be reset on the fifth year anniversary of date of issuance. Floating-rate bonds carry an interest rate of 3% per annum over the CBK discount rate, reset semi-annually, subject to a maximum of 1% over the prevailing rate for the fixed-rate bonds. These bonds are unsecured and callable in whole or in part at the option of the Bank after 5 years from the date of issuance, subject to certain conditions and regulatory approvals.

Subordinated Tier 2 bonds of USD 300,000 thousand were issued in November 2020 with a tenor of up to 10 years, carry a fixed rate of 2.5% per annum for the first five years and will be reset on the fifth year anniversary of date of issuance. These bonds are unsecured and callable in whole or in part at the option of the Bank after 5 years from the date of issuance, subject to certain conditions and regulatory approvals.

18 OTHER LIABILITIES

	2022 KD 000's	2021 KD 000's
Interest payable	**150,414**	70,977
Income received in advance	**48,740**	36,397
Taxation	**41,442**	27,876
Provision on non-cash facilities (Note 13)	**40,344**	34,532
Accrued expenses	**67,313**	62,535
Negative fair value of derivatives (Note 26)	**40,761**	136,598
Post-employment benefit	**54,208**	56,822
Lease liabilities	**25,728**	25,433
Others	**252,363**	217,057
	721,313	668,227

Post-Employment Benefit

The present value of defined benefit obligations and the related current and past service cost was determined by actuarial valuations using the projected unit credit method. The significant inputs used in the actuarial valuation are a discount rate of 5.25% (2021: 4%), future salary increases in line with expected consumer price inflation and demographic assumptions of mortality, withdrawal, retirement and disability rates.

The movement in the post-employment benefit was as follows:

	2022 KD 000's	2021 KD 000's
Balance at 1 January	**56,822**	51,711
Net charge during the year	**11,106**	9,795
Paid during the year	**(5,468)**	(5,168)
Actuarial (gain) loss in respect of defined benefit plans	**(8,252)**	484
Balance at 31 December	**54,208**	56,822

19 SHARE CAPITAL AND RESERVES

a) Share capital

The authorised share capital of the Bank comprises 10,000,000,000 (2021: 10,000,000,000) shares of 100 fils each.

	2022 KD 000's	2021 KD 000's
Issued and fully paid in cash:		
7,552,329,162 (2021 : 7,192,694,440) shares of 100 fils each	**755,233**	719,269

Annual General Meeting of the shareholders held on 12 March 2022 approved an increase of KD 35,964 thousand (2021: KD 34,250 thousand) in the issued and fully paid share capital of the Bank by issuing 359,634,722 (2021: 342,509,259) bonus shares representing 5% of the share capital. The issued and fully paid up share capital increased from KD 719,269,444 to KD 755,232,916 and the change in share capital was recorded in the commercial register on 20 March 2022.

19 SHARE CAPITAL AND RESERVES (continued)

a) Share capital (continued)

The movement in ordinary shares in issue during the year was as follows:

	2022	*2021*
Number of shares in issue as at 1 January	**7,192,694,440**	6,850,185,181
Bonus issue	**359,634,722**	342,509,259
Number of shares in issue as at 31 December	**7,552,329,162**	7,192,694,440

b) Statutory reserve

The Board of Directors recommended a transfer of KD 17,981 thousand (2021: KD 17,126 thousand) to the statutory reserve. This is in compliance with the Bank's Articles of Association and the Companies Law, as amended, which require a minimum of 10% of profit for the year attributable to the shareholders of the Bank before KFAS, NLST and Zakat to be transferred to a non-distributable statutory reserve until such time as this reserve exceeds 50% of the Bank's issued capital. Accordingly, the transfer to statutory reserve, which is less than 10% of the profit for the year, is that amount required to make the statutory reserve in excess of 50% of the Bank's issued capital.

Distribution of this reserve is limited to the amount required to enable payment of a dividend of 5% of share capital in years when accumulated profits are not sufficient for the payment of a dividend of that amount.

c) Share premium account

The balance in the share premium account is not available for distribution.

d) Treasury shares and Treasury share reserve

The balance in the treasury share reserve account is not available for distribution. Further, an amount equal to the cost of treasury shares is not available for distribution from general reserve throughout the holding period of these treasury shares.

19 SHARE CAPITAL AND RESERVES (continued)

e) Other reserves

KD 000's

	General reserve	*Retained earnings*	*Foreign currency translation reserve*	*Cumulative changes in fair values*	*Share based payment reserve*	*Actuarial valuation reserve*	*Proposed cash dividend*	*Total other reserves*
Balance as at 1 January 2022	**117,058**	**1,385,277**	**(214,176)**	**74,648**	**14,409**	**(6,289)**	**215,781**	**1,586,708**
Profit for the year	-	**509,085**	-	-	-	-	-	**509,085**
Other comprehensive (loss) income	-	-	**(122,613)**	**4,491**	-	**7,303**	-	**(110,819)**
Total comprehensive income (loss)	-	**509,085**	**(122,613)**	**4,491**	-	**7,303**	-	**398,266**
Transfer to statutory reserve (Note 19b)	-	**(17,981)**	-	-	-	-	-	**(17,981)**
Dividend paid	-	-	-	-	-	-	**(215,781)**	**(215,781)**
Interim cash dividend paid - 10 fils per share (Note 20)	-	**(75,523)**	-	-	-	-	-	**(75,523)**
Interest paid on perpetual Tier 1 Capital Securities	-	**(18,119)**	-	-	-	-	-	**(18,119)**
Profit distribution on Perpetual Tier 1 Sukuk by a subsidiary	-	**(3,642)**	-	-	-	-	-	**(3,642)**
Proposed bonus shares (Note 20)	-	**(37,762)**	-	-	-	-	-	**(37,762)**
Proposed final cash dividend - 25 fils per share (Note 20)	-	**(188,808)**	-	-	-	-	**188,808**	-
Change in holding in subsidiaries	-	**(2,557)**	-	-	-	-	-	**(2,557)**
Other movements	-	**777**	-	-	-	-	-	**777**
At 31 December 2022	**117,058**	**1,550,747**	**(336,789)**	**79,139**	**14,409**	**1,014**	**188,808**	**1,614,386**

19 SHARE CAPITAL AND RESERVES (continued)

KD 000's

	General reserve	*Retained earnings*	*Foreign currency translation reserve*	*Cumulative changes in fair values*	*Share based payment reserve*	*Actuarial valuation reserve*	*Proposed cash dividend*	*Total other reserves*
Balance as at 1 January 2021	117,058	1,332,007	(209,496)	25,257	14,409	(5,999)	137,004	1,410,240
Profit for the year	-	362,249	-	-	-	-	-	362,249
Other comprehensive income (loss)	-	-	(4,680)	34,159	-	(290)	-	29,189
Total comprehensive income (loss)	-	362,249	(4,680)	34,159	-	(290)	-	391,438
Transfer to statutory reserve (Note 19b)	-	(17,126)	-	-	-	-	-	(17,126)
Dividend paid	-	-	-	-	-	-	(137,004)	(137,004)
Realised loss on equity investments at FVOCI	-	(15,232)	-	15,232	-	-	-	-
Transaction cost on issue of Perpetual Tier 1 Capital Securities	-	(858)	-	-	-	-	-	(858)
Interest paid on perpetual Tier 1 Capital Securities	-	(19,881)	-	-	-	-	-	(19,881)
Profit distribution on Perpetual Tier 1 Sukuk by a subsidiary	-	(3,247)	-	-	-	-	-	(3,247)
Transaction cost on issue of Perpetual Tier 1 Sukuk by a subsidiary	-	(365)	-	-	-	-	-	(365)
Proposed bonus shares (Note 20)	-	(35,964)	-	-	-	-	-	(35,964)
Proposed cash dividend 30 fils per share (Note 20)	-	(215,781)	-	-	-	-	215,781	-
Other movements	-	(525)	-	-	-	-	-	(525)
At 31 December 2021	117,058	1,385,277	(214,176)	74,648	14,409	(6,289)	215,781	1,586,708

19 SHARE CAPITAL AND RESERVES (continued)

e) Other reserves (continued)
The general reserve was created in accordance with Bank's Articles of Association and is freely distributable, except for the amount equivalent to the cost of treasury shares.

The foreign currency translation reserve includes the exchange differences on conversion of results and financial position of all group entities including goodwill, intangible assets and any fair value adjustments to the carrying value of assets and liabilities from their functional currency to the presentation currency.

Actuarial valuation reserve represents the loss resulting from increase in the present value of defined benefit plans due to changes in actuarial assumptions.

20 DIVIDEND

The Board of Directors approved distribution of an interim cash dividend amounting to KD 75,523 thousand (10 fils per share) on the outstanding shares as at 30 June 2022, which was paid subsequently.

The Board of Directors recommended distribution of final cash dividend of 25 fils per share (2021: 30 fils per share) and bonus shares of 5% (2021: 5%) on outstanding shares as at 31 December 2022. The final cash dividend and bonus shares, if approved by the Shareholders' Annual General Meeting, shall be payable to the shareholders after obtaining the necessary regulatory approvals.

21 PERPETUAL TIER 1 CAPITAL SECURITIES

The Bank issued the following Perpetual Tier 1 Capital Securities (the "Capital Securities"), through wholly owned special-purpose vehicles:

	2022 ***KD 000's***	*2021* *KD 000's*
USD 700,000 thousand (issued in February 2021 at an interest rate of 3.625% per annum, semi-annually in arrears, until the first reset date in February 2027, redeemable at the option of the Bank in August 2026)	**211,294**	211,294
USD 750,000 thousand (issued in November 2019 at an interest rate of 4.5% per annum, semi-annually in arrears, until the first reset date in November 2025, redeemable at the option of the Bank in August 2025)	**227,738**	227,738
Balance at 31 December	**439,032**	439,032

The above mentioned Capital securities are subordinated, unsecured and are eligible to be classified under equity in accordance with IAS 32: Financial Instruments – Presentation. Payments of interest in respect of the Capital Securities may be cancelled (in whole or in part) at the sole discretion of the Bank on a non-cumulative basis. Any such cancellation is not considered an event of default. Payments of interest are treated as a deduction from equity. The Capital Securities have no maturity date and are callable (in whole but not in part) at par at the option of the Bank on the first call date and on every interest payment date thereafter, subject to certain conditions.

22 SHARE-BASED PAYMENT

The Bank operates a cash-settled share-based compensation plan and granted options to its senior executives. These options vest if the employees remain in service for a period of three years and will be settled by cash payment determined based on the market value of the Bank's equity shares on vesting date.

The fair value of options granted during the year as determined using the Black-Scholes valuation model was KD 1.020 (2021: KD 0.950) as at the end of the year. The significant inputs into the model were a share price of KD 1.078 (2021: KD 0.997) at the measurement date, a standard deviation of expected share price returns of 26.3% (2021: 26.9%), option life disclosed above and annual risk free interest rate of 3.5% (2021: 1.5%). The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices over the last three years.

The following table shows the movement in number of share options during the year:

	2022	*2021*
	No. of share options	*No. of share options*
Outstanding at 1 January	**7,187,358**	6,907,286
Granted during the year	**2,835,231**	3,009,488
Exercised during the year	**(2,237,096)**	(2,428,436)
Lapsed during the year	**(210,212)**	(300,980)
Outstanding at 31 December	**7,575,281**	7,187,358

The expense accrued on account of share-based compensation plans for the year amounts to KD 2,720 thousand (2021: KD 2,573 thousand) and is included under staff expenses.

23 FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Group determines fair values using valuation techniques.

The Group measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using quoted prices for identical or similar instruments in market that are considered less than active or other valuation techniques in which all significant inputs are observable from market data. Debt securities under this category mainly include sovereign debt instruments in the Middle East & North Africa (MENA) region.

Level 3: valuation techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

Valuation techniques include discounted cash flow models, comparison with similar instruments for which market observable prices exist, recent transaction information and net asset values. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premium used in estimating discount rates, bond and equity prices, foreign currency exchange rates and expected price volatilities and correlations. The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

23 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

The Group determines whether transfers have occurred between levels in the hierarchy by reassessing 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.

The following table provides the fair value measurement hierarchy of the Group's financial instruments recorded at fair value:

2022	***Level 1 KD 000's***	***Level 2 KD 000's***	***Level 3 KD 000's***	***Total KD 000's***
Debt securities	**4,076,198**	**327,208**	**-**	**4,403,406**
Equities and other investments	**53,251**	**217,361**	**48,046**	**318,658**
	4,129,449	**544,569**	**48,046**	**4,722,064**
Derivative financial instruments (Note 26)	**-**	**314,547**	**-**	**314,547**
2021				
Debt securities	3,308,859	347,580	-	3,656,439
Equities and other investments	57,115	175,349	51,464	283,928
	3,365,974	522,929	51,464	3,940,367
Derivative financial instruments (Note 26)	-	(107,951)	-	(107,951)

The table below analyses the movement in level 3 and the income (interest, dividend and realised gain) generated during the year.

	At 1 January 2022 KD 000's	***Change in fair value KD 000's***	***Additions KD 000's***	***Sale/ redemption KD 000's***	***Exchange rate movements KD 000's***	***At 31 December 2022 KD 000's***	***Net gains in the consolidated statement of income KD 000's***
Equities and other investments	**51,464**	**(4,410)**	**5,278**	**(4,364)**	**78**	**48,046**	**905**
	51,464	**(4,410)**	**5,278**	**(4,364)**	**78**	**48,046**	**905**

	At 1 January 2021 KD 000's	*Change in fair value KD 000's*	*Additions KD 000's*	*Sale/ redemption KD 000's*	*Exchange rate movements KD 000's*	*At 31 December 2021 KD 000's*	*Net gains in the consolidated statement of income KD 000's*
Debt securities	14,000	-	-	(14,000)	-	-	144
Equities and other investments	55,284	(3,555)	4,779	(4,963)	(81)	51,464	429
	69,284	(3,555)	4,779	(18,963)	(81)	51,464	573

23 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Equities and other securities included in this category mainly include strategic equity investments and private equity funds which are not traded in an active market. The fair values of these investments are estimated by using valuation techniques that are appropriate in the circumstances. Valuation techniques include discounted cash flow models, observable market information of comparable companies, recent transaction information and net asset values. Significant unobservable inputs used in valuation techniques mainly include discount rate, terminal growth rate, revenue, profit estimates and market multiples such as price to book and price to earnings. Given the diverse nature of these investments, it is not practical to disclose a range of significant unobservable inputs.

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 interest rates. Fair values of remaining financial assets and liabilities carried at amortised cost are estimated mainly using discounted cash flow models incorporating certain assumptions such as credit spreads that are appropriate in the circumstances.

Sensitivity analysis on fair value estimations, by varying input assumptions by a reasonable margin, did not indicate any material impacts on consolidated statement of financial position or consolidated statement of income.

24 SUBSIDIARIES

Principal operating subsidiaries:

Name of entities	*Country of incorporation*	*Principal business*	***Percentage ownership***	
			2022	*2021*
Boubyan Bank K.S.C.P.	Kuwait	Islamic Banking	**60.1**	59.9
National Bank of Kuwait - Egypt S.A.E.	Egypt	Banking	**99.1**	98.5
Watani Investment Company K.S.C.(Closed)	Kuwait	Investment Company	**99.9**	99.9
National Bank of Kuwait (International) PLC	United Kingdom	Banking	**100.0**	100.0
National Bank of Kuwait France SA	France	Banking	**100.0**	100.0
NBK Banque Privée (Suisse) S.A.	Switzerland	Investment Management	**100.0**	100.0
National Bank of Kuwait (Lebanon) S.A.L.	Lebanon	Banking	**85.5**	85.5
Credit Bank of Iraq S.A.	Iraq	Banking	**91.0**	91.0
National Investors Group Holdings Limited	Cayman Islands	Investment Company	**100.0**	100.0
Watani Wealth Management Company	Saudi Arabia	Investment Management	**100.0**	100.0
Watani Financial Brokerage Company K.S.C. (Closed)	Kuwait	Brokerage	**98.3**	93.3
Bank of London and the Middle East (held through Boubyan Bank K.S.C.P.)	United Kingdom	Islamic Banking	**71.5**	71.1

At 31 December 2022, 38.1% (2021: 38.1%) of the Group's interest in National Bank of Kuwait (Lebanon) S.A.L. was held by an intermediate holding company, NBK Holding (Liban) S.A.L.

The Bank also holds voting capital in certain special-purpose entities which have been established to manage funds and fiduciary assets on behalf of the Bank's customers. The Bank does not have a beneficial interest in the underlying assets of these companies. Information about the Group's fund management activities is set out in Note 30.

Significant non-controlling interest exists in Boubyan Bank K.S.C.P. as follows:

	2022 ***KD 000's***	*2021* *KD 000's*
Accumulated balances of non-controlling interest	**565,000**	477,518
Profit attributable to non-controlling interest	**20,785**	18,228

24 SUBSIDIARIES (continued)

Summarised financial information of Boubyan Bank K.S.C.P. is as follows:

Summarised financial information	***2022*** ***KD 000's***	*2021* *KD 000's*
Assets	**7,880,757**	7,351,899
Liabilities	**6,901,058**	6,601,827
Net operating income	**201,363**	187,781
Results for the year	**54,273**	47,955
Other comprehensive (loss) income for the year	**(1,619)**	2,309

Summarised cash flow information	***2022*** ***KD 000's***	*2021* *KD 000's*
Operating cash flow	**(173,062)**	(38,502)
Investing cash flow	**(180,388)**	(32,638)
Financing cash flow	**312,313**	247,358

During the current year, Boubyan Bank K.S.C.P increased its share capital through rights issue of shares with a total issue proceeds of KD 200,000 thousand. An amount of KD 80,238 thousand being the issue proceeds after eliminating parent bank's subscription is included in the non-controlling interest in the consolidated statement of financial position.

During 2021, Boubyan Bank K.S.C.P issued "Tier 1 Sukuk", through a Sharia's compliant Sukuk arrangement amounting to USD 500,000 thousand, callable in October 2026 and bears an expected profit rate of 3.95% per annum until the first reset date in April 2027, payable semi-annually in arrears.

Tier 1 Sukuk is a perpetual security with no fixed redemption date and constitutes direct, unsecured, subordinated obligations subject to the terms and conditions of the Mudaraba Agreement .Tier 1 Sukuk is eligible to be classified under equity in accordance with IAS 32 : Financial Instruments – Presentation. The parent bank did not subscribe to the Tier 1 Sukuk issue and the total amount is included in non-controlling interest in the consolidated statement of financial position.

25 COMMITMENTS AND CONTINGENT LIABILITIES

	2022 ***KD 000's***	*2021* *KD 000's*
Commitments on behalf of customers for which there are corresponding liabilities by the customers concerned:		
Acceptances	**281,958**	158,338
Letters of credit	**410,321**	499,094
Guarantees	**3,775,107**	3,760,575
	4,467,386	4,418,007

Irrevocable commitments to extend credit amount to KD 1,024,290 thousand (2021: KD 1,067,102 thousand). This includes commitments to extend credit which are irrevocable over the life of the facility or are revocable only in response to a material adverse change.

In the normal course of business, the Group has exposure to various indirect credit commitments which, though not reflected in the consolidated statement of financial position, are subject to normal credit standards, financial controls and monitoring procedures.

These credit commitments do not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded. Credit losses, if any, which may result from exposure to such commitments are not expected to be significant.

The Group has commitments in respect of capital expenditure amounting to KD 82,124 thousand (2021: KD 92,762 thousand).

26 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING

Derivative financial instruments are financial instruments that derive their value by referring to interest rates, foreign exchange rates, index of prices or rates and credit rating or credit index. Notional principal amounts merely represent amounts to which a rate or price is applied to determine the amounts of cash flows to be exchanged and do not represent the potential gain or loss associated with the market or credit risk of such instruments.

Derivative financial instruments are carried at fair value in the consolidated statement of financial position. Positive fair value represents the cost of replacing all transactions with a fair value in the Group's favour had the rights and obligations arising from that instrument been closed in an orderly market transaction at the reporting date. Credit risk in respect of derivative financial instruments is limited to the positive fair value of the instruments. Negative fair value represents the cost to the Group's counter-parties of replacing all their transactions with the Group.

The Group deals in interest rate swaps to manage its interest rate risk on interest-bearing assets and liabilities and to provide interest rate risk management solutions to customers. Similarly the Group deals in forward foreign exchange contracts for customers and to manage its foreign currency positions and cash flows.

Interest rate swaps used to hedge the change in fair value of the Group's financial assets and liabilities and which qualifies as effective hedging instruments are disclosed as 'held as fair value hedges'. Other interest rate swaps and forward foreign exchange contracts are carried out for customers or used for hedging purpose but do not meet the qualifying criteria for hedge accounting. The risk exposures on account of derivative financial instruments for customers are covered by entering into opposite transactions (back to back) with counterparties or by other risk mitigating transactions.

Interest rate swaps
Interest rate swaps are contractual agreements between two counter-parties to exchange interest payments on a defined principal amount for a fixed period of time. In cross currency interest rate swaps, the Group exchanges interest payment in two different currencies on a defined principal amount for a fixed period of time and also exchanges defined principal amounts in two different currencies at inception of the contract and re-exchanges principal amounts on maturity. Profit rate swaps are also included in this category.

Forward foreign exchange
Forward foreign exchange contracts are agreements to buy or sell currencies at a specified rate and at a future date.

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

	2022			*2021*		
	Positive fair value KD 000's	***Negative fair value KD 000's***	***Notional KD 000's***	*Positive fair value KD 000's*	*Negative fair value KD 000's*	*Notional KD 000's*
Interest rate swaps (held as fair value hedges)	**330,703**	**12,922**	**4,559,283**	14,230	118,499	3,925,942
Interest rate swaps (others)	**1,259**	**1,270**	**21,441**	422	417	49,913
Forward foreign exchange contracts	**23,346**	**26,569**	**4,116,666**	13,995	17,682	3,395,871
	355,308	**40,761**	**8,697,390**	28,647	136,598	7,371,726

Positive fair value is included in other assets (Note 16) and negative fair value is included in other liabilities (Note 18).

The Group's strategy is not to carry interest rate risk for long duration assets. The Group uses interest rate swaps to hedge its exposure to changes in the fair values due to interest rate risk on certain investments in fixed rate debt securities, fixed-rate corporate loans and fixed-rate liabilities issued. Hedge accounting is applied where economic hedge relationships meet the hedge accounting criteria. In fair value hedge relationships, the Group assesses whether the interest rate swaps designated in each hedging relationship is expected to be highly effective in offsetting changes in fair value of the hedged item attributable to interest rate risk using appropriate qualitative and quantitative methods. The Group generally seeks to fully match the critical terms (tenor, notionals, interest rate exposure, currency, interest payments frequency and payment periods) of the hedged item and hedging instrument. The Group minimises counterparty credit risk in derivative instruments by entering into transactions with high-quality counterparties.

27 RELATED PARTY TRANSACTIONS

Related parties comprise board members and executive officers of the Bank, their close family members, companies controlled by them or close family members and associates of the Group. Certain related parties were customers of the Group in the ordinary course of business. Transactions with related parties were made on substantially the same terms, including interest rates and collateral, as those prevailing at the same time for comparable transactions with unrelated parties and did not involve more than a normal amount of risk. Lending to Board Members and their related parties is secured by tangible collateral in accordance with regulations of Central Bank of Kuwait.

Details of the interests of related parties are as follows:

	Number of Board Members or Executive Officers		***Number of related parties***			
	2022	*2021*	***2022***	*2021*	***2022 KD 000's***	*2021 KD 000's*
Board Members and Executive Officers						
Loans	**6**	9	**18**	18	**54,038**	63,812
Contingent liabilities	**2**	3	**9**	9	**20,476**	20,057
Credit cards	**18**	10	**31**	32	**178**	128
Deposits	**24**	25	**80**	101	**52,351**	57,262
Collateral against credit facilities	**2**	3	**13**	12	**174,926**	249,097
Interest and fee income					**1,817**	1,213
Interest expense					**432**	260
Purchase of equipment and other expenses					**367**	259

Details of compensation to key management personnel are as follows:

	2022 KD 000's	*2021 KD 000's*
Salaries and other short-term benefits	**12,199**	10,643
Post-employment benefits	**314**	419
Share-based compensation	**1,050**	1,101
	13,563	12,163

Remuneration to directors of the Bank amounting to KD 770 thousand for the year ended 31 December 2022 (31 December 2021: KD 120 thousand) is in accordance with local regulations and is subject to approval of shareholders at the Annual General Meeting.

28 RISK MANAGEMENT

Risk is inherent in the Group's activities but is managed in a structured, systematic manner through a global risk policy which embeds comprehensive risk management into organisational structure, risk measurement and monitoring processes. The overall risk management direction and oversight are provided by the Board of Directors with the support of the Board Risk and Compliance Committee and the Board Audit Committee. The Group's Risk Management and Internal Audit functions assist Executive Management in controlling and actively managing the Group's overall risk profile.

The Group is exposed to credit risk, liquidity risk, market risk and operational risk.

In accordance with the Central Bank of Kuwait's directives, the Group has implemented a comprehensive system for the measurement and management of risk. This methodology helps in reflecting both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. Information compiled from all internal business groups are closely examined and analysed to identify and control risks.

Transactions and outstanding risk exposures are quantified and compared against authorised limits, whereas non-quantifiable risks are monitored against policy guidelines and key risk and control indicators. Any discrepancies, excesses or deviation are escalated to management for appropriate action.

As part of its overall risk management, the Group uses interest rate swaps, forward foreign exchange contracts and other instruments to manage exposures resulting from changes in interest rates, foreign exchange, equity risks, credit risks and exposures arising from forecast transactions. Collaterals are used to reduce the Group's credit risks.

The Group's comprehensive risk management framework has specific guidelines that focus on maintaining a diversified portfolio to avoid excessive concentration of risk.

28.1 CREDIT RISK

Credit risk is the risk that counterparty will cause a financial loss to the Group by failing to discharge an obligation. Credit risk arises in the Group's normal course of business.

All significant policies relating to credit risks are reviewed and approved by the Board of Directors.

Credit limits are established for all customers after a careful assessment of their creditworthiness. Standing procedures, outlined in the Group's Credit Policy Manual, require that all credit proposals be subjected to detailed screening by the domestic or international credit control divisions pending submission to the appropriate credit committee. Whenever necessary, all loans are secured by acceptable forms of collateral to mitigate the related credit risks.

In accordance with the instructions of the Central Bank of Kuwait dated 18 December 1996, setting out the rules and regulations regarding the classification of credit facilities, the Group has formed an internal committee comprising competent professional staff and having as its purpose the study and evaluation of the existing credit facilities of each customer of the Group. This committee is required to identify any abnormal situations and difficulties associated with a customer's position which might cause the debt to be classified as irregular, and to determine an appropriate provisioning level. The committee, which meets regularly throughout the year, also studies the positions of those customers whose irregular balances exceed 25% of their total debt, in order to determine whether further provisions are required.

The Group further limits risk through diversification of its assets by geography and industry sector. In addition, all credit facilities are continually monitored based on a periodical review of the credit performance and account rating.

28 RISK MANAGEMENT (continued)

28.1 CREDIT RISK (continued)

28.1. 1 ASSESSMENT OF EXPECTED CREDIT LOSSES

Definition of default

The Group considers a financial asset to be in default and therefore Stage 3 (credit impaired) for ECL calculations when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held);
- the borrower is past due more than 90 days on any material credit obligation to the Group; or
- borrower is considered as credit-impaired based on qualitative assessment for internal credit risk Management purposes
- retail facilities from commencement of legal recourse

Any credit-impaired or stressed facility that has been restructured would also be considered as in default.

The Group considers investments and interbank balances as in default when the coupon or principal payment is past due for 1 day. The Group considers externally-rated portfolio with ratings 'D' from S&P and Fitch, and 'C' from Moody's as defaulted.

The Group 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
- borrower having past due liabilities to public creditors or employees
- borrower is deceased

The Group considers a financial asset as 'cured' (i.e. no longer be in default) and therefore reclassified out of stage 3 when it no longer meets any of the default criteria. In respect of restructured facilities which are classified in stage 3, these would be required to complete the moratorium period (if any) and meet the scheduled payments (all on current basis) for at least 1 year (except for retail facilities), or as determined by the Group for consideration for classifying the facility in stage 2/stage 1.

Significant increase in credit risk

The Group 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 life time ECL, the Group assess as whether there has been a significant increase in credit risk since initial recognition. The quantitative criteria used to determine a significant increase in credit risk is a series of relative and absolute thresholds. Financial assets that are 30 days past due are generally 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 unless this is rebutted.

The Group considers a financial instrument with an external rating of "investment grade" as at the reporting date to have low credit risk. In addition to the above quantitative criteria, the Group applies qualitative criteria for the assessment of significant increase in credit risk based on monitoring of certain early warning signals.

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 interest rate of the financial instrument. Cash shortfall represents the difference between cash flows due to the Group in accordance with the contract and the cash flows that the Group 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 Group estimates these elements using appropriate credit risk models taking into consideration the internal and external credit ratings of the assets, nature and value of collaterals, forward-looking macro-economic scenarios, etc.

The Group calculates ECL on credit facilities classified in stage 3 at 100% of the defaulted exposure net of the value of eligible collaterals after applying applicable haircuts.

28 RISK MANAGEMENT (continued)

28.1 CREDIT RISK (continued)

28.1. 1 ASSESSMENT OF EXPECTED CREDIT LOSSES (continued)

Measurement of ECLs (continued)
The Group in estimating ECL for credit facilities has taken into consideration the following key parameters based on inputs from CBK:
- Floor for estimating PDs for specific portfolios
- Eligible collateral with haircuts for determining LGD and floor for LGD for unsecured facilities.
- Deemed maturity for exposures in Stage 2
- Credit Conversion Factor on utilized and un-utilized portions for cash and non-cash facilities

Internal rating and PD estimation process
In managing its portfolio, the Group utilises ratings and other measures and techniques which seek to take account of all aspects of perceived risk. The Group uses industry-standard rating tools for assessing ratings/scores that are then leveraged for PD estimation process. The tool provides the ability to analyse a business and produces risk ratings at both the obligor and facility levels. The analysis supports the usage of financial factors as well as non-financial subjective factors. The Group also uses external ratings by recognised rating agencies for externally-rated portfolios.

The Probability of Default (PD) is the likelihood that an obligor will default on its obligations in the future. 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 Group's estimate of the future asset quality. The through-the-cycle (TTC) PDs are generated from the rating tool based on the internal/external credit ratings. The Group converts the TTC PDs to point-in-time (PIT) PD term structures using appropriate models and techniques.

The Group assesses the PD for its retail portfolio through behavioural scorecards. The Consumer portfolio is further segmented statistically and risk pools with shared risk characteristics are addressed with different scorecards relevant for each of the risk pool. The segmentation is based on demographic, behavioural and financial variables which distinctly rank order risk. The scorecards were developed using statistical techniques. Executing the scorecard will return an associated PD value for each of the facility. The term structure PDs are then derived using a base PD.

Exposure at default
Exposure at default (EAD) represents the amount which the obligor will owe to the Group at the time of default. The Group considers variable exposures that may increase the EAD in addition to the drawn credit line. These exposures arise from undrawn limits and contingent liabilities. Therefore, the exposure will contain both on and off balance sheet values. EAD is estimated taking into consideration the contractual terms such as coupon rates, frequency, reference curves, maturity, pre-payment options, amortization schedule, credit conversion factors, etc. EAD for retail loans incorporate prepayment assumptions whereas, for credit cards portfolio, credit conversion factors are applied to estimate the future drawdowns.

Loss-given-default
Loss-given-default (LGD) is the magnitude of the likely loss if there is a default. The Group estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset.

Incorporation of forward-looking information
The Group considers various key economic variables which reflect the continuing uncertainties and effect stemming from Covid-19 and other emerging risks, which may be expected to have an impact on credit risk and the ECL, when incorporating forward-looking information into the ECL models. Key economic variables include, but are not limited to, Gross Domestic Product, Equity price index, Oil prices, and Government expenditure. Together, they provide reasonable indications and forecasts of future macro-economic conditions. The consideration of such factors increases the degree of judgment in determination of ECL. The Group employs statistical models which incorporate the effect of macro-economic factors to adjust the historical TTC PDs to arrive at the PiT PDs. The Group considers three scenarios (baseline, upside and downside) of forecasts of macro-economic data separately for designated geographies and segments, and appropriate probability weights are applied to these scenarios to derive a probability-weighted outcome of expected credit loss. Management reviews the methodologies and assumptions including any forecasts of future economic conditions, on a regular basis.

28 RISK MANAGEMENT (continued)

28.1 CREDIT RISK (continued)

28.1. 1 ASSESSMENT OF EXPECTED CREDIT LOSSES (continued)

Incorporation of forward-looking information (continued)
The weighting of the multiple scenarios increased the Group's reported allowance for expected credit losses on financial assets, other than credit facilities, in Stage 1 and Stage 2, relative to the base case scenario, by KD 2,689 thousand (2021: increased by KD 4,736 thousand). If the Group were to use only downside case scenario, allowance for expected credit losses on financial assets other than credit facilities would be KD 7,583 thousand (2021: KD 13,389 thousand) higher than the reported allowance for expected credit losses on financial assets, other than credit facilities, as at 31 December 2022.

The weighting of the multiple scenarios increased the Group's reported allowance for expected credit losses on credit facilities, in Stage 1 and Stage 2, relative to the base case scenario, by KD 11,917 thousand (2021: increased by KD 9,805 thousand). If the Group were to use only downside case scenario, allowance for expected credit losses on credit facilities would be KD 32,003 thousand (2021: KD 32,899 thousand) higher than the reported allowance for expected credit losses on credit facilities as at 31 December 2022.

Actual outcomes may differ as this neither considers the migration of exposures nor incorporates changes which would occur in the portfolio due to risk mitigation actions and other factors.

28.1. 2 MAXIMUM EXPOSURE TO CREDIT RISK

An analysis of loans, advances and Islamic facilities to customers and contingent liabilities before and after taking account of eligible collateral held or other credit enhancements, is as follows:

	2022		*2021*	
	Gross exposure KD 000's	***Net exposure KD 000's***	*Gross exposure KD 000's*	*Net exposure KD 000's*
Loans, advances and Islamic financing to customers	**20,998,416**	**14,845,174**	19,722,471	13,882,889
Contingent liabilities	**4,467,386**	**4,291,810**	4,418,007	4,260,263

Collateral and other credit enhancements
The amount, type and valuation of collateral are based on guidelines specified in the risk management framework. The main types of collateral accepted includes real estate, quoted shares, cash collateral and bank guarantees. The revaluation and custody of collaterals are performed independent of the business units.

28.1. 3 RISK CONCENTRATION OF THE MAXIMUM EXPOSURE TO CREDIT RISK

Concentrations of credit risk arise from exposure to customers having similar characteristics in terms of the geographic location in which they operate or the industry sector in which they are engaged, such that their ability to discharge contractual obligations may be similarly affected by changes in political, economic or other conditions.

Credit risk can also arise due to a significant concentration of Group's assets to any single counterparty. This risk is managed by diversification of the portfolio. The 20 largest loans, advances and Islamic financing to customers outstanding as a percentage of gross loans, advances and Islamic financing to customers as at 31 December 2022 is 15% (2021: 16%).

28 RISK MANAGEMENT (continued)

28.1 CREDIT RISK (continued)

28.1. 3 RISK CONCENTRATION OF THE MAXIMUM EXPOSURE TO CREDIT RISK (continued)

The Group's financial assets and off-balance sheet items, before taking into account any collateral held or credit enhancements can be analysed by the following geographic regions:

2022 **Geographic region**	***Middle East and North Africa KD 000's***	***North America KD 000's***	***Europe & UK KD 000's***	***Asia KD 000's***	***Others KD 000's***	***Total KD 000's***
Balances and deposits with banks	**3,050,068**	**2,704,510**	**676,096**	**169,466**	**-**	**6,600,140**
Central Bank of Kuwait bonds	**881,241**	**-**	**-**	**-**	**-**	**881,241**
Kuwait Government treasury bonds	**211,629**	**-**	**-**	**-**	**-**	**211,629**
Loans, advances and Islamic financing to customers	**17,971,676**	**583,386**	**1,618,143**	**450,892**	**374,319**	**20,998,416**
Investment securities	**3,953,530**	**24,610**	**187,967**	**1,119,462**	**30,445**	**5,316,014**
Other assets	**399,866**	**19,933**	**315,336**	**7,539**	**1,951**	**744,625**
	26,468,010	**3,332,439**	**2,797,542**	**1,747,359**	**406,715**	**34,752,065**
Commitments and contingent liabilities (Note 25)	**3,037,221**	**280,380**	**1,173,523**	**996,393**	**4,159**	**5,491,676**
	29,505,231	**3,612,819**	**3,971,065**	**2,743,752**	**410,874**	**40,243,741**
2021						
Balances and deposits with banks	2,767,286	2,249,861	632,581	82,376	-	5,732,104
Central Bank of Kuwait bonds	830,054	-	-	-	-	830,054
Kuwait Government treasury bonds	417,016	-	-	-	-	417,016
Loans, advances and Islamic financing to customers	17,202,444	377,744	1,439,915	362,952	339,416	19,722,471
Investment securities	3,863,464	21,026	40,434	680,499	21,447	4,626,870
Other assets	286,928	8,170	34,775	2,083	1,843	333,799
	25,367,192	2,656,801	2,147,705	1,127,910	362,706	31,662,314
Commitments and contingent liabilities (Note 25)	3,037,901	250,351	1,270,503	919,398	6,956	5,485,109
	28,405,093	2,907,152	3,418,208	2,047,308	369,662	37,147,423

28 RISK MANAGEMENT (continued)

28.1 CREDIT RISK (continued)

28.1. 3 RISK CONCENTRATION OF THE MAXIMUM EXPOSURE TO CREDIT RISK (continued)

The Group's financial assets and off-balance sheet items, before taking into account any collateral held or credit enhancements, can be analysed by the following industry sectors:

	2022 ***KD 000's***	*2021* *KD 000's*
Industry sector		
Trading	**2,136,617**	1,955,757
Manufacturing	**3,290,431**	3,032,890
Banks and other financial institutions	**12,810,369**	11,215,434
Construction	**1,594,674**	1,579,115
Real Estate	**4,229,800**	3,975,689
Retail	**7,382,170**	6,807,769
Government	**3,497,046**	3,972,888
Others	**5,302,634**	4,607,881
	40,243,741	37,147,423

28.1. 4 CREDIT QUALITY PER CLASS OF FINANCIAL ASSETS

In managing its portfolio, the Group utilises ratings and other measures and techniques which seek to take account of all aspects of perceived risk. Credit exposures classified as 'High' quality are those where the default risk from the obligor's failure to discharge its obligation is assessed to be low. These include facilities to corporate entities with financial condition, risk indicators and capacity to repay which are considered to be good to excellent. Credit exposures classified as 'Standard' quality comprise all other facilities whose payment performance is fully compliant with contractual conditions and which are not 'impaired'. The default risk on 'Standard' quality is assessed to be higher than that for the exposures classified within the 'High' quality range.

The table below shows the credit quality by class of financial assets for statement of financial position lines, based on the Group's credit rating system.

2022	***High*** ***KD 000's***	***Standard*** ***KD 000's***	***Impaired*** ***KD 000's***	***Total*** ***KD 000's***
Balances and short term deposits with banks	**5,109,486**	**-**	**29,524**	**5,139,010**
Central Bank of Kuwait bonds	**881,241**	**-**	**-**	**881,241**
Kuwait Government treasury bonds	**211,629**	**-**	**-**	**211,629**
Deposits with banks	**1,250,912**	**238,262**	**3,942**	**1,493,116**
Loans, advances and Islamic financing to customers	**19,514,596**	**2,001,715**	**310,046**	**21,826,357**
Investments in debt securities – Amortised Cost	**13,860**	**915,310**	**-**	**929,170**
Investments in debt securities – FVOCI	**3,756,672**	**628,586**	**477**	**4,385,735**
Investments in debt securities – FVPL	**17,671**	**-**	**-**	**17,671**
	30,756,067	**3,783,873**	**343,989**	**34,883,929**

28 RISK MANAGEMENT (continued)

28.1 CREDIT RISK (continued)

28.1. 4 CREDIT QUALITY PER CLASS OF FINANCIAL ASSETS (continued)

2021	*High* *KD 000's*	*Standard* *KD 000's*	*Impaired* *KD 000's*	*Total* *KD 000's*
Balances and short term deposits with banks	4,843,883	-	29,734	4,873,617
Central Bank of Kuwait bonds	830,054	-	-	830,054
Kuwait Government treasury bonds	417,016	-	-	417,016
Deposits with banks	705,312	178,665	3,012	886,989
Loans, advances and Islamic financing to customers	17,689,493	2,455,348	211,154	20,355,995
Investments in debt securities – Amortised cost	185,938	802,954	-	988,892
Investments in debt securities – FVOCI	2,907,246	729,431	897	3,637,574
Investments in debt securities – FVPL	18,865	-	-	18,865
	27,597,807	4,166,398	244,797	32,009,002

28 RISK MANAGEMENT (continued)

28.2 LIQUIDITY RISK

Liquidity risk is the risk that the Group will be unable to meet its financial liabilities when they fall due. To limit this risk, management has arranged diversified funding sources, manages assets with liquidity in mind and monitors liquidity on a daily basis.

The table below summarises the maturity profile of Group's assets, liabilities and equity based on contractual cash flows and maturity dates. This does not necessarily take account of the effective maturities.

2022	*Up to 3 months KD 000's*	*3 to 12 months KD 000's*	*Over 1 year KD 000's*	*Total KD 000's*
Assets				
Cash and deposits with banks	**6,613,969**	**197,600**	**2,169**	**6,813,738**
Central Bank of Kuwait bonds	**494,770**	**386,471**	**-**	**881,241**
Kuwait Government treasury bonds	**15,000**	**5,000**	**191,629**	**211,629**
Loans, advances and Islamic financing to customers	**6,173,559**	**2,248,920**	**12,575,937**	**20,998,416**
Investment securities	**624,743**	**518,416**	**4,491,513**	**5,634,672**
Investment in associates	**-**	**-**	**3,119**	**3,119**
Land, premises and equipment	**-**	**-**	**474,724**	**474,724**
Goodwill and other intangible assets	**-**	**-**	**534,936**	**534,936**
Other assets	**367,267**	**47,811**	**370,810**	**785,888**
	14,289,308	**3,404,218**	**18,644,837**	**36,338,363**
Liabilities and equity				
Due to banks	**3,586,607**	**419,823**	**11,549**	**4,017,979**
Deposits from other financial institutions	**2,245,402**	**1,300,885**	**194,590**	**3,740,877**
Customer deposits	**14,717,473**	**4,656,934**	**803,655**	**20,178,062**
Certificates of deposit issued	**1,426,253**	**375,370**	**-**	**1,801,623**
Other borrowed funds	**39,819**	**76,575**	**1,127,169**	**1,243,563**
Other liabilities	**585,794**	**8,840**	**126,679**	**721,313**
Share capital and reserves	**-**	**-**	**3,434,180**	**3,434,180**
Proposed cash dividend	**188,808**	**-**	**-**	**188,808**
Perpetual Tier 1 Capital Securities	**-**	**-**	**439,032**	**439,032**
Non-controlling interests	**-**	**-**	**572,926**	**572,926**
	22,790,156	**6,838,427**	**6,709,780**	**36,338,363**

28 RISK MANAGEMENT (continued)

28.2 LIQUIDITY RISK (continued)

2021	*Up to 3 months KD 000's*	*3 to 12 months KD 000's*	*Over 1 year KD 000's*	*Total KD 000's*
Assets				
Cash and deposits with banks	5,873,904	91,712	1,655	5,967,271
Central Bank of Kuwait bonds	443,890	386,164	-	830,054
Kuwait Government treasury bonds	140,346	50,000	226,670	417,016
Loans, advances and Islamic financing to customers	5,278,548	2,336,434	12,107,489	19,722,471
Investment securities	596,330	555,895	3,758,573	4,910,798
Investment in associates	-	-	3,746	3,746
Land, premises and equipment	-	-	456,209	456,209
Goodwill and other intangible assets	-	-	581,264	581,264
Other assets	301,404	30,758	35,595	367,757
	12,634,422	3,450,963	17,171,201	33,256,586
Liabilities and equity				
Due to banks	3,538,646	552,262	7,780	4,098,688
Deposits from other financial institutions	1,808,888	1,321,022	5,719	3,135,629
Customer deposits	14,667,393	2,868,447	745,149	18,280,989
Certificates of deposit issued	1,029,689	309,665	-	1,339,354
Other borrowed funds	-	240,109	1,026,473	1,266,582
Other liabilities	430,898	11,106	226,223	668,227
Share capital and reserves	-	-	3,323,786	3,323,786
Proposed cash dividend	215,781	-	-	215,781
Perpetual Tier 1 Capital Securities	-	-	439,032	439,032
Non-controlling interests	-	-	488,518	488,518
	21,691,295	5,302,611	6,262,680	33,256,586

28 RISK MANAGEMENT (continued)

28.2 LIQUIDITY RISK (continued)

The liquidity profile of financial liabilities of the Group summarised below reflects the cash flows including future interest payments over the life of these financial liabilities based on contractual repayment arrangements.

	Up to 3 months KD 000's	***3 to 12 months KD 000's***	***Over 1 year KD 000's***	***Total KD 000's***
2022				
Financial Liabilities				
Due to banks	**3,597,177**	**432,031**	**12,526**	**4,041,734**
Deposits from other financial institutions	**2,251,298**	**1,321,018**	**207,792**	**3,780,108**
Customer deposits	**14,761,211**	**4,771,459**	**882,025**	**20,414,695**
Certificates of deposit issued	**1,432,841**	**384,877**	**-**	**1,817,718**
Other borrowed funds	**49,381**	**108,373**	**1,263,374**	**1,421,128**
	22,091,908	**7,017,758**	**2,365,717**	**31,475,383**
Contingent liabilities and commitments				
Contingent liabilities	**1,280,110**	**1,685,461**	**1,501,815**	**4,467,386**
Irrevocable commitments	**90,996**	**280,629**	**652,665**	**1,024,290**
	1,371,106	**1,966,090**	**2,154,480**	**5,491,676**
Derivative financial instruments settled on a gross basis				
Contractual amounts payable	**2,302,538**	**1,626,029**	**349,018**	**4,277,585**
Contractual amounts receivable	**2,304,139**	**1,625,124**	**348,507**	**4,277,770**

	Up to 3 months KD 000's	*3 to 12 months KD 000's*	*Over 1 year KD 000's*	*Total KD 000's*
2021				
Financial Liabilities				
Due to banks	3,540,328	553,903	7,879	4,102,110
Deposits from other financial institutions	1,810,041	1,328,293	5,760	3,144,094
Customer deposits	14,685,617	2,920,118	801,640	18,407,375
Certificates of deposit issued	1,029,907	310,092	-	1,339,999
Other borrowed funds	1,473	249,848	1,043,187	1,294,508
	21,067,366	5,362,254	1,858,466	28,288,086
Contingent liabilities and commitments				
Contingent liabilities	1,208,534	1,725,044	1,484,429	4,418,007
Irrevocable commitments	130,842	360,213	576,047	1,067,102
	1,339,376	2,085,257	2,060,476	5,485,109
Derivative financial instruments settled on a gross basis				
Contractual amounts payable	2,395,450	1,000,477	96,170	3,492,097
Contractual amounts receivable	2,390,037	1,003,200	96,346	3,489,583

28 RISK MANAGEMENT (continued)

28.3 MARKET RISK

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market prices. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, foreign exchange rates and equity prices.

28.3.1 INTEREST RATE RISK

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group is not excessively exposed to interest rate risk as its assets and liabilities are repriced regularly and most exposures arising on medium-term fixed-rate lending or fixed-rate borrowing are covered by interest rate swaps. Furthermore, the re-pricing gaps of its assets and liabilities are carefully monitored and controlled through limits pre-established by the Board of Directors and adjusted where necessary, to reflect the changing market conditions.

Interest rate sensitivity
Interest rate sensitivity of profit measures the effect of the assumed changes in interest rates on the net interest income for one year, based on the interest-bearing financial assets and financial liabilities held at the year end. This includes the effect of hedging instruments but excludes loan commitments. The sensitivity on equity is the impact arising from changes in interest rate on fair value of investments in debt securities classified as FVOCI. Sensitivity to interest rate movements will be on a symmetric basis as financial instruments giving rise to non-symmetric movements are not significant.

Based on the Group's financial assets and financial liabilities held at the year end, an assumed 25 basis points increase in interest rate, with all other variables held constant, would impact the Group's profit and equity as follows:

		2022		*2021*	
		Effect on profit KD 000's	***Effect on equity KD 000's***	*Effect on profit KD 000's*	*Effect on equity KD 000's*
Currency	**Movement in Basis points**				
KWD	+25	**9,138**	**-**	9,290	-
USD	+25	**5,579**	**-**	4,343	-
EUR	+25	**463**	**-**	256	-
GBP	+25	**621**	**-**	857	-
EGP	+25	**169**	**(402)**	128	(1,085)

28.3.2 FOREIGN EXCHANGE RISK

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Foreign exchange risks are controlled through limits pre-established by the Board of Directors on currency position exposures. In general assets are typically funded in the same currency as that of the business being transacted to eliminate exchange exposures. Appropriate segregation of duties exists between the treasury front and back office functions, while compliance with position limits is independently monitored on an ongoing basis.

28 RISK MANAGEMENT (continued)

28.3 MARKET RISK (continued)

28.3.2 FOREIGN EXCHANGE RISK (continued)

The table below analyses the effect on profit of an assumed 5% strengthening in value of the currency rate against the Kuwaiti Dinar from levels applicable at the year-end, with all other variables held constant. A negative amount in the table reflects a potential net reduction in profit, whereas a positive amount reflects a net potential increase.

		2022	2021
Currency	***% Change in currency rate***	***Effect on profit KD 000's***	*Effect on profit KD 000's*
USD	+5	**(248)**	(151)
GBP	+5	**99**	(20)
EUR	+5	**57**	213
Other	+5	**(74)**	(97)

28.3.3 EQUITY PRICE RISK

Equity price risk is the risk that the fair values of equities will fluctuate as a result of changes in the level of equity indices or the value of individual share prices. Equity price risk arises from the change in fair values of equity investments. The Group manages the risk through diversification of investments in terms of geographic distribution and industry concentration. The table below analyses the effect of equity price risk on profit (as a result of change in the fair value of equity investments held as fair value through profit or loss) and on equity (as a result of change in the fair value of equity investments classified as FVOCI) at the year end due to an assumed 5% change in market indices, with all other variables held constant.

		2022		2021	
Market indices	***% Change in equity price***	***Effect on profit KD 000's***	***Effect on equity KD 000's***	*Effect on profit KD 000's*	*Effect on equity KD 000's*
Kuwait stock exchange	+5	**121**	**28**	135	26
Qatar stock exchange	+5	**97**	-	228	-
UAE stock indices	+5	**342**	**-**	205	-
Saudi stock exchange	+5	**883**	**81**	856	92

28.4 OPERATIONAL RISK

Operational risk is the risk of loss arising from inadequate or failed internal processes, human error, systems failure or from external events. The Group has a set of policies and procedures, which are approved by the Board of Directors and are applied to identify, assess and supervise operational risk in addition to other types of risks relating to the banking and financial activities of the Group. Operational risk is managed by the operational risk function, which ensures compliance with policies and procedures and monitors operational risk as part of overall global risk management.

The Operational Risk function of the Group is in line with the Central Bank of Kuwait instructions dated 14 November 1996, concerning the general guidelines for internal controls and the instructions dated 13 October 2003, regarding the sound practices for managing and supervising operational risks in banks.

29 CAPITAL

A key objective of the Group is to maximise shareholders' value with optimal levels of risk, whilst maintaining a strong capital base to support the development of its business and comply with the externally-imposed capital requirements.

The disclosures relating to the capital adequacy regulations issued by Central Bank of Kuwait (CBK) as stipulated in CBK Circular number 2/RB, RBA/A336/2014 dated 24 June 2014 (Basel III) and the Leverage regulations as stipulated in CBK Circular number 2/BS/ 342/2014 dated 21 October 2014 under the Basel Committee framework are included under the 'Risk Management' section of the Annual Report.

Capital adequacy, financial leverage and the use of various levels of regulatory capital are monitored regularly by the Group's management and are, also, governed by guidelines of Basel Committee on Banking Supervision as adopted by the CBK.

The Group's regulatory capital and capital adequacy ratios (Basel III) are shown below:

	2022 ***KD 000's***	*2021* *KD 000's*
Risk-Weighted Assets	**24,571,451**	22,557,966
Total Capital required	**3,317,146**	2,819,746
Total Capital available		
Common Equity Tier 1 Capital	**3,170,120**	3,009,218
Additional Tier 1 Capital	**527,411**	528,558
Tier 1 Capital	**3,697,531**	3,537,776
Tier 2 Capital	**573,564**	544,597
Total Capital	**4,271,095**	4,082,373
Common Equity Tier 1 Capital adequacy ratio	**12.9%**	13.3%
Tier 1 Capital adequacy ratio	**15.0%**	15.7%
Total Capital adequacy ratio	**17.4%**	18.1%

In response to the Covid-19 pandemic crisis, the CBK removed the historical capital conservation buffer of 2.5% of risk-weighted assets up to 31 December 2021, reducing the total capital requirement from 15% to 12.5%. The capital conservation buffer is brought back to 1% effective from 1 January 2022 and will be fully re-instated to the original 2.5% effective from 1 January 2023.The total capital requirement as at 31 December 2022 is 13.5% including capital conservation buffer of 1%.

The calculations include Boubyan Bank K.S.C.P., an Islamic Banking subsidiary. For purposes of determining risk-weighted assets and capital required, exposures and assets at Boubyan Bank K.S.C.P. are risk weighted, and capital charge calculated, in accordance with Central Bank of Kuwait regulations applicable to banks providing banking services compliant with Codes of Islamic Sharia'a. Those figures are then added to corresponding figures pertaining to all the rest of the Group, identical with the treatment in relevant reports submitted to the Central Bank of Kuwait.

The Group's financial leverage ratio is calculated in accordance with CBK circular number 2/BS/ 342/2014 dated 21 October 2014 is shown below:

	2022 ***KD 000's***	*2021* *KD 000's*
Tier 1 capital	**3,697,531**	3,537,776
Total exposures	**39,373,804**	36,165,918
Leverage ratio	**9.4%**	9.8%

30 FUNDS UNDER MANAGEMENT

The Group manages a number of funds, some of which are managed in association with other professional fund managers. The funds have no recourse to the general assets of the Group and the Group has no recourse to the assets of the funds. Accordingly, the assets of these funds are not included in the consolidated statement of financial position. As at 31 December 2022, funds under management were KD 5,682 million (2021: KD 5,342 million).

31 IMPACT OF COVID-19

In response to the Covid-19 pandemic, Central Bank of Kuwait implemented various measures during years 2020 and 2021 targeted at reinforcing the banking sectors ability to play a vital role in the economy. Those measures are disclosed in the Group's annual consolidated financial statements for the year ended 31 December 2021 and 31 December 2020.

32 CHANGES IN REFERENCE RATES (IBOR)

The Group has significant exposure to the London Interbank Offered Rates (LIBOR), the benchmark interest rate, through its financial instruments, which will be replaced as part of the fundamental reform of various major interest rate benchmarks. The Group has undertaken a project under the oversight of a cross-functional IBOR Committee to manage its transition from LIBORs to alternative rates. The objectives of the IBOR Committee include evaluating the extent to which assets and liabilities are referenced to LIBOR cash flows, whether such contracts need to be amended as a result of those reforms and how to manage communication about LIBOR reform with counterparties
Transition away from LIBORs to the risk-free or alternative "reference rate" regime will affect the pricing of deposits, loans, hedging instruments and floating rate debt securities and the valuation of collateral.

Transition away from LIBORs to the risk-free or alternative "reference rate" regime will affect the pricing of deposits, loans, hedging instruments and floating rate debt securities and the valuation of collateral.

The following Risk-Free Rates (RFRs) are widely used to replace LIBORs as the benchmark in their respective currencies:
USD – SOFR (Secured Overnight Financing Rate)
GBP – SONIA (Sterling Overnight Index Average)
EUR – ESTER (Euro Short-Term Rate)
CHF – SARON (Swiss Average Rate Overnight)
JPY – TONAR (Tokyo Overnight Average Rate)

The EURIBOR is also used as a benchmark for EUR-denominated transactions.

Financial assets and liabilities

The Group's exposure to its floating-rate financial assets and liabilities is mainly through USD LIBOR. The Group will perform transition of these contracts to RFRs through bilateral agreements not later than June 2023. The Group's exposure to financial assets that are based on USD LIBOR maturing after June 2023 and not having fall back language is KD 2,181,164 thousand as at 31 December 2022. The Group's exposure to IBOR-linked financial liabilities is KD 288,030 thousand as at 31 December 2022. The Group successfully has transitioned all non-USD exposure to LIBOR, and is in discussion with the counterparties/clients to effect an orderly transition of USD exposures to the relevant RFR by June 2023.

Derivatives held for hedging purposes

The interest rate and cross-currency interest rate derivative instruments held for hedging purpose have floating-rate legs linked to various IBORs predominantly on USD LIBOR. The Group's interest rate and cross-currency interest rate derivative instruments held for hedging purpose are governed by the industry- standard International Swaps and Derivatives Association (ISDA) Master Agreements that incorporate by reference the 2006 ISDA definitions. ISDA launched the IBOR Fallbacks Supplement, a supplement to the 2006 ISDA definitions, and the IBOR Fallbacks Protocol. IBOR Fallbacks Protocol will enable adhering parties to amend legacy derivative transactions to include the updated rates and fallbacks.

32 CHANGES IN REFERENCE RATES (IBOR) (continued)

The Group had successfully completed the transition of non-USD linked derivatives as per ISDA Fallbacks Protocol. The Group is required to transition USD LIBOR based derivatives not later than June 2023. The notional value of USD LIBOR derivatives designated as fair value hedges, maturing after June 2023, is KD 2,090,853 thousand as at 31 December 2022. The Group will follow IBOR Fallback Protocol through adherence to ISDA Benchmark to complete the transition.

The Group has applied the hedging relief available under the amendments to IFRS 9 Financial Instruments relating to interest rate benchmark reforms such as relief on assessment of economic relationship between hedged items and hedging instruments.