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National Bank of Kuwait (International) PLC

Annual Reports and Financial Statements

31 December 2023

Company registration: 02773743
FCA registration: 171532

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Chair
Isam Jassim Al Sager

Vice Chair
Lesley Jane Titcomb (Independent)

Directors
Shaikha Khaled Ali Al Bahar
Omar Bouhadiba
Paul Richard Horner (Independent)
Matthew Anthony Timms (Independent)
Fawzi Adnan Dajani (Managing Director)
Bassem Boustany

Company Secretary
Emma Booth

Auditors
Deloitte LLP
2 New Street Square
London, EC4A 3BZ
United Kingdom

Registered Office
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13 George Street
London W1U 3QJ

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Strategic Report

31 December 2023

The Directors present their Strategic Report for the year ended 31 December 2023. This report is to be read in conjunction with the Directors' Report on page 11.

Principal activities and business review

National Bank of Kuwait (International) PLC, ("NBKI" or "the Bank"), is an authorised bank carrying out international commercial banking, financial and related services, mainly for customers of the Bank's parent, the National Bank of Kuwait S.A.K.P and subsidiaries ("the Group") from its London headquarters. The Bank is regulated in the United Kingdom by the Prudential Regulation Authority ("PRA") and the Financial Conduct Authority ("FCA").

The Bank positions itself as a premier Arab bank in the UK, with a niche focus on Private Banking and Real Estate. Its core lines of business are Commercial Real Estate, Private and Retail Banking, and Corporate Banking.

NBKI is predominantly a relationship bank focusing on servicing the needs of the Group's core client base, Gulf Co-operation Council ("GCC") countries, in the UK market. The client base of the Bank is predominantly GCC based institutions and individuals with banking and financing needs in the UK, in addition to UK-based corporates, with most operating in the Middle East and North Africa ("MENA") region.

The main requirements that the Bank's customers have in the UK are real estate financing for either residential or commercial properties, corporate funded and unfunded facilities, and transactional banking services in addition to savings offerings.

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Financial performance and key performance indicators (KPIs)

	2023	2022
	US$000	US$000
Income Statement:		
Net interest income	**92,511**	54,216
Net operating income before ECL	**99,136**	87,553
Net operating income before ECL and exceptional items*	**97,559**	64,055
(Charge) / Release on expected credit losses	**(1,789)**	665
Operating expenses	**48,709**	39,850
Profit before tax	**48,638**	48,367
Profit after tax	**35,877**	22,423
Statement of financial position:		
Loans and advances to customers	**2,028,637**	1,610,422
Customer deposits	**1,987,234**	1,611,651
Shareholders' equity	**533,729**	473,823
KPIs:		
Common Equity Tier 1 ("CET1") ratio	**20.51%**	21.26%
Return on shareholders' equity	**6.72%**	4.7%
Net interest rate margin**	**2.46%**	1.67%
Cost income ratio***	**49.1%**	45.5%
Cost income ratio before exceptional items*	**49.9%**	62.2%

* Excludes impact of functional currency

** NIM: calculated as net interest income / average interest earning assets

*** Cost income ratio: calculated as Net operating income / Operating expenses

All KPIs are derived from the financial statements, except for Net operating income before exceptional items and the CET1 ratio.

Financial performance overview

Overall, the Bank delivered a strong performance in 2023 driven by a high interest rate environment allied by a stable retail deposit base, which has resulted in higher net interest margins year on year 2.46% (2022: 1.67%). This, coupled with strong loan book growth, has led the Bank to generate record profits for the year of US$35.9m (2022: US$22.4m). Underlying operating income (before exceptional items) stands at US$97.6 m (2022: 64.1m), an increase of 52% versus the prior year. Net interest income increased by 71% to US$92.5m (2022: US$54.2m) primarily reflecting an increase in reference rates as well as strong loan book growth.

The Bank's total assets grew to US$4.3bn in 2023 from US$3.4bn with the funding coming from an increasingly diversified customer deposit base. In 2023, the Bank has been successful in originating US$0.4bn loans, with loans and advances to customers increasing to US$2.0bn (2022: US$1.6bn) setting up a strong platform for income generation for 2024.

The Bank's operating costs increased by US$8.8m to US$48.7m (2022: US$39.9m) due to increased Head Office recharges, as well as the Bank's continued investment in its people. Overall, the Bank's revenue trajectory has outpaced cost growth, leading to a material improvement in the Bank's underlying cost income ratio to 49.9% (2022: 62.2%).

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Despite challenging macroeconomic conditions, the Bank's asset quality continues to remain resilient driven by its conservative risk appetite and a well-diversified portfolio. As a result, the Bank's credit performance remains healthy with non-performing loans at 0.9% (2022: 6.0%) and overall provision for expected credit losses amounting to US$6.3m (2022: US$4.7m), with no realised losses.

The Bank takes a prudent approach to risk management, both liquidity and capital ratios remain healthy with significant headroom compared to the required regulatory levels. The Bank remains well capitalised with a CET1 ratio of 20.50% (2022: 21.26%) The Bank's short-term modelling indicates that capital and liquidity ratios will remain comfortably above the regulatory minimum over the forthcoming year under its Board-approved Individual Capital Adequacy Assessment Process ("ICAAP") stress scenarios.

Future Developments

The Directors' aim is for the Bank to further advance its business model by tapping into its niche opportunities and building on the strong franchise it has from Group customers and wider GCC linkages whilst remaining focussed on its core activities.

The Bank continues to operate in an environment of heightened geopolitical uncertainty with the conflicts in Middle East and Ukraine. Furthermore, there continues to be uncertainty in the economic outlook in both the UK and around the world. The current high interest rates weigh heavily on overall economic activity which has led to further recessionary pressures on the UK economy. Despite the current geopolitical and macroeconomic headwinds, the Bank is well placed to continue to grow its banking portfolio in a sustainable way whilst continuing to support its customers. The Bank remains committed in providing the best possible outcomes to its customers. As part of the Bank's 5-year strategy, NBKI will continue to invest in technology and digitise operations in order to improve its service capabilities as well as to further develop and improve our customers' overall experience.

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Principal risks and uncertainties

A core objective for the Bank is the effective management of risk, and the responsibility for ensuring that risks are managed and controlled ultimately rests with the Bank's Board of Directors. The Board has ultimate responsibility for setting the strategy, risk appetite and risk control framework. The following table summarises the principal risks relevant to the Bank and the strategies in place to manage them:

Risk Type	Definition	Mitigating Actions
Credit Risk	The risk that scheduled payments associated with a credit exposure, or with a portfolio of exposures, will not be received by the Bank in full and on time in line with the agreed contractual obligations.	Given the nature of the business, the Bank views its primary financial risk to be credit related. Credit risk appetite is set by the Board and the risk is overseen by the Board Risk Committee. All credit proposals are subject to detailed screening by the Credit Risk Department in line with the Bank's credit policies before submission to the Credit Approval Committee for review. The Credit Risk Committee ("CRC") monitors credit exposure at a portfolio level. Where needed, the CRC may take early preventative actions including further tightening of acceptable credit standards. NBKI manages concentration risk through individual, sectoral and geographic limits. NBKI approach to collateral management is anchored on lending at low LTV levels specific to residential and CRE sectors in specific geographic areas or sub-sectors whose long term valuation trends are well known to the Bank.
Liquidity & Funding Risk	The risk that NBKI could fail to meet its obligations as they fall due, by not having the right type and quantity of funds, in the right place, at the right time and in the correct currency.	The Bank mitigates these risks by holding an adequate portion of its assets in the form of High-Quality Liquid Assets to cover the Bank's liquidity requirements. The Treasury function manages the daily liquidity and cash flows to ensures the Bank has sufficient liquidity even during stress scenarios. The Bank has a diverse funding profile comprising both retail deposits and wholesale borrowings. It is the role of the Treasury function to provide stable funding and liquidity for the Bank's core lending businesses which includes the active management of the maturity of the Bank's funding profile. Full assessment of the Bank's liquidity risks is covered by the Bank's liquidity risk policies and its Individual Liquidity Adequacy Assessment Process ("ILAAP"). The Bank's risks are monitored and managed through the Asset & Liability Committee ("ALCO") within the remit set out by the Board Risk Committee.
Capital & Solvency Risk	The risk that NBKI has insufficient capital to cover regulatory requirements and/or the growth plans of the business.	Capital adequacy is monitored on a regular basis against both regulatory and internal capital requirements. The Bank ensures that it has adequate capital even in stress scenarios through the ICAAP. These risks are monitored and managed through the ALCO within the remit set out by the Board Risk Committee.

Operational Risk	The risk of loss, whether direct or indirect, to which NBKI is exposed due to inadequate or failed internal processes or systems, human error, or external events.	The Bank like all other similar organisations is exposed to a variety of operational risks. The Bank identifies, assesses, monitors, and mitigates these risks through a comprehensive system of internal controls and operational practices as set out in its Operational Risk Management Framework and Policy ("ORMFP"). It is the role of the Operational Risk Committee to monitor and facilitate the effective implementation of operational risk policies and controls.
Market Risk	The risk to capital or earnings from the adverse movement of market variables such as interest rates and foreign exchange rates.	The Bank does not operate a trading book. However, the Bank is exposed to market risk arising from its banking activities which include interest rate and foreign exchange risk. The Bank has limits pre-established by the Board of Directors for both these risks which are ultimately monitored by ALCO. The Bank has very low risk appetite and in practice, would undertake foreign exchange forwards and interest rate swaps to mitigate its long-term exposure.

Details of the financial risk management objectives and policies of the Bank and exposure of the Bank to credit risk, liquidity risk, and market risk, are given in Note 28 to the financial statements.

The Bank regularly reassesses the key risks to which it is exposed including any which are emerging, within the environment in which it operates. The Bank's emerging risks during the year and at the time of the preparation of this document are assessed to be:

Climate Change Risk

In terms of climate change, the primary risks impacting the Bank include transition risk as the economy moves towards a lower emissions economy, and physical risk which arises from the increased severity of adverse weather phenomena. Climate risk metrics covering transition and physical risks are included in the risk appetite statement of the Bank approved by the Board.

Every credit approval includes an assessment on climate risk. For lending secured by property the focus is on EPC and flood ratings. Furthermore, as part of credit approval process for the Corporate business there is consideration of the operating sector and the borrower's strategy towards climate risks.

Information Security Risk

In line with other businesses, the Bank is subject to the increased prevalence and sophistication of cyber-attacks which could result in unauthorised access to customer data as well as cause business disruption to services. The Bank has a functioning Information Security framework based on industry standards and enterprise level tools. A suitable Information Security Management System is in place which aligns with the guidance from the UK Government Communications Headquarters (GCHQ). A secure system of Data Loss Prevention is in place which protects the Bank's and customer data. The Bank operates a 3 Line of Defence model with controls in the 1st line to ensure security is maintained, oversight from the 2nd line to ensure processes are managed appropriately, and external assurance through 3rd Line of Defence to ensure full oversight of information security.

Operational Resilience

Maintaining Operational Resilience is a key regulatory and operational requirement to ensure the Bank can prevent, respond to, recover, and learn from operational disruptions. In 2023 the Bank has undertaken a series of changes to improve resilience and continues to develop the operational resilience framework. The Bank has established a record of important business services and impact tolerances and embedded these in the operational risk management framework. The Bank undertakes stress tests and self-assessments and in this regard is well sighted to the impact on customer outcomes from its business processes.

Geopolitical uncertainty

The Bank faces elevated geopolitical risks arising from the conflicts in the Middle East and Ukraine. The escalation or broadening of either conflict could aggravate supply chain disruptions and drive inflation higher which may pose a challenge to our customers and our business. Whilst the Bank has no direct exposure to either conflict, NBKI continues to closely monitor the geopolitical developments and analyse the risks and potential implications which includes the stress testing of our portfolios.

Section 172 (1) statement ("S172")

Section 172 (1) of the Companies Act 2006 requires a Director to act in a way that they consider in good faith and would be most likely to promote the success of the company for the benefit of its members as a whole. The Directors act for the long term and as noted in the Directors' report have regard to the interests of its employees, customers, suppliers, and other stakeholders.

Strategic Oversight

The Board of Directors has full oversight of the Bank's business and operational activity and works actively with the Bank's management to ensure that strategy initiatives are implemented. The Board of Directors has over a third of its membership as independent Directors and this, combined with strong parental oversight, ensures all stakeholders are involved.

The Board sets the Bank's 5 Year Strategy every 3 years and then reviews the execution at least on an annual basis, and progress on all strategic initiatives and financial highlights is tracked at Executive Management and Board level at least on a quarterly basis.

Employees

The Board regards employee welfare and retention as a key priority of the Bank and continues to implement new initiatives to address the continuous development, retention and welfare of its employees. A London wide engagement survey carried out in February 2023 showed both positive results and an increase in employee engagement in the last year and a half, reflecting the success of this approach.

New and ongoing initiatives implemented by the Bank include:

- Implementation of the 'IamNBK' performance award initiative;
- Issuing a cost of living allowance to staff earning below a certain level;
- Initiating a mentorship programme;
- Making available various leadership and management programmes to 'Highfliers', middle management and executives;
- Introducing and implementing a volunteering policy; and
- Introduction of a Women's Network programme.

The Bank has continued its flexible working model in line with the wider UK banking sector. It is the Bank's policy to attract, retain and develop the best qualified employees to enable it to achieve its overall business objectives. Accordingly, all vacant positions are filled with the best available qualified people, either from internal candidates where that is appropriate or from external recruitment. Equal treatment is offered to all applicants internally and externally with no discrimination on the grounds of ethnicity, colour, gender, nationality, marital status, disability, age, sexual orientation or religion, the criteria for selection being suitability and competence to do the job.

The Bank continues to progress its Diversity and Inclusion ("DI") agenda with considerable progress planned in this area in the coming years. The advancement of this priority is governed by an internal group comprised of NBKI staff across the various areas of diversity.

The Bank is committed to providing high quality training to its employees using formal courses in addition to on-the-job training. This is to ensure that employees have the required knowledge and skills to perform effectively in their present and future positions within the Bank.

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Customers

Customers are at the heart of everything the Bank does. We create value by providing the products and services that our customers need and aim to do so in a way that fits seamlessly into their lives. This helps us to build long-lasting relationships with our customers. We maintain trust by protecting our customers' data and information and delivering fair outcomes for them. Operating with high standards of conduct is central to our long-term success and underpins our ability to serve our customers.

Supporting the Bank's customers has continued to be a critical focus for the Board this year. In particular the Bank has made enhancements to deliver the outcomes required by the Consumer Duty, including:

- Implementing a Consumer Duty Policy;
- Implementing and improving various changes to the Bank's products, pricing, communication venues and support mechanisms in order to improve further outcomes received by clients;
- Capturing enhanced data to monitor outcomes delivered to consumers on a quarterly basis;
- Focusing on delivering enhanced service and management of vulnerable customers
- Providing training on consumer duty to all members of the NBKI Board; and
- Appointing an Independent Non-Executive Director as the Consumer Duty Champion.

NBKI maintains watch lists of vulnerable customers and this information is updated constantly, as changes in customers' circumstances occur. These are managed in accordance with the General Data Protection Regulation ("GDPR") and we ensure all vulnerable customers are managed fairly. Management information is provided to NBKI's governing body in line with the implementation of the Consumer Duty, to evidence we are providing fair outcomes for consumers.

The Bank also provides a personal banking service, where their customers can speak to a dedicated relationship manager promptly in English or Arabic. NBKI also maintains a branch for its customers who prefer to conduct their banking in person.

Shareholders

The Bank has three shareholder-appointed representatives on its Board who attend all Board meetings and committees for which they are members. Their presence on the Board ensures that the shareholders are kept abreast of key strategic initiatives for the Bank. This includes an update of the Bank's performance against its 5 year strategy as well as the implementation of various project initiatives. Board and committee meetings are held at a minimum quarterly, and provide a formal forum to ask questions of the other Board and committee members and provide feedback.

Regulators

The Directors understand that the Bank is required to have a transparent and cooperative relationship with the FCA, PRA and other regulators, and take reasonable steps to ensure that business is conducted in line with all relevant requirements and standards (including anti-money laundering requirements). Where information would be expected to be disclosed to the regulator, in addition to anything provided via formal returns, this is communicated openly and freely; for example, the impact of the functional currency change and update on relevant projects.

Suppliers

Supplier due diligence is undertaken as part of the onboarding process with a view to promoting strong supplier relationships. Management regularly meets with the Bank's key suppliers, particularly those providing important business services. It is the Bank's policy in every case to comply with the terms of payment expected by suppliers. In this respect, the Bank's creditor payment practice is to pay within the agreed period from the date of the invoice. This is reported publicly via the government payment practices website.

Community

The Bank recognises its duty to operate in a socially conscious manner and acknowledges its responsibilities towards society, community, economy and environmental stewardship. An important area in terms of social awareness is the investment in the Bank's local community. To this end, the Bank made donations to two local food banks as well as contributed towards a festive toy drive administered by the UK Ministry of Defence. In 2024, the Bank plans to further develop its Corporate Social Responsibility ("CSR") programme with staff engagement resulting in the selection of the annual theme of 'Children & Youth Charities'.

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Planned social engagement activities for 2024 include a three-year strategic partnership with the Duke of Edinburgh's Award ("DofE") which will support Inner London youth to participate in this life-changing programme. NBKI's total donation will help over 450 young people who may not have been able to participate in the DofE due to financial or cultural barriers to access the programme. This should help them develop skills to gain employment and build their resilience cope with challenging times.

Environmental, Social and Governance ("ESG")

NBKI completed its ESG materiality assessment in mid-2022, thereafter on 7 February 2023 the Board approved the ESG Strategic Roadmap, aligned with the approved and published NBK Group ESG Strategy. As part of the NBKI ESG Strategic Roadmap, the top ESG Priorities were approved. The priorities include, but are not limited to, Diversity and Inclusion, Management of Financial Risks from Climate Change, and Community Investments and Charitable Donations.

The NBK Group approach focuses on four pillars. Firstly, responsible banking; by supporting the transition to a sustainable economy and becoming a role model in its own transition. Secondly, capitalising on its own capabilities; by driving sustainable business growth and achieving it through organisational resilience. Thirdly, by investing and supporting our local communities. Finally, in terms of governance; an ESG sub-committee of the Executive Management Committee has been launched to consolidate and monitor the execution of the ESG strategy. The Board has also adopted a standing item on all its periodic meetings, in order to track and discuss the progress on ESG Strategy. In terms of the Bank's ESG priorities, some of the notable highlights for 2023 include:

- The Bank has embedded climate risk as part of its risk management framework. All credit approvals require an assessment of climate risk;
- Various employee initiatives have been implemented by the Bank to improve employee welfare and mental wellbeing (see Section 172 (1) statement); and
- The Bank has invested in its local community which includes donations to two local food banks. Charitable donations in 2023 totalled US$6,379 (see Section 172 (1) statement);

ESG will remain an important area of focus for the Bank in coming years, with Executive Management and the Board of NBKI overseeing and ensuring the embedding of ESG priorities throughout the Bank's operations. The Bank is committed to further develop its ESG linked activities and will continue to broaden its endeavours across the facets of ESG in 2024.

Streamlined Energy and Carbon Reporting ("SECR") Framework

The Bank is committed to being a responsible user of resources and continues to consider ways in which it can reduce its environmental impact. This section reflects the Bank's emissions as required by the UK SECR Regulations.

The review has been conducted by an independent third-party industry expert, reviewing primary data such as meter readings, supplier invoices etc.

The table below sets out our emissions in respect of Scope 1, 2 and 3 (excluding financed emissions). Scope 1 covers direct emissions from owned or controlled sources. Scope 2 covers indirect emissions from the generation of purchased electricity. Scope 3 includes all other indirect emissions that occur in the Bank's value chain including business travel using rental cars or employee-owned vehicles.

Summary of total energy consumption (kWh) (year ended)

Energy	**2023**	2022
Total fuel consumption (kWh)	218,166	261,191
Total electricity consumption (kWh)	524,391	567,635
Total transport fuel (kWh)	5,627	9,184
Total transport mileage (kWh)	1,059	3,467
Totals	**749,243**	841,477

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Summary of total GHG emissions (tCO2e) (year ended)

GHG emissions		**2023**	2022
Scope 1	Emissions from combustion of gas (tCO2e)	39.91	47.68
	Emissions from combustion of fuel for transport purposes (tCO2e)	1.35	2.20
Scope 2	Emissions from purchased electricity, location based (tCO2e) Emissions from purchased electricity for transport purposes (tCO2e)	108.59 0.02	109.77 0.00
Scope 3 (excluding financed emissions)	Emissions from business travel in rental cars or employee-owned vehicles where company is responsible for purchasing the fuel (tCO2e)	0.26	0.86
Totals		**150.13**	160.51

Summary of carbon intensity ratios (year ended)

Scope of Carbon	**GHG emissions**	**2023**	2022
All Consumptions	tCO2e/£ million	1.88	2.17
Building-related only	tCO2e/sq metre	0.0503	0.0544

Energy efficiency measures

Overall energy consumption has fallen year on year since first reporting for the years of 2021 and 2020 which were interrupted by COVID-19 with 2023 being 21% lower than 2021. The Bank continues to implement energy efficiency measures including refreshing the building infrastructure which also allows the Bank to better monitor electricity usage. The Bank's diesel car was replaced during the year with an electric car so Scope 1 for GHG for combustion fuel will be zero in 2024. Initiatives for 2024 include improvements in air conditioning and lighting across the premises.

Quantification and reporting methodology

This assessment is produced in line with "Environmental Reporting Guidelines: including Streamlined Energy and Carbon Reporting guidance (March 2019)" in conjunction with the Energy Savings Opportunity Scheme Regulations 2014 and the UK Government's GHG Conversion Factors for Company Reporting, Department for Business Energy & Industrial Strategy. For the operations within scope of the requirements of SECR, calculations have been carried out in general accordance with the Corporate Accounting and Reporting Standard of the Greenhouse Gas Protocol.

Approved by the Board of Directors

DocuSigned by:
Emma Booth
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Emma Booth (for and on behalf of the Board)
Company Secretary
22 April 2024

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Directors' Report

31 December 2023

The Directors are pleased to submit their thirty-first annual report together with the audited financial statements for the year ended 31 December 2023. This should be read in conjunction with the Strategic Report including the SECR Framework and with reference to the financial risk management objectives and exposure to price, credit, liquidity, and cash flow risks set out in Note 28 to the annual financial statements.

Directors and Company Secretaries

The names of the Directors currently holding office are listed on page 1.

Significant changes during the financial year and subsequently are as follows:

- Andrew Simon Richardson resigned as Director on 27 January 2023
- Bassem Boustany appointed as Director on 7 February 2023
- Hamish Cameron Galbraith Marr resigned as Director on 30 August 2023
- Paul Richard Horner appointed as a Director on 1 September 2023

According to the register of Directors' interests, no Director holding office as at 31 December 2023 had any beneficial interest in the shares of the Bank during the year.

The Bank has made qualifying third party indemnity provisions for the benefit of its Directors which were made during the year and remain in force at the date of this report.

Results and dividends

The Bank has made a profit after tax of US$35.9 million (2022: US$22.4 million). Overall, the Bank has delivered a strong performance in 2023 driven by a high interest rate environment allied by a stable deposit base which has resulted in higher net interest margins year on year. This coupled with strong loan book growth has led the Bank to generate record profits for the year. The Directors propose no dividend for the year ended 31 December 2023 (2022: US$nil) to continue supporting the organic growth of the Bank.

Future developments

Future developments are discussed in detail in the Strategic report.

Going concern

The Directors understand their responsibility to assess the Bank's ability to continue as a going concern for a period of at least 12 months from the date the financial statements are approved. The assessment is based on the Bank's strategy having sufficient liquidity and capital which includes consideration of the ICAAP stress scenarios approved by the Board for the forecast period up to 30 June 2025.

During the first few months of 2024, the Bank has continued to trade profitably whilst holding appropriate levels of both capital and liquidity. Operational resilience continues to be a major priority. Having successfully navigated the challenges of COVID-19, the Bank continues to deal with the additional stresses arising from the conflicts in the Middle East and Ukraine. The Bank has continued to protect staff, customers, and business generally. The Bank is operating safely, and due regard is being paid to its operating model and the preservation of liquidity and solvency.

The Board is ultimately responsible for setting the Bank's risk appetite and the Board Risk Committee is responsible for the oversight of the Bank's risk management framework. As part of the review, the Directors have performed an assessment of the Bank's significant risks and emerging risks, relating to the adoption of the going concern principle. Based on the assessment performed, nothing material has been identified which would impact the Bank's ability to remain a going concern.

As disclosed in Note 31, the Bank has a robust regulatory capital position and holds healthy surpluses above regulatory requirements. While uncertainties and stresses in the market may erode regulatory capital, the ICAAP stress testing performed by management has shown that the Bank continues to hold capital above its regulatory threshold. As such, the uncertainty relating to capital management is not considered to be material.

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The Bank carefully monitors its liquidity position, and management has performed a detailed forecast and ICAAP stress tests to consider market uncertainties and the potential impact on its ability to meet its liabilities as they fall due. In all reasonable scenarios the Bank maintains surpluses when compared to the regulatory requirements and, as such. the uncertainty relating to liquidity management is not considered to be material.

Based on the assessment performed, the Directors have a reasonable expectation that the Bank is well placed to manage its business risks and continue in operational existence from the date of approval of the financial statements to 30 June 2025. Accordingly, the Directors consider it appropriate to adopt the going concern basis in the preparation of the financial statements.

Subsequent events

The Bank has no subsequent events to report.

Charitable donations and political donations

The Bank made charitable donations of US$6,379 (2022: US$3,400) during the year. The Bank did not make any political donations during the year (2022: US$ nil).

Employees

The Bank's approach to employees is laid out in the S172 section of the Strategic Report

Customers

The Bank's approach to customers is laid out in the S172 section of the Strategic Report

Supplier payment policy

The Bank's supplier payment policy is laid out in the S172 section of the Strategic Report

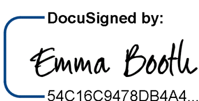
Disclosure of information to the auditors

As far as each person who was a Director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow Directors, each Director has taken all the steps that he/she is obliged to take as a Director to make himself/herself aware of any relevant audit information and to establish that the auditor is aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

Auditors

The auditors, Deloitte LLP, have expressed their willingness to continue in office. Pursuant to Section 489 of the Companies Act 2006, a resolution for the re-appointment of Deloitte LLP will be proposed at the forthcoming Annual General Meeting of the Bank.

Approved by the Board



Emma Booth (for and on behalf of the Board)
Company Secretary
Company Number: 02773743

22 April 2024

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Statement of Directors' responsibilities

The Directors are responsible for preparing the strategic report, Directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with UK Financial Reporting Standard 101 – Reduced Disclosure Framework. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Bank and of the profit or loss of the Bank for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Financial Reporting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Bank will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Bank's transactions and disclose with reasonable accuracy at any time the financial position of the Bank and enable them to ensure that the financial statements comply with the Companies Act 2006. The Directors are responsible for safeguarding the assets of the Bank and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

They are also responsible for the maintenance and integrity of the corporate and financial information included on the Bank's website.

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Independent auditor's report to the members of National Bank of Kuwait (International) PLC

Report on the audit of the financial statements

1. Opinion

In our opinion the financial statements of National Bank of Kuwait (International) PLC (the 'Company'):

- give a true and fair view of the state of the Company's affairs as at 31 December 2023 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 'Reduced Disclosure Framework'; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the statement of income;
- the statement of comprehensive income;
- the statement of financial position;
- the statement of changes in equity; and
- the related notes 1 to 30.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 'Reduced Disclosure Framework' (United Kingdom Generally Accepted Accounting Practice).

2. Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services provided to the Company for the year are disclosed in note 8 to the financial statements. We confirm that we have not provided any non-audit services prohibited by the FRC's Ethical Standard to the Company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3. Summary of our audit approach

Key audit matter	The key audit matter that we identified in the current year was: • Valuation of Expected Credit Loss ("ECL") provision
Materiality	The materiality that we used in the current year was US$3.97m which was determined on the basis of approximately 0.75% of net assets.
Scoping	The audit scoping was performed based on an assessment of the account balances and disclosures that are either quantitatively or qualitatively material.
Significant changes in our approach	There was no significant change in our approach in the current year.

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4. Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the Directors' assessment of the Company's ability to continue to adopt the going concern basis of accounting included:

- obtaining an understanding of management's evaluative process to arrive at their conclusion to prepare the financial statements on the basis of going concern;
- with the involvement of our internal regulatory specialists, challenging the liquidity and capital stress testing assumptions used by management, including consideration of management actions and whether applied stresses were reasonable in the context of the bank's operating environment;
- assessing emerging operational and market risks facing the Company, including the impact of ongoing volatility in the global banking market;
- assessing the key assumptions supporting the Company's latest budget forecasts;
- assessing the historical accuracy of forecasts prepared by management; and
- assessing the appropriateness of going concern disclosures made in the Director's Report and the notes to the financial statements.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

5. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

The matter described below was addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

5.1. Valuation of ECL provision

Refer to the summary of significant accounting policies on page 31, and note 28.1.

Key audit matter description	The value of the Company's ECL provision on loans and advances to customers has increased by US$1.41m in the current year to US$6.02m as at 31 December 2023 (31 December 2022: US$ 4.61m) as disclosed in note **14**. The estimation of ECL in the Company's loan portfolios is inherently uncertain and requires management to make significant judgements and estimates. We noted that the most significant judgement in the current year related to the valuation of collateral for individually assessed credit-impaired exposures. Other key judgements in ECL include the identification of significant increase in credit risk and the determination of significant model inputs for both Probability of Default ("PD") and Loss Given Default ("LGD") models. These judgements are material for the Corporate and Commercial Real Estate loans. Key judgements and sources of estimation uncertainty are discussed in note **2** on page 37 and sensitivities to certain key judgements are included in note **28.1**.

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How the scope of our audit responded to the key audit matter	We performed the following procedure in order to address the risk relating to the valuation of collateral for individually assessed credit-impaired exposures: • Performed walkthroughs and obtained an understanding of the relevant controls over the calculation of the ECL for individually assessed credit-impaired exposures process; and • Challenged the collateral valuations used in the calculation of individually assessed provisions with the assistance of our real estate valuation specialists who independently assessed the methodology and assumptions adopted by management for a sample of Stage 3 loans; We performed the following procedures to address other risks relating to the determination of ECL provision, including the key model inputs: • Performed walkthroughs of the business processes involved in the ECL calculation; • Obtained an understanding of the relevant controls over the ECL process, including credit risk governance; • Obtained an understanding of the staging criteria applied, and assessed compliance with the requirements of the applicable financial reporting framework; • Performed detailed credit reviews for a sample of loans across all stages to assess the application of staging criteria to the loan population; • With support of our credit modelling specialists, performed a methodology and implementation review of the ECL models, including a review of model code; • Evaluated other key assumptions used by management in PD and LGD calculations; • Tested the completeness and accuracy of the key data elements used in the ECL model; and • With support of our economic forecasting specialists, challenged the forward-looking scenarios used by the Company with reference to our expert knowledge and available market information.
Key observations	Based on the procedures performed and evidence obtained, we found the Company's assumptions, judgements and approach to estimating loan impairment provision to be reasonable and therefore we consider the level of provision to be appropriate.

6. Our application of materiality

6.1. Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Materiality	US$3.97m (2022: US$2.45m)
Basis for determining materiality	Approximately 0.75% of net assets (2022: 0.5% of adjusted net assets)
Rationale for the benchmark applied	We consider net assets to be the most relevant benchmark for users of the financial statements given the Company is a wholly owned, UK-regulated subsidiary.

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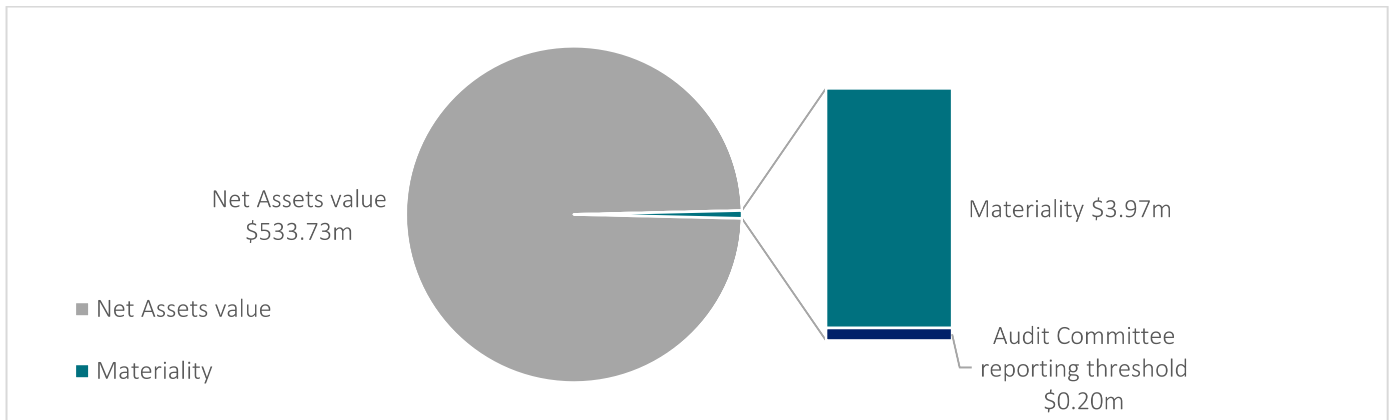
	Adjusted net assets represents net assets exclusive of the impact of exchange gains, and was used to determine materiality in the prior period owing to a significant historical one-off movement associated with the change in the functional currency that is not expected to repeat. We have concluded that in the absence of the volatility associated with the functional currency change, net assets represent the most appropriate stable benchmark relevant to the users of the financial statements, given the fact that the Company is a wholly owned, regulated subsidiary company.



6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Performance materiality was set at 65% of materiality for the 2023 audit (2022: 65%). In determining performance materiality, we considered the following factors: our understanding of the control environment; our understanding of the business; and the nature and size of corrected and uncorrected misstatements identified in the prior year.

6.3. Error reporting threshold

We agreed with the Board Audit Committee that we would report to the Committee all audit differences in excess of US$199k (2022: US$122k), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Board Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

7.1. Scoping

Our audit was scoped by obtaining an understanding of the Company and its environment, key processes and controls over financial reporting, and assessing risks of material misstatement. We take into account size, risk profile and the control environment of the Company as well as any changes in business environment in the year. Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team. The Company does not have subsidiaries or discrete divisions and therefore was audited as a single component.

7.2. Our consideration of the control environment

The Company uses a number of different IT systems, and we worked with our IT specialists to obtain an understanding of, and test the relevant General IT controls for, relevant systems. As a result of the controls work performed, we were able to a take IT controls reliance on certain key systems as planned.

We tested and placed reliance on the relevant controls over the gross loans and advances balance and customer deposits.

In order to test controls, a combination of re-performance, inquiry, observation, and inspection was performed on a sample basis, tailored to the nature and timing of each control.

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7.3. Our consideration of climate-related risks

In planning our audit, we have considered the potential impact of climate change on the business and financial statements of the Company and the wider Group of which it is a part, in order to design appropriate audit procedures.

We held discussions with management to understand the process for identifying climate-related risks, the consideration of mitigating actions and the potential impact on the Company's financial statements. We performed our own qualitative risk assessment of the potential impact of climate change on the Company's account balances and classes of transactions.

Climate related risks affecting the Company have been included within the strategic report on page 6. We read the climate related disclosures in the strategic report to consider whether they are materially consistent with the financial statements and our knowledge obtained in the audit.

8. Other information

The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

9. Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

10. Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

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11. Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

11.1. Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the Company's remuneration policies, key drivers for Directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management, internal audit and the Board Audit Committee about their own identification and assessment of the risks of irregularities, including those that are specific to the Company's sector;
- any matters we identified having obtained and reviewed the Company's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected, or alleged fraud;
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team and relevant internal specialists, including tax, credit, financial instruments and IT specialists, regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following area: the valuation of ECL provision . In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory framework that the Company operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act; the requirements of certain elements of Prudential Regulation as they relate to the consideration of going concern, and Tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the Company's ability to operate or to avoid a material penalty.

11.2. Audit response to risks identified

As a result of performing the above, we identified the valuation of the ECL provision as a key audit matter related to the potential risk of fraud. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to the key audit matter.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the Board Audit Committee and in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with the FCA, PRA and HMRC; and

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- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

12. Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the Directors' report.

13. Opinion on other matter prescribed by the Capital Requirements (Country-by-Country Reporting) Regulations 2013

In our opinion the information given in note 30 to the financial statements for the financial year ended 31 December 2023 has been properly prepared, in all material respects, in accordance with the Capital Requirements (Country-by Country Reporting) Regulations 2013.

14. Matters on which we are required to report by exception

14.1. Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

14.2. Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of Directors' remuneration have not been made.

We have nothing to report in respect of this matter.

15. Other matters which we are required to address

15.1. Auditor tenure

Following the recommendation of the Board Audit Committee, we were appointed by the Board Audit Committee on 10 May 2021 to audit the financial statements for the year ended 31 December 2021 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is three years, covering the years ended 31 December 2021 to 31 December 2023.

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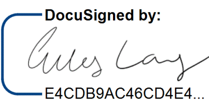
15.2. Consistency of the audit report with the additional report to the Board Audit Committee

Our audit opinion is consistent with the additional report to the Board Audit Committee we are required to provide in accordance with ISAs (UK).

16. Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.



Giles Lang, FCA (Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

London, United Kingdom

22 April 2024

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Statement of Income

For the year ended 31 December 2023

	Notes	**2023 US$000**	2022 US$000
Interest income	3	**227,709**	88,876
Interest expense	4	**(135,198)**	(34,660)
Net interest income		**92,511**	54,216
Net fees and commissions income	5	**3,431**	5,916
Net gains from dealing in foreign currencies and derivative income	6	**2,211**	24,428
Net investment income		**587**	2,627
Other operating income		**396**	366
Net operating income before ECL		**99,136**	87,553
(Charge)/Release on expected credit losses	28.1.3	**(1,789)**	665
Net operating income after ECL		**97,347**	88,218
Administrative expenses	7	**(47,648)**	(38,714)
Depreciation	17	**(1,061)**	(1,136)
Operating expenses		**(48,709)**	(39,850)
Profit for the year before taxation	8	**48,638**	48,368
Taxation	9	**(12,761)**	(25,945)
Profit for the year		**35,877**	22,423

Notes 1 to 31 are an integral part of the financial statements.

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Statement of Comprehensive Income

For the year ended 31 December 2023

	2023 **US$000**	2022 US$000
Profit for the year	**35,877**	22,423
Other comprehensive income/(loss):		
Change in fair value of debt securities measured at FVOCI (net of tax)	(262)	(358)
Items that will be reclassified subsequently to income statement when specific conditions are met	**(262)**	(358)
Change in fair value of equity instruments measured at FVOCI (net of tax)	276	(52)
Change in fair value of investment in group entity measured at FVOCI (net of tax)	(2,469)	3,612
Net foreign currency translation effect	26,484	(53,055)
Items that will not be reclassified subsequently to profit or loss	**24,291**	(49,495)
Other comprehensive income/(loss) for the year	**24,029**	(49,853)
Total comprehensive income/(loss) for the year before transfer to retained earnings	**59,906**	(27,430)
Transfer of loss on sale of investment in Group entity to retained earnings	3,321	-
Total comprehensive income/(loss) for the year	**63,227**	(27,430)

Notes 1 to 31 are an integral part of the financial statements.

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Statement of Financial Position

31 December 2023

	Notes	**2023** **US$000**	2022 US$000
Assets			
Cash and balances at Central Bank	11	**551,396**	528,440
Deposits with banks	12	**1,156,167**	832,185
Loans and advances to banks	13	**104,012**	78,750
Loans and advances to customers	14	**2,028,637**	1,610,422
Investment securities	15	**357,952**	264,917
Investment in group entity – held for sale	16	**-**	44,000
Derivative assets	25	**11,890**	15,296
Fixed assets	17	**50,764**	49,253
Other assets	18	**7,177**	2,423
Total assets		**4,267,995**	3,425,686
Liabilities			
Due to banks and other financial institutions		**1,338,382**	1,078,891
Customer deposits	19	**1,987,234**	1,611,651
Certificates of deposit issued		**345,265**	213,478
Derivative liabilities	25	**18,843**	18,207
Other liabilities	20	**44,542**	29,636
Total liabilities		**3,734,266**	2,951,863
Equity			
Share capital	21	**289,403**	289,403
Retained earnings		**244,271**	211,715
Cumulative changes in fair values		**1,882**	1,016
Translation reserve	22	**(1,827)**	(28,311)
Total equity		**533,729**	473,823
Total equity and liabilities		**4,267,995**	3,425,686

The financial statements were approved by the Board of Directors and authorised for issue on **22 April 2024**.

DocuSigned by:
Fawzi Dajani
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Fawzi Adnan Dajani (Managing Director)
22 April 2024
Notes 1 to 31 are an integral part of the financial statement.

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Statement of Changes in Equity

31 December 2023

	Notes	Share capital US$000	Retained earnings US$000	Cumulative changes in fair values US$000	Translation Reserve US$000	Total US$000
Balances as at 31 December 2021		**235,883**	**225,681**	**(2,186)**	**(11,645)**	**447,733**
New Capital Issuance		**53,520**	**-**	-	**-**	**53,520**
Transfer from Translation Reserve upon Redenomination		**-**	**(36,389)**	-	**36,389**	**-**
Profit for the year		**-**	**22,423**	-	**-**	**22,423**
Other comprehensive expense for the year		**-**	**-**	3,202	**(53,055)**	**(49,853)**
Balances as at 31 December 2022		**289,403**	**211,715**	**1,016**	**(28,311)**	**473,823**
Profit for the year		**-**	**35,877**	-	**-**	**35,877**
Other comprehensive expense for the year	22	**-**	**-**	(2,455)	**26,484**	**24,029**
Total comprehensive income/(loss) for the year before transfers to/from retained earnings		**-**	**35,877**	(2,455)	**26,484**	**59,906**
Transfer between fair value and Retained earnings	24	**-**	**(3,321)**	3,321	**-**	**-**
Balances as at 31 December 2023		**289,403**	**244,271**	**1,882**	**(1,827)**	**533,729**

Notes 1 to 31 are an integral part of the financial statements.

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Notes to the financial statements

31 December 2023

1. INCORPORATION AND REGISTRATION

The financial statements of National Bank of Kuwait (International) PLC (the "Bank") were approved by the Board of Directors on 22 April 2024. The Bank is incorporated in United Kingdom and is principally engaged in banking activities, primarily in the United Kingdom. The address of the registered office is NBK House, 13 George Street, London W1U 3QJ.

The Bank is a wholly owned subsidiary of National Bank of Kuwait S.A.K.P., Kuwait. NBK S.A.K.P is the parent and ultimate controlling party, and is also the parent undertaking of the largest Group that presents consolidated financial statements. Copies of the Group financial statements of National Bank of Kuwait S.A.K.P. may be obtained from: NBK House, 13 George Street, London, W1U 3QJ.

The Bank is a public company limited by shares registered in England.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The financial statements have been prepared in accordance with the provisions of the Companies Act 2006 relating to banking companies and UK Financial Reporting Standard 101 'Reduced Disclosure Framework'. The Bank has taken advantage of the following exemptions under FRS 101:

- IAS 1 'Presentation of Financial Statements' ("IAS 1"), paragraph 38, to present comparative information in respect of IAS 16 'Property, Plant and Equipment', paragraph 73(e).

- IAS 1, paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D and 111.

- IAS 1. Paragraphs 40A, to present a third statement of financial position as at the beginning of the preceding period in addition to the minimum comparative financial statements following the restatement of comparative period (see note 31)

- The requirements of IAS 7 'Statement of Cash Flows'.

- IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors', paragraphs 30 and 31.

- IAS 24 'Related Party Disclosures' ("IAS 24"), paragraph 17 and 18A.

- The requirements in IAS 24 to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member.

The financial statements are prepared under the historical cost convention except for the measurement at fair value of derivatives and investments at fair value through other comprehensive income. 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.

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Interest income and interest expenses on derivatives are shown net to improve presentation of interest yield and cost of funds. Deferred tax assets and deferred tax liabilities have been netted in other liabilities.

The functional currency that is used in preparing the financial statements has been determined to be GBP. The financial statements presentational currency is USD, which is consistent with prior periods. USD is used as the presentation currency because of its relevance to the users of the financial statements.

2.2 Going concern

IAS 1 Presentation of Financial Statements requires Directors to make an assessment of a company's ability to continue as a going concern, and whether it remains appropriate to adopt the going concern basis of accounting in preparing the entity's financial statements. IAS 1 states that the information should cover at least 12 months from the end of the reporting period but not be limited to that period, and FRC guidelines state that the information should consider a period of at least 12 months from the date the financial statements are authorised for issue. The assessment is based on the Bank's strategy having sufficient liquidity and capital, which includes consideration of the ICAAP stress scenarios approved by the Board for the forecast period up to 30 June 2025.

During the first few months of 2024, the Bank has continued to trade profitability whilst holding appropriate levels of both capital and liquidity. Operational resilience continues to be a major priority, having successfully navigated the challenges of COVID-19, the Bank continues to deal with the additional stresses arising from the geopolitical risks arising from the conflicts in the Middle East and Ukraine. The Bank has continued to protect staff, customers, and business generally. The Bank is operating safely, and due regard is being paid to its operating model and the preservation of liquidity and solvency.

The Board is ultimately responsible for setting the Bank's risk appetite and the Board Risk Committee is responsible for the oversight of the Bank's risk management framework. As part of the review, the Directors have performed an assessment of the Bank's significant risks and emerging risks relating to the adoption of the going concern principle. Based on the assessment performed, nothing material has been identified which would impact the Bank's ability to remain a going concern.

As disclosed in Note 31, the Bank is satisfied with its regulatory capital position and holds surpluses above regulatory requirements. While uncertainties and stresses in the market may erode regulatory capital, the ICAAP stress testing performed by management has shown that the Bank continues to hold capital above its regulatory threshold. As such, the uncertainty relating to capital management is not considered to be material.

The Bank carefully monitors its liquidity position and management has performed a detailed forecast and stress tests to consider market uncertainties and the potential impact on its ability to meet its liabilities as they fall due. In all reasonable scenarios the Bank maintains surpluses when compared to the regulatory requirements and, as such, the uncertainty relating to liquidity management is not considered to be material.

Based on the assessment performed, the Directors have a reasonable expectation that the Bank is well placed to manage its business risks and continue in operational existence from the date of approval of the financial statements to 30 June 2025. Accordingly, the Directors consider it appropriate to adopt the going concern basis in the preparation of the financial statements.

2.3 Changes in Accounting Policy and future accounting developments

There have been no new accounting policies applied during the year. The accounting policies are consistent with those used in the previous year.

The IASB has not published any amendments effective from 1 January 2023 that are applicable to NBKI. If any further development takes place, the Bank will review and implement in the following year.

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Leases

The Bank applies the requirements of IFRS 16 'Leases' but only has leases for which the asset is considered to be of low value and accounts for their costs on a straight-line basis.

As landlord, the Bank rents out part of its building to a third party. This lease is classed as an operating lease as it does not transfer substantially all the risks and rewards incidental to ownership of the underlying asset and accounts for the rental income on a straight-line basis.

2.5 Impairment of non-financial assets

Non-financial assets are reviewed for impairment at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. The impairment loss to be recognised is the amount by which the carrying amount of the assets exceeds the recoverable amount.

2.6 Provisions & contingencies

Provisions are recognised when the Bank has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Provisions are reviewed at the end of each reporting date to reflect the current best estimate. If it is no longer probable that an outflow will be required to settle the obligation, the provisions are reversed.

When it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability.

2.6.1 IFRS 9 Financial Instruments

The Bank applies IFRS 9 'Financial Instruments' ("IFRS 9") to the recognition, classification and measurement, and derecognition of financial assets and financial liabilities, the impairment of financial assets and hedge accounting. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7 'Financial Instruments: Disclosures' ("IFRS 7").

a) Classification and measurement of financial assets and liabilities

Financial assets

The Bank has applied IFRS 9 and classifies its financial assets in the following measurement categories:

- Amortised cost.
- Fair value through other comprehensive income ("FVOCI"), or
- Fair value through profit or loss ("FVPL").

The classification requirements for debt and equity instruments are described below.

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds and trade receivables purchased from clients in factoring arrangements without recourse.

Classification and subsequent measurement of debt instruments depend on:

1) the Bank's business model for managing the asset, and
2) the cash flow characteristics of the asset.

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Based on these factors, the Bank classifies its debt instruments into one of the following three measurement categories:

- **Amortised cost:** Financial assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ("SPPI"), and that are not designated at FVPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any ECL allowance recognised and measured as described in Note **28.1.2**. Interest income from these financial assets is included in 'interest and similar income' using the effective interest rate method.
- **Fair value through other comprehensive income:** Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that not designated at FVPL, are measured at fair value through other comprehensive income. Movements in the carrying amount are taken through Other Comprehensive Income ("OCI"), except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and loss on the instrument's amortised cost which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognized in 'Net investment income'. Interest income from these financial assets is included in 'Interest and similar income' using the effective interest rate method.
- **Fair value through profit or loss:** Financial assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss and presented in the profit or loss statement within "Net trading income" in the period in which it arises, unless it arises from debt instruments that were designated at fair value or which are not held for trading, in which case they are presented separately in "Net investment income". Interest income from these financial assets is included in "Interest and similar income" using the effective interest rate method.

Business model: the business model reflects how the Bank manages the assets in order to generate cash flows. That is, whether the Bank's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g., financial assets are held for trading purposes), then the financial assets are classified as part of the "other" business model and measured at FVPL. Factors considered by the Bank in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

Solely payments of principal and interest ("SPPI"): Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Bank assesses whether the financial instruments' cash flows represent SPPI. In making this assessment, the Bank considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e., interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

The Bank reclassifies debt instruments when, and only when, its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent, and none occurred during the period.

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets, such as basic ordinary shares.

Equity instruments are measured at FVPL. However, the Bank has elected, at initial recognition, to irrevocably designate strategic investments in equity securities at fair value through other comprehensive income. The Bank's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to profit or loss, including on disposal. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognised in profit or loss as dividend income when the Bank's right to receive payments is established.

On sale of FVOCI equity investments, the gain/loss is not reclassified to profit and loss account. No impairment loss is recognised on equity investments.

Investment in debt securities designated at FVOCI

The Bank holds investments in a portfolio of debt securities which has been classified as investment at FVOCI. The changes in fair value of these securities is reclassified to profit or loss on disposal.

Financial liabilities

Financial liabilities are classified as measured at amortised cost, except for:

Financial liabilities at FVPL: this classification is applied to derivatives, financial liabilities held for trading and other financial liabilities designated as such at initial recognition. Gains or losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (change in fair value attributable to credit risk) and partially in profit or loss. If such presentation would create an accounting mismatch, then the gain and loss attributable to change in credit risk of the liability is also presented in profit or loss.

Consideration received for a transfer of financial assets which do not qualify for derecognition are recognised as a financial liability.

Financial guarantee contracts and loan commitments

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions, and others on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantee contracts are initially measured at fair value and subsequently measured at the higher of:

- the amount of the loss allowance, and
- the premium received on initial recognition less income recognised in accordance with the principles of IFRS 15 'Revenue'.

For loan commitments and financial guarantees contracts, the loss allowance is recognised as a provision. However, for contracts that include both a loan and an undrawn commitment and the Bank cannot separately identify the expected credit losses on the undrawn commitment component from those on the loan component, the expected credit losses on the undrawn commitment are recognised together with the loss allowance for the loan. To the extent that the combined expected credit losses exceed the gross carrying amount of the loan, the expected credit losses are recognised as a provision.

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Impairment of financial assets

The impairment requirements apply to financial assets measured at amortised cost, fair value through other comprehensive income, lease receivables and certain loan commitments and financial guarantee contracts.

The ECL model reflects the requirements of IFRS 9 which sets out a three-stage approach to forecasting losses which is based on the change in credit quality of financial assets since initial recognition. Under Stage 1, where there has not been a significant increase in credit risk since initial recognition, an amount equal to 12 months ECL will be recorded (where 12 months ECL refers to ECL in relation to default events within 12 months of the reporting date). Under Stage 2, where there has been a significant increase in credit risk since initial recognition, but the financial instruments are not considered credit impaired, an amount equal to the lifetime ECL will be recorded (where lifetime ECL refers to ECL in relation to default events over the entire lifetime of the instrument. Under Stage 3, where there is objective evidence of impairment at the reporting date these financial instruments will be classified as credit impaired and an amount equal to the lifetime ECL will be recorded for the financial assets.

The assessment of credit risk and the estimation of ECL are required to be unbiased and probability-weighted and incorporate all available information which is relevant to the assessment including information about past events, current conditions and reasonable and supportable forecasts of economic conditions at the reporting date. In addition, the estimation of ECL takes into account the time value of money.

As a result, the recognition and measurement of impairment are intended to be more forward-looking, and the resulting impairment charge is subject to a range of macro-economic factors which creates a more dynamic measurement basis. Further information on the measurement of the impairment allowance under IFRS 9 can be found in Note **28.1.2**.

The interest receivable on credit impaired assets at the end of the financial year is compared with the interest receivable on a net basis and adjusted where material.

c) Hedge accounting

The general hedge accounting requirements link with risk management strategy and permit hedge accounting to be applied to a variety of hedging instruments and risks. The Bank continues using the hedge accounting as per IAS 39 ‘Financial Instruments: Recognition and Measurement’ (“IAS 39”) as this option is permissible under IFRS 9.

2.8 Foreign currencies

In 2022, the Bank converted its US dollars (“USD”) share capital to GBP pounds (“GBP”) and no longer has a multi-currency share capital base. As described in the basis of preparation, the functional currency is GBP. The presentation currency continues to be USD. Any exchange difference upon translation from functional currency (GBP) to presentation currency (USD) is included under translation reserve as part of total equity. All assets and liabilities are translated using closing rate as of reporting date. All income and expenses are translated at the average rate during the year.

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 are translated into functional currency at rates of exchange prevailing at the reporting date. Any gains or losses are taken to the statement of income. Non-monetary items in foreign currencies that are measured in terms of historical cost are translated using the rate of exchange at the date of the transaction.

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Interest income and expenses

Interest income and expense for all interest-bearing financial instruments are recognised within "interest income" and "interest expense" in the 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 ("EIR") 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 gross carrying amount of the financial asset or financial liability. Fees which are considered an integral part of the effective yield of a financial asset are recognised using the effective interest 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.

The interest differential between the currencies involved in forward exchange contracts used for covered interest arbitrage is included in the interest income and expenses.

2.10 Fees and commissions income

Fees that are an integral part of the EIR of loans are treated as an adjustment to the effective interest rate of the loans. Such fees may include compensation for activities such as evaluating the borrower's financial condition, evaluating, and recording guarantees, collateral, and other security arrangements, negotiating the terms of the instrument, preparing and processing documents and closing the transaction. These fees are an integral part of generating an involvement with the resulting financial instrument. Fees can be recognised on a straight-line method ("SLM"), where the difference between amortising fees using EIR and SLM is not material. Fees and transaction costs on financial instruments measured at fair value through profit or loss are not included in the EIR calculation and are charged to the Statement of Income as and when they are accrued/incurred.

Fee income that is not integral to EIR is recognised as goods and services are transferred, to the extent that the transferor anticipates entitlement to goods and services.

2.11 Dividend income

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

2.12 Assets held for sale and discontinued operations

Non-current assets (or disposal group) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and the sale is considered to be highly probable.

A sale is considered to be highly probable if the appropriate level of management is committed to a plan to sell the asset (or disposal group), and the sale is expected to qualify for recognition as a completed sale within one year from the date that it is classified as held for sale.

A non-current asset (or disposal group) and discontinued operations held for sale are measured at the lower of carrying amount and fair value less cost to sell. Assets and liabilities of a disposal group classified as held for sale and non-current assets classified as held for sale are shown separately on the face of the balance sheet.

On 21 June 2023 the Bank finalised the sale of its investment in NBK France SA to its parent, NBK S.A.K.P (see Note 16). Until 21 June 2023 this asset was separately disclosed on the face of the balance sheet and was already held at fair value as an equity investment held at FVOCI.

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

The results of discontinued operations comprising the post-tax profit or loss account of discontinued operations and the post-tax gains, or loss recognised either on measurement to fair value less costs to sell or on the disposal of the discontinued operations are shown as a single amount on the face of the income statement.

A discontinued operation is a cash generating unit or group of cash generating units that has either been disposed of, or is classified as held for sale, and (a) represents a separate major line of business or geographical area of operations, (b) is part of a single co-ordinated plan to dispose of a separate major line of business or geographical assets of operations, or (c) is a subsidiary acquired exclusively with a view to resale.

2.13 Derecognition

On derecognition of a financial asset the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that has been recognised in OCI is recognised in the income statement.

Any cumulative gain or loss recognised in OCI in respect of equity instruments designated at FVOCI is not recognised in the income statement on derecognition of those instruments.

2.14 Pensions

The Bank operates a defined contribution pension scheme for employees in the UK. The costs of providing retirement benefits are charged to the statement of income in the period in which they are incurred.

2.15 Taxation

Current income tax assets and liabilities for the current year are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amounts are those that are enacted or substantively enacted, at the reporting date in the countries where the Bank operates and generates taxable income. 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.

On 11 July 2023, the UK government enacted the Pillar 2 income taxes legislation to introduce the global minimum tax model rules of the OECD's Inclusive Framework on Base Erosion and Profit Shifting ("BEPS"), effective for the financial year beginning 1 January 2024. Under the legislation, UK parent entities are required to pay, in the UK, top-up tax on profits of its subsidiaries and permanent establishments that are taxed at a Pillar 2 effective tax rate of less than 15%. The Bank is not a parent entity and pays taxation at the applicable UK rates which are above 15%. The Bank's ultimate parent is resident in a country that has joined the BEPS Inclusive Framework and they would be responsible for Undertaxed Payment ("UPTR") in other jurisdictions when this legislation is enacted in future periods. Apart from some potential administrative work, the Pillar 2 income taxes regime should not have any material impact on the Bank. It has therefore not applied the exception to recognising and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes.

2.16 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 Bank has access at that date.

When available, the Bank 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

If there is no quoted price in an active market, then the Bank uses valuation techniques that maximise the use of relevant observable inputs that recognise 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.

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

2.17 Offsetting of financial assets and liabilities

Financial assets and financial liabilities are only offset, and the net amount reported in the statement of financial position, when there is a legally enforceable right to set off the recognised amounts and the Bank intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously. During the year, the Bank did not carry out settlements on a net basis and therefore all financial assets and liabilities are reported gross in the Statement of Financial Position.

2.18 Derecognition of financial assets 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 derecognised where:

- the rights to receive cash flows from the asset have expired, or
- the Bank 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 Bank has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

When the Bank 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 Bank'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 Bank 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 derecognition of the original liability and the recognition of a new liability.

2.19 Derivative financial instruments

The Bank has continued using the hedge accounting as per IAS 39, as this option is permissible under IFRS 9 and does not have any significant impact on its financial position.

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

The Bank deals in interest rate swaps to manage interest rate risk on interest bearing assets and liabilities, including a portfolio of loans hedged to manage interest rate risk. Similarly, the Bank deals in forward foreign exchange contracts for customers and to manage its foreign currency positions and cash flows. All derivative financial instruments of the Bank are recorded in the 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.

The Bank transacts in derivatives for hedging purposes. ISDA master agreements and credit support annex ("CSA") are in place. Derivatives are either centrally cleared or margined on a bilateral basis (applies to all foreign exchange contracts and certain interest rate swaps).

For the purposes of hedge accounting, the Bank's hedges are classified into two types of hedging relationships:

(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 re-measuring the hedging instrument is recognised immediately in the statement of income. The hedged items are adjusted for fair value changes relating to the risk being hedged and the difference is recognised in the statement of income. Any inefficient hedging amounts are recognized in the 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 statement of income. The gains or losses on cash flow hedges recognised initially in equity are transferred to the statement of income in the period in which the hedged transaction impacts the 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.

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 Bank. 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 Statement of Income.

In 2022, the Bank adopted the Phase 2 amendments Interest Rate Benchmark Reform—Amendments to IFRS 9 / IAS 39 and IFRS 7. Adopting these amendments enables the Bank to reflect the effects of transitioning from interbank offered rates ("IBOR") to alternative benchmark interest rates (also referred to as "risk free rates" or" RFR"s) without giving rise to accounting impacts that would not provide useful information to users of financial statements.

The Bank has not restated the prior period. Instead, the amendments have been applied retrospectively with any adjustments recognised in the appropriate components of hedging instruments on their roll-over date during the year.

The Bank continues to cease hedge accounting if retrospective effectiveness is outside the 80-125 per cent range.

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

As a result of the Phase 2 amendments, when the contractual terms of the Bank's borrowings are amended as a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the basis immediately preceding the change, the Bank changes the basis for determining the contractual cash flows prospectively by revising the effective interest rate. If additional changes are made, which are not directly related to the reform, the applicable requirements of IFRS 9 are applied to the other changes. When changes were made to the hedging instruments, hedged item and hedged risk as a result of the interest rate benchmark reform, the Bank has updated the hedge documentation without discontinuing the hedging relationship.

In transitioning to RFR, the entity applied the CCP methodology for the centrally cleared deals and the ISDA fall back protocol for the bilateral counterparty deals. In both cases the Credit Adjustment Spread was applied.

2.20 Trade and settlement date accounting

All "regular way" purchases and sales of financial assets are recognised on the trade date, i.e., the date that the Bank 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 regulation or convention in the marketplace.

2.21 Investment in group undertaking

Until 21 June 2023 the Bank had an 19.68% investment holding in entity NBK France S.A a fellow subsidiary of the Bank's parent, National Bank of Kuwait S.A.K.P At the time of set up the Bank used the one-time irrevocable option to designate the investment at FVOCI with any gain/loss recognised in OCI.

2.22 Fixed assets

Fixed assets are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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 Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of income during the period in which they are incurred.

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 fixed assets is as follows:

Freehold property:	50 years
Property improvements:	15 years
Fixtures, fittings and equipment:	5 years
Motor vehicle:	4 years
Computer equipment:	3 years

Residual values and useful lives of assets are reviewed, and adjusted if appropriate, at each reporting date. The carrying values of tangible fixed assets 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 statement of income.

2.23 Due to banks and financial institutions, customer deposits and certificate of deposit issued

Due to banks and financial institutions, customer deposits and certificate of deposit issued are stated at amortised cost using the effective interest method.

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.24 Significant accounting judgements and estimates

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the Bank's accounting policies.

This note provides an overview of the areas that involve a higher degree of judgement or complexity, and major sources of estimation uncertainty that have a significant risk of resulting in a material adjustment within the next financial year. Detailed information about each of these estimates and judgements is included in the related Notes together with information about the basis of calculation for each affected line item in the financial statements.

HMRC Tax Investigation (judgement)

The Bank's current tax position of US$19.7m (2022: US$14.5m) includes management's judgement of the amount of tax payable on historical tax computations where liabilities remain to be agreed with HMRC. The Bank evaluates uncertain tax items, where a tax item is subject to interpretation and remains to be agreed. Principally the uncertain tax item for which a tax liability has been recognised relates to the potential tax arising from the retrospective change to the Bank's functional currency from USD to GBP.

In line with IFRIC 23 'Uncertainty over Income Tax Treatments' ("IFRIC 23"), the tax liability established represents the full amount payable to HMRC on the basis that the Bank has not been successful to date in challenging HMRC's assessment. The matter is, however, ongoing and due to the uncertainty associated with this tax item, it is possible that at a future date, on conclusion of the matter, the final outcome may vary significantly depending on how successful the Bank is in challenging HMRC.

Measurement of the ECL allowance (judgements and estimation uncertainty)

The measurement of the ECL allowance for financial assets measured at amortised cost and FVOCI is carried out using two models. The main model for Stage 1 and Stage 2 exposures is the more complex model and makes a number of assumptions about future economic conditions and credit behaviour (e.g., the likelihood of customers defaulting and the resulting losses). The second model was implemented during 2023 with the specific aim of supporting individual ECL assessments for Stage 3 exposures. A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Application qualitative criteria for significant increase in credit risk. This is further detailed in Note **28.1.2.1**; and
- The Bank uses five probability weighted forward looking macro-economic scenarios in its calculation of loan loss provisions being the base line scenario, upside, downside, better upside and worse downside. These scenarios and their application in the calculation of loan loss provisions are described further in Note **28.1.2.4**.
- For assets in Stage 3, impairment allowances are calculated on an individual basis and all relevant considerations that have a bearing on the expected future cash flows across a range of economic scenarios are taken into account. These considerations can be particularly subjective and can include, the realisable value of collateral, as well as the likely cost and duration of the work-out process.

In regard to the critical estimates relating to the ECL model, there are three relating to the calculation of the Probability of Default, the Loss Given Default, and the Exposure at Default. The calculation of these parameters is further detailed in Note **28.1.2.3**.

3. INTEREST INCOME CALCULATED USING THE EFFECTIVE INTEREST METHOD

	2023 US$000	2022 US$000
Deposits with banks	**85,682**	26,957
Loans and advances	**128,598**	57,394
Debt investment securities	**13,429**	4,525
	227,709	88,876

All of the interest is recorded using the effective interest rate method and is derived primarily from the UK.

4. INTEREST AND SIMILAR EXPENSES

	2023 US$000	2022 US$000
Due to banks and other financial institutions	**40,289**	15,037
Customer deposits	**76,795**	14,580
Interest on certificates of deposit	**14,709**	1,580
Other	**3,405**	3,463
	135,198	34,660

5. NET FEES AND COMMISSIONS INCOME

	2023 US$000	2022 US$000
Fees and commission income / (expense):		
Retail banking customer fees	**2,277**	4,686
Financial guarantee contract and letter of credit fees	**877**	728
Real estate consulting fees	**480**	645
Other	**9**	95
	3,643	6,154
Fees and commission related expenses	**(212)**	(238)
Net fees and commissions income	**3,431**	5,916

6. NET GAINS FROM DEALING IN FOREIGN CURRENCIES AND DERIVATIVE INCOME

Net gains from dealing in foreign currencies and derivative income mainly consist of dealing profits generated from foreign currency related transactions and hedge ineffectiveness on bond, loan portfolio and deposits. In 2021 the functional currency was retrospectively changed from USD to GBP which resulted in significant foreign exchange movements. The impact on 2023 profit and loss was a gain of US$1,577,000 compared to a gain of US$23,497,000 in 2022.

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7. ADMINISTRATIVE EXPENSES

	2023 **US$000**	2022 US$000
Staff costs:		
Wages and salaries	**19,957**	16,916
Social security costs	**2,116**	1,973
Pension costs	**1,840**	1,650
	23,913	20,539
Other administrative expenses	**23,735**	18,175
	47,648	38,714

The average number of employees, all engaged in commercial banking activities during the year, was 188 (2022: 174). Other administrative expenses include occupancy, computer expenses, professional fees and various other overheads.

The Bank operates one defined contribution pension scheme. The UK scheme assets are in the form of units in a life fund.

8. PROFIT FOR THE YEAR BEFORE TAX

	2023 **US$000**	2022 US$000
This is stated after charging:		
Fees payable to the Bank's auditor for the audit of annual accounts	**1,078**	1,119
Audit related services	**12**	15
Fees payable to the Bank's auditor for the services provided in relation to the audit of the Bank's ultimate parent	**161**	113
Total auditor's remuneration	**1,251**	1,247

9. TAXATION

(a) The tax charge is made up as follows:

	2023 **US$000**	2022 US$000
Current tax:		
UK corporation tax on the profit for the year	**13,637**	11,244
Adjustment in respect of prior years	**(1,125)**	14,859
Total current tax	**12,512**	26,103

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Deferred tax charge/(credit) (Note 9(c)):		
Related to the current year	**73**	19
Adjustment in respect of prior years	**196**	(221)
Effect of changes in tax rates		
Foreign Exchange	**(20)**	44
Total deferred tax	**249**	(158)
Tax charge per income statement (Note **9(b))**	**12,761**	25,945
Other comprehensive income – deferred tax credit	**(32)**	(52)

Arising from unrealised taxable gains on debt instruments and equity held as fair value through other comprehensive income and gains and losses on derivatives used for hedging purposes.

(b) Factors affecting tax charge for the year	**2023** **US$000**	2022 US$000
Profit on ordinary activities before tax	**48,638**	48,368
Profit taxed at UK corporation tax average standard rate of 23.5% (2022: 19%)	**11,430**	9,181
Effect of:		
Disallowed expenses	**1,852**	13
Disallowed income	**(3)**	(4)
Super deduction	**-**	(18)
Adjustment in respect of prior years	**(1,057)**	14,638
Tax rate changes	**(4)**	(21)
Banking surcharge	**424**	2,616
Foreign exchange	**119**	(460)
Total tax charge	**12,761**	25,945

(c) Disclosed in statement of financial position	**2023** **US$000**	2022 US$000
Current tax liabilities:		
Corporation tax payable	**19,673**	14,517
Total current tax liabilities	**19,673**	**14,517**

Deferred tax liabilities/(assets)	**2023** **US$000**	2022 US$000
Provision at the start of the period	**172**	471
Adjustment in respect of prior years	**196**	(221)
Deferred tax charge to income statement for the period	**73**	19
Deferred tax credit in OCI for the period	**(32)**	(52)
Foreign exchange	**14**	(45)
Total deferred tax liabilities	**423**	172

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Net temporary differences	**2023 US$000**	2022 US$000
Fixed assets	**257**	(40)
Provisions	**(161)**	-
Fair value change in debt securities	**(1,335)**	(1,767)
Fair value in hedging instruments	**1,717**	2,237
Fair value movement on equity instruments	**301**	209
Change in basis of accounting - FRS 101	**(74)**	(136)
Change in basis of accounting - IFRS 9	**(282)**	(331)
Total net temporary differences	**423**	172

The last Finance Bill enacted that the main rate of UK corporation tax would increase to 25% effective from 1 April 2023. For the purposes of deferred tax to be recognised, we modelled the utilisation of FRS 101 and IFRS9 transition adjustments by year to apply the appropriate rate (23.5% in financial year 2023 and 25% thereafter). For other balances, we have recognised the deferred tax at 25%. As per the Taxation policy (Note **2.15**) the Bank has not applied the exception to recognising and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes as Pillar 2 is not expected to have any material impact on the Bank.

The Bank's current tax position of US$19.7m (2022: US$14.5m) includes management's judgement of the amount of tax payable on historical tax computations where liabilities remain to be agreed with HMRC. The Bank evaluates uncertain tax items, where a tax item is subject to interpretation and remains to be agreed. Principally the uncertain tax item for which a tax liability has been recognised, relates to the potential tax arising from the retrospective change to the Bank's functional currency from USD to GBP.

In line with IFRIC 23, the tax liability established represents the full pay out to the HMRC on the basis that the Bank was unsuccessful in challenging HMRC's assessment. Due to the uncertainty associated with this tax item, it is possible that at a future date, on conclusion of the matter, the final outcome may vary significantly depending on how successful the Bank is in challenging HMRC.

The Bank has also recognised a liability for interest on the amount payable to HMRC which has been included in 'Other' within 'Interest and Similar Expenses'.

10. EMOLUMENTS OF DIRECTORS

	2023 US$000	2022 US$000
Fees and other emoluments*	**1,207**	1,146
Pension contributions in respect of defined contribution schemes	**84**	106
	1,291	1,252

Total Director loans in 2023 amounted to US$8.2m (2022: US$7.8m). During the year two Directors left the Bank, whereby additional payments totalling US$196k (2022: US$nil) were made with respect to loss of office. These payments were accrued for, and are included above, in fees and other emoluments for the year ended 31 December 2022.

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	2023	2022
	US$000	US$000
Total remuneration and compensation of the highest paid Director:		
Fees and other emoluments*	**517**	463
Short-term employee benefits	**9**	9
Pension contributions in respect of defined contribution schemes	**46**	44
	572	516

* Fees and other emoluments has been updated to include bonuses paid in respect of the year ended 31 December 2022

Retirement benefits are accruing to two Directors under money purchase schemes (2022: two Directors).

11. CASH AND BALANCES AT CENTRAL BANK

	2023	2022
	US$000	US$000
Cash on hand	**723**	1,073
Balances at central bank	**549,029**	526,671
Interest receivables	**1,645**	699
Less: ECL	**(1)**	(3)
	551,396	528,440

12. DEPOSIT WITH BANKS MEASURED AT AMORTISED COST

	2023	2022
	US$000	US$000
On demand and short notice	**92,881**	66,221
Required term deposit with central bank	**4,413**	4,176
Credit institutions	**1,051,974**	757,215
Interest receivables	**7,066**	4,618
Less: ECL	**(167)**	(45)
	1,156,167	832,185

13. LOANS AND ADVANCES TO BANKS MEASURED AT AMORTISED COST

	2023	2022
	US$000	US$000
Loans and advances to banks measured at amortised cost	**102,676**	77,887
Interest receivables	**1,364**	873
Less: ECL	**(28)**	(10)
	104,012	78,750

14. LOANS AND ADVANCES TO CUSTOMERS

	2023 US$000	2022 US$000
Loans and advances to customers measured at amortised cost	**1,887,780**	1,489,359
Less: ECL	**(5,909)**	(4,598)
Loans and advances to customers at amortised cost (hedged)	**134,224**	127,437
Less: ECL	**(108)**	(13)
Fair value hedge adjustment on loans and advances to customers	**(5,406)**	(9,768)
Interest receivables	**18,056**	8,005
	2,028,637	1,610,422

During the year, the Bank did not repossess collateral from any customer (2022: nil).

15. INVESTMENT SECURITIES

	2023 US$000	2022 US$000
Investments:		
Equities measured at FVOCI	**1,772**	1,407
Equities measured at FVPL	**137**	11,361
Debt securities measured at FVOCI	**352,409**	249,601
Less: ECL	**(57)**	(29)
Interest receivables	**3,691**	2,577
	357,952	264,917

Equities measured at FVOCI represent are marketable instruments whereas equities measured at FVPL are those items whose measurement is based on a changeable conversion rate and short-term holdings typically held on a pass-through arrangement. Debt securities measured at FVOCI represent marketable securities held to maturity.

Debt securities are held on a yield-to-maturity basis, for portfolio management purposes. See Note **27** for details on valuation of investment securities.

16. INVESTMENT IN GROUP UNDERTAKING

	2023 US$000	2022 US$000
Investment in NBK France S.A.	**-**	44,000
	-	44,000

The Bank finalised the sale of its investment in NBK France SA to its parent, NBK S.A.K.P, for an agreed price of US$44m on 21 June 2023, which was the valuation as at 31 December 2022.

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17. FIXED ASSETS

On the main building the Bank has a rental arrangement as a lessor for a small portion of the property with external company and generates rental income.

	Freehold premises and improvements US$000	Furniture, fixtures and equipment US$000	Motor vehicle US$000	Computer equipment US$000	Total US$000
Cost					
Balance at 1 Jan 2023	**49,800**	**3,619**	**76**	**2,721**	**56,216**
Additions	-	42	138	268	448
Disposal	-	(137)	(73)	(107)	(317)
Reclassification	1,582	(1,582)	-	-	-
FX movement	1,766	398	(3)	152	2,313
Balance at 31 Dec 2023	**53,148**	**2,340**	**138**	**3,034**	**58,660**

	Freehold premises and improvements US$000	Furniture, fixtures and equipment US$000	Motor vehicle US$000	Computer equipment US$000	Total US$000
Accumulated depreciation					
Balance at 1 Jan 2023	**2,096**	**2,230**	**76**	**2,561**	**6,963**
Charge for the year	718	162	11	170	1,061
Disposal	-	(137)	(73)	(102)	(312)
Reclassification	337	(337)	-	-	-
FX movement	(112)	227	(5)	74	184
Balance at 31 Dec 2023	**3,039**	**2,145**	**9**	**2,703**	**7,896**
Net book value:					
At 31 December 2022	47,704	1,389	-	160	49,253
At 31 December 2023	**50,109**	**195**	**129**	**331**	**50,764**

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18. OTHER ASSETS

	2023 US$000	2022 US$000
Sundry debtors and prepayments	**1,966**	1,691
Others	**5,211**	732
	7,177	2,423

19. CUSTOMER DEPOSITS

	2023 US$000	2022 US$000
Instant access current and saving accounts	**505,656**	614,919
Notice account	**62,857**	67,420
Time deposit	**1,107,710**	906,452
Time deposit (hedged)	**284,652**	15,969
FV Hedge adjustment on customer deposits	**1,146**	(1,157)
Interest payables	**25,213**	8,048
	1,987,234	1,611,651

During the year certain time deposits, that pay a fixed rate of interest, have been hedged with interest rate swaps to eliminate their fair value movement in respect of changes to these reference rates.

20. OTHER LIABILITIES

	2023 US$000	2022 US$000
Other interest payable	**3,907**	2,436
Other creditors	**11,602**	598
Accruals and deferred income	**5,897**	11,348
Deferred tax liabilities (Note **9**)	**423**	169
Others	**2,512**	280
Provision for guarantees and letters of credit as determined by ECL (Note **28**)	**528**	288
Tax payable	**19,673**	14,517
	44,542	29,636

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21. SHARE CAPITAL

	Ordinary Share Capital	
	2023	2022
Authorised:	**No.**	No.
Number of Class "A" shares with nominal value of £1 each	40,050,000	40,050,000
Number of Class "B" shares with nominal value of 81.967p each	235,800,000	235,800,000

	2023	2022
Allotted, called up and fully paid:	**US$000**	US$000
Shares denominated in GBP	289,403	289,403

On 26 January 2022, the authorised and allotted GBP share capital was increased by £40,000,000 to £40,050,000 by the creation and issue of 40,000,000 GBP shares with a nominal value of £1 to the Bank's parent. In presentational currency this is recorded at US$53,520,000 at the foreign exchange rate for GBP in USD as translated at the date of issue.

On the 26 July 2022, the Bank further redenominated the 235,800,000 US$1 shares at the prevailing rate into 235,800,000 shares with a nominal value of GBP 81.967p which is an issue value of £193,278,186. As the USD shares had originally been recorded at issue price of £163,451,346, the difference of £29,827,342 was funded by a transfer from retained earnings during the period. In the presentational currency view this transfer from retained earnings was credited to the translation reserve. The Bank contemporaneously delivered USD$235.8m in exchange for payment £193.3m from its parent.

Furthermore, on the 26 July 2022 the issued share capital of the bank was divided into 40,050,000 Class "A" shares of £1 each and 235,800,000 Class "B" shares of 81.967p each.

There were no share transactions during 2023.

22. TRANSLATION RESERVE

A foreign currency translation reserve of US$(1,827,000) (2022: US$(28,311,000)) arises as a result of transacting using a GBP functional currency, while continuing to apply USD as the presentation currency. In 2022 there was a transfer from retained earnings of US$36,389,000 to reflect the redenomination of the USD share capital.

23. ORDINARY DIVIDENDS

The Directors proposed no dividend for the year ending 31 December 2023 (2022: US$ nil).

24. RELATED PARTY TRANSACTIONS

Related parties comprise Board members and senior officers of the Bank, their close family members and companies controlled by them or close family members, National Bank of Kuwait S.A.K.P. and its subsidiaries, and Board members of National Bank of Kuwait SAKP. Certain related parties were customers of the Bank in the ordinary course of business. Transactions with related parties in the ordinary course of business 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. Loans and advances to customers include US$16k loans to staff at a discounted rate. Such loans are available to all permanent staff on the same terms. The balances relate to gross exposures (excluding ECL).

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Balances and transactions with related parties:

	2023	2022
	US$000	US$000
Board members of the Bank and parent company		
Interest expense	**262**	80
Loans and advances to customers	**52,649**	65,743
Customer deposits	**9,792**	13,298
Interest income	**3,522**	1,931
Parent company		
Deposits with banks	**31,192**	71,319
Derivative assets	**316**	604
Other assets	**945**	1,115
Due to banks and other financial institutions	**104,897**	11,884
Derivative (liabilities)/assets	**(8)**	(720)
Other liabilities	**1,344**	-
Contingent liabilities	**60,989**	30,285
Fully owned subsidiaries of the parent company		
Other assets	**40**	1
Due to banks and other financial institutions	**4,477**	4,979
Customer deposits	**4,240**	3,935
Contingent liabilities	**-**	175
Partly owned subsidiaries of the parent company		
Due to banks and other financial institutions	**2,102**	56,170
Deposit with banks	**8**	36
Other liabilities	**-**	61
Joint ventures		
Due to banks and other financial institutions	**22,472**	13,929

Sale of investment in Group undertaking

Until 21 June 2023 the Bank held a 19.68% investment in a fellow Group company, NBK France S.A ("NBKF"), registered at 90 Avenue des Champs-Elysees, 75008 Paris, France. On 23 November 2022, the Board of NBK S.A.K.P approved the purchase of NBKF from the Bank. The purchase price for NBKF was agreed at US$44m. Following receipt of regulatory approval from Central Bank of Kuwait and Autorité de Contrôle Prudentiel et de Résolution, the sale of NBKF to NBK S.A.K.P completed on 21 June 2023. This resulted in the Bank receiving sale proceeds of €40.34m which is equivalent to US$44m. Upon disposal, the Bank crystallized cumulative losses of US$3.3m, recognised within the Statement of Comprehensive Income which has subsequently transferred into Retained Earnings.

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25. DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are financial instruments that derive their value by referring to underlying economic drivers such as interest rates, foreign exchange rates, indices of prices or rates and credit rating or credit indices. Notional principal amounts merely represent amounts to which a rate or price is applied 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 Statement of Financial Position. Positive fair value represents the cost of replacing all transactions with a fair value in the Bank's favour had the rights and obligations arising from that instrument been closed in an orderly market transaction at the reporting date.

The Bank deals in interest rate swaps to hedge its interest rate risk on interest bearing assets and liabilities. Similarly, the Bank 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 Bank's financial assets and liabilities and which qualifying as effective hedging instruments are disclosed as 'held at fair value hedges'. As at 31 December 2023, the total hedge ineffectiveness is not significant. 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 foreign currency risk exposures on 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 counterparties to exchange interest payments on a defined principal amount for a fixed period of time.

Forward foreign exchange

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

Summary of Derivative Financial Instruments

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

	2023			2022		
	Positive fair value US$000	**Negative fair value US$000**	**Notional US$000**	Positive fair value US$000	Negative fair value US$000	Notional US$000
Interest rate swaps (held as fair value hedges)	**11,669**	**2,472**	**574,876**	13,672	3,311	284,392
Forward foreign exchange contracts	**221**	**16,371**	**875,792**	1,624	14,896	661,212
	11,890	**18,843**	**1,450,668**	15,296	18,207	945,604

Net losses relating to hedged fixed income financial assets (loans and bonds) amounted to US$10,796,000 (2022: Net loss US$14,895,000). The US$10,796,000 is made up of losses of US$5,390,000 for fixed income bonds held at fair value through OCI, and negative fair value of US$5,406,000 relating to loans. In relation to the interest rate swap contracts on the loans all interest rate swap contracts exchanging fixed rate interest amounts for floating rate interest amounts are designated and effective as fair value hedges in respect of interest rates. During the year, the hedge was 100.07% effective in hedging the fair value exposure to interest rate movements and as a result the carrying amount of the loan was adjusted by US$4.36 million which was included in profit or loss at the same time that US$4.2 million loss on the interest rate swap.

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Net losses relating to hedged fixed income financial liabilities, deposits, amounted to US$ 1,146,000 (2022: Net gain: US$ 1,157,000). In relation to the interest rate swap contracts on the deposits all interest rate swap contracts exchanging fixed rate interest amounts for floating rate interest amounts are designated and effective as fair value hedges in respect of interest rates. During the year, the hedge was 99.98% effective in hedging the fair value exposure to interest rate movements and as a result the carrying amount of the deposit was adjusted by US$2,303,000 which was included in profit or loss at the same time that US$2,252,000 gain on the interest rate swap.

At 31 December 2023, the notional values of the interest rate swaps and weighted average maturities laid out by type, clearing mechanism, index and currency are as follows:

Hedging Instrument	**Type**	**Clearing**	**INDEX**	**Ccy**	**Total Nominal US$000**	**Average Remaining Maturity (yrs)**
Interest rate swap	Payer	Bilateral	SOFR	USD	51,000	1.6
Interest rate swap	Payer	Central	SOFR	USD	105,000	3.7
Interest rate swap	Receiver	Bilateral	SONIA O/N	GBP	82,401	0.4
Interest rate swap	Receiver	Central	SOFR	USD	150,000	0.9
Interest rate swap	Receiver	Central	SONIA O/N	GBP	186,475	2.1

26. COMMITMENTS AND CONTINGENT LIABILITIES

Set out below are the notional principal amounts of off-balance sheet transactions. The notional principal amounts indicate the volume of business outstanding at the balance sheet date and do not represent amounts at risk. These credit commitments do not necessarily represent future cash requirements since many of these commitments may expire or terminate without being funded.

	2023 US$000	2022 US$000
Contingent liabilities:		
Acceptances and Endorsements	-	915
Financial guarantees	182,529	139,404
Irrevocable letters of credit	1,255	3,713
At 31 December	**183,784**	**144,032**
ECL on guarantees and letter of credit	(528)	(288)
Net Exposure at 31 December	**183,256**	**143,744**

	2023 US$000	2022 US$000
Commitments:		
Undrawn, formal standby facilities, credit lines and other commitments to lend	**96,671**	138,584
	96,671	138,584

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27. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of financial assets and financial liabilities that are classified as Level 1 are based on quoted market prices or dealer price quotations. For all other financial instruments, the Bank determines fair values using valuation techniques.

The Bank 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 markets that are considered less than active or other valuation techniques in which all significant inputs are observable from market data.

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 and recent transaction information exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads, and other premium used in estimating discount rates 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.

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

2023	**Level 1 US$000**	**Level 2 US$000**	**Level 3 US$000**	**Total US$000**
Equities at FVOCI	-	1,772	-	1,772
Equities at FVPL	-	-	137	137
Debt securities at FVOCI	352,409	-	-	352,409
Less: ECL (debt securities)	(57)	-	-	(57)
Interest receivable	3,691			3,691
	356,043	**1,772**	**137**	**357,952**
Derivative financial instruments (Note **25**)	-	(6,953)	-	(6,953)

2022	Level 1 US$000	Level 2 US$000	Level 3 US$000	Total US$000
Equities at FVOCI	-	1,407	-	1,407
Equities at FVPL	-	-	11,361	11,361
Investment in Group Undertaking at FVOCI*	-	-	44,000	44,000
Debt securities at FVOCI	249,601	-	-	249,601
Less: ECL (debt securities)	(29)	-	-	(29)
	249,572	1,407	55,361	306,340
Derivative financial instruments (Note **25**)	-	(2,911)	-	(2,911)

* Investment in Group Undertaking for the year ending 31 December 2022 has been recategorised from level 2 to level 3.

The valuation was based on an agreed sale price and the investment was sold for this amount in June 2023.

The fair values of these securities are estimated using market quotations, as these instruments are classified as Level 1. Derivatives are valued using valuation techniques which include forward pricing and swap models using present value calculations. The models incorporate various inputs such as foreign exchange spot and forward rates and interest yield curves. The impact of non-performance risk is not considered in the valuation as it is not significant.

Interest receivable of US$2,577k on debt securities for 2022 is not included in this disclosure.

The table below analyses the movement in Level 3 and any realised gain generated during the year.

	At 1 January 2023 US$000	Additions US$000	Change in fair value US$000	Sale / transfer US$000	At 31 December 2023 US$000	Net gains in the statement of income US$000
Equities at FVPL	11,361	4,400	26	(15,650)	137	26
Investment in Group Undertaking at FVOCI	44,000	-	-	(44,000)	-	-
	55,361	**4,400**	**26**	**(59,650)**	**137**	**26**

	At 1 January 2022 US$000	Additions US$000	Change in fair value US$000	Sale / transfer US$000	At 31 December 2022 US$000	Net gains in the statement of income US$000
Equities at FVPL	42,124	122,150	(141)	(152,772)	11,361	315
Investment in Group undertaking at FVOCI*	45,792	-	(1,792)	-	44,000	-
	87,916	122,150	(1,933)	(152,772)	55,361	315

* Investment in Group Undertaking for the year ending 31 December 2022 has been recategorised from level 2 to level 3 and included in the table above.

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Equity securities included in this category for year ended 31 December 2023 and 2022 consist of unquoted investments issued by financial institutions. The net gains are recorded in investment income. The range of change in valuation by changing one or more unobservable inputs would be negative US$137,000 to positive US$411,000 (2022: negative US$111,000 to positive US$334,000).

Fair Value of Financial Assets and Liabilities Carried at Amortised Cost

The fair value of loans and advances to banks and customers issued by the Bank are laid out below. This has been determined by discounting their expected cash flows using comparable market observable inputs for similar credits.

	2023	2023
	Fair Value	Carry Value
	US$000	US$000
Loans & advances to banks	104,655	104,012
Loans and advances to customers measured at amortised cost	2,079,846	2,028,637

The carrying values of loans and advances to banks and customers for the year ended 31 December 2022 issued by the Bank are not materially different from their fair values.

The carrying values of the other financial assets carried at amortised cost are not materially different from their fair values as most of these assets have short-term maturities or are re-priced immediately based on market movement in interest rates.

The Bank's financial liabilities are mostly short term in nature or have interest rates that reprice frequently so their carrying value approximated their fair value. Financial liabilities of longer maturity with fixed rates are hedged for changes in interest rates and by adjusting the carrying value for the effective hedge results the Bank achieves a good proxy for fair value as this reflects change in value due to the variability of interest rates.

28. RISK MANAGEMENT

Risk is inherent in the Bank's activities but is managed in a structured, systematic manner through policies and processes that embed risk management into business operations. Risk management direction and oversight are provided by the Board of Directors, with the support of the Board Audit Committee and Board Risk Committee. The Bank's risk management and internal audit functions assist executive management in controlling and actively managing the Bank's overall risk profile.

The Bank is primarily exposed to credit risk, liquidity risk, operational risk and market risk. For non-financial risk the Bank's main exposure is on climate change risk and operational resilience.

In accordance with sound management and with regulatory requirements, the Bank has implemented processes for the measurement and management of risk commensurate with the Bank's size and business model.

Financial transactions and outstanding exposures are quantified and compared against authorised risk limits, whereas non-financial risks are monitored against policy guidelines and key risk and control indicators. Any discrepancies, excesses or deviation are escalated to management for appropriate action. Any breach of a risk tolerance that is defined in the NBKI Risk Appetite Statement is reported to Board. The Bank uses interest rate swaps, forward foreign exchange contracts and other instruments to manage the financial risks resulting from changes in interest rates and foreign exchange rates. The Bank's risk management framework has specific guidelines that focus on maintaining a diversified portfolio to avoid excessive concentration risks.

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28.1 CREDIT RISK

Credit risk is the risk of suffering loss because scheduled payments associated with a debt, or with a collection of debts, are not received in full and on time in line with agreed contractual obligations. Credit risk arises mainly from interbank placements, commercial and consumer loans and advances, and loan commitments arising from such lending activities.

The Bank is exposed to other credit risks arising from investments in debt securities and other exposures arising from its treasury activities including non-equity assets and derivatives as well as settlement balances with market counterparties and reverse repurchase agreements. Credit risk is the single largest risk for the Bank's business. All policies relating to credit risk are reviewed by the Board of Directors. The Board Risk Committee and the Board oversees credit risk on a quarterly basis. Credit limits are established for all customers after a careful assessment of their creditworthiness. Procedures outlined in the Bank's credit policies require that all credit proposals be subjected to detailed screening by the Credit Risk Department before submission to the Credit Approval committee ("CAC"). Whenever necessary, loans are secured by acceptable forms of collateral to mitigate the related credit risks.

The Bank has an internal Credit Risk Committee ("CRC") that monitors credit exposure at a portfolio level, where CRC may take early preventative actions including further tightening of acceptable credit standards. CRC is informed by a dedicated Provisions Committee that reviews and approves the Bank's provisions for credit losses, both collective and on individually impaired facilities, in line with accounting treatments. CRC and Provisions Committee meet regularly throughout the year. The Bank further limits credit risk through diversification of its assets by geography and industry sector. In addition, all credit facilities are continually monitored, and credit performance and ratings periodically reviewed.

28.1. 1 CREDIT RISK MEASUREMENT

The estimation of credit exposure for risk management purposes is complex and includes the use of analytic models as the credit risk will change with market conditions, expected cash flows, correlations between counterparties, and with the passage of time. The Bank measures credit risk by estimating for each exposure the (one-year) Probability of Default ("PD"), Exposure at Default ("EAD") and Loss Given Default ("LGD"). These are also inputs for the estimation and modelling of ECL under IFRS 9. See Note **28.1.2** for more details.

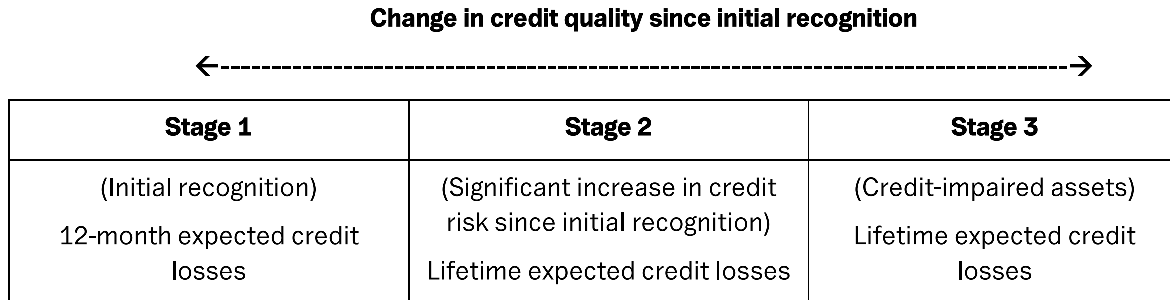
Credit risk grading

The Bank uses internal credit risk grades (Master Rating Scale or MRS) that reflect its assessment of the probability of default of individual counterparties. For performing loans, the MRS has 12 grades (with the highest quality starting at MRS 1, descending to MRS 12 which is just above non-performing), each of which is divided into three notches (-, flat, +). There are a further four MRS grades to stratify problem and non-performing loans. The Bank uses calibrated rating models tailored to the various categories of counterparty. Borrower and loan specific information collected at the time of application (such as disposable income, and level of collateral for retail exposures; and turnover and industry type for wholesale exposures) is fed into these models. This is supplemented with external data such as credit bureau scoring information on individual borrowers. In addition, the models enable expert judgement from the credit risk officer to be fed into the final internal credit rating for each exposure. This allows for considerations which may not be captured as part of the other data inputs into the model.

28.1. 2 ECL MEASUREMENT

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarised below:

The following diagram summarises the impairment requirements under IFRS 9 (other than purchased or originated credit-impaired financial assets):



Change in credit quality since initial recognition

←---→

Stage 1	**Stage 2**	**Stage 3**
(Initial recognition) 12-month expected credit losses	(Significant increase in credit risk since initial recognition) Lifetime expected credit losses	(Credit-impaired assets) Lifetime expected credit losses

A financial instrument that is not credit-impaired on initial recognition is classified in "Stage 1" and has its credit risk continuously monitored by the Bank.

- If there is a significant increase in credit risk ("SICR") since the initial recognition identified, the financial instrument is moved to "Stage 2" but is not yet deemed to be credit impaired. Please refer to Note **28.1.2.1** for a description of how the Bank determines when a significant increase in credit risk has occurred.
- If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'. Please refer to Note **28.1.2.2** for a description of how the Bank defines credit-impaired and default.
- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stage 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis. Please refer to Note **28.1.2.3** for a description of inputs, assumptions and estimation techniques used in measuring the ECL.
- A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward-looking information. Note **28.1.2.4** includes an explanation of how the Bank has incorporated this in its ECL models.
- Purchased or originated credit-impaired financial assets are those financial assets that are credit-impaired on initial recognition. Their ECL is always measured on a lifetime basis.

The key judgements and assumptions adopted by the Bank in addressing the requirements of the standard are discussed below:

28.1.2.1 Significant increase in credit risk ("SICR")

The Bank considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following quantitative or qualitative criteria have been met:

Quantitative criteria:

a) <u>SICR – internally-rated portfolio</u>

To determine if the risk of default of a financial instrument has increased significantly since initial recognition, the current risk of default at the reporting date is compared with the risk of default at initial recognition at each reporting date.

For exposures that have internal ratings, the following criteria are used for determining SICR:

- An instrument that is originated with a grade up to MRS 4 flat (Investment Grade) and which moves to MRS 5 flat or worse would be demoted to Stage 2
- An instrument that is originated with a grade from MRS 4- to MRS 9- which incurs a downward movement of three notches or worse would be demoted to Stage 2
- An instrument that is originated with a grade worse than MRS 10+ which incurs a downward movement of 1 notch or worse would be demoted to Stage 2

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b) <u>SICR – externally-rated portfolio</u>

For exposures with external ratings, the external rating is mapped to an internal MRS rating and the staging rules in the previous section apply. If there are multiple external ratings available for a given instrument, the Median logic as per the Basel guidelines is used to derive a single representative external rating for that instrument.

c) <u>SICR – DPD</u>

Superseding the SICR criteria for the above, any facility of the Bank would be tagged as Stage 2 in case the delinquency measure of the same is 30 days past due (“DPD”) or more but less than 90 DPD.

IFRS 9 presumes 30 DPD criterion for Stage 2 classification. This criterion is applied as a backstop for the Bank and overrides other strategy criteria.

Qualitative criteria:

a) Use of early warning indicators for SICR

Apart from the above-mentioned staging criteria based upon rating grades and DPD buckets, the following qualitative criteria are evaluated by rating systems which generate credit scores mapped to MRS, thereby amend probability of default. Early warning signal (EWS) signals are broken into two parts:

Financial warning signals:

- Decrease in Revenue/Sales
- Decrease in net profit
- Increase in Accounts Receivables Days on hand
- Increase in Inventory Days on hand
- Decrease in Financial Payments Coverage Ratio using EBITDA
- Increase in balances due from/due to related parties
- Decrease in Cash Flow from operating activities

Non-financial warning signals:

- Late interest payments
- Delay in providing financial statements or other data
- Existence of administrative problems in the company
- Breaches to covenants
- Covenants amendment request
- Restructuring due to financial difficulties
- Holiday payments

These are reviewed annually.

b) Management of stage override mechanism

Any requests for overrides, as an exception to the staging policy are formally communicated to the relevant approving authority (Provision Committee). The final stage allocations would be determined by this authority.

Additionally, for Stage 2 downgrade confirmations, the Provisions Committee may exercise the authority to override these, for example (i) in cases of covenant waivers approved by appropriate committee (ii) for instances whereby the client continues to service debt on a regular basis and the overall credit profile, including rating, has not deteriorated. The rationale for this is that a breach of covenants may not necessarily indicate an increase in default risk (override applies on case by case only).

28.1.2.2 Definition of default and credit-impaired assets

The Bank defines a financial instrument as in default, which is fully aligned with the definition of credit-impaired, when it meets one or more of the following criteria:

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Quantitative criteria:

The default definition used is consistent with the one used for regulatory purposes and is defined as 90 days DPD for any facility or tagging the facility as "impaired" for internal credit management purposes. Any facility that would be tagged as default under this definition as of the reporting date would be tagged in the Stage 3 population.

The above criterion of 90 days is fixed for corporate and retail portfolios, whereas for investments the definition of default shall be considered if the coupon or principal payment is past due for one day.

Qualitative criteria:

Any credit-impaired facility or stressed facility that has been restructured would also be tagged as default. This is in line with the definition of credit-impaired asset in the IFRS 9 standard. The borrower meets unlikeliness to pay criteria, which indicates the borrower is in significant financial difficulty. These are instances where:

- The borrower is in long-term forbearance
- The borrower is deceased
- The borrower is insolvent
- The borrower is in breach of financial covenant(s)
- An active market for that financial asset has disappeared because of financial difficulties
- Concessions have been made by the lender relating to the borrower's financial difficulty
- It is becoming probable that the borrower will enter bankruptcy
- Financial assets are purchased or originated at a deep discount that reflects the incurred credit losses.

The criteria above have been applied to all financial instruments held by the Bank and are consistent with the definition of default used for internal credit risk management purposes. The default definition has been applied consistently to model the Probability of Default ("PD"), Exposure at Default ("EAD2) and Loss Given Default ("LGD") throughout the Bank's expected loss calculations.

The restructured facilities would be required to complete the moratorium period (if any) and meet the scheduled payments (all on current basis) for at least one year, or as determined by the Bank for consideration for tagging the facility in Stage 1/Stage 2.

28.1.2.3 Measuring ECL – explanation of inputs, assumptions and estimation techniques

The measurement of the ECL carried out using two models. The main model for Stage 1 and Stage 2 exposures is the more complex model and combines customer ratings and loss assumptions derived from other models with expectations about future economic conditions and credit behaviour (e.g., the likelihood of customers defaulting and the resulting losses). The second model was implemented during 2023 with the specific aim of supporting individual ECL assessments for Stage 3 exposures. Within the Stage 1 / 2 ECL model, The ECL is measured on either a 12-month ("12M") or lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. Expected credit losses are the discounted product of the PD, EAD and LGD, defined as follows:

- The PD represents the likelihood of a borrower defaulting on its financial obligation (as per "Definition of default and credit-impaired" above), either over the next 12 months ("12M PD") or over the remaining lifetime ("Lifetime PD") of the obligation.
- EAD is based on the amounts the Bank expects to be owed at the time of default, over the next 12 months ("12M EAD") or over the remaining lifetime ("Lifetime EAD"). For example, for a revolving commitment, the Bank calculates the default balance as the maximum of the exposure or the exposure plus the difference in limit and exposure multiplied by Credit Conversion Factor.
- LGD represents the Bank's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD). LGD is calculated on a 12-month or lifetime basis where 12-month LGD is the percentage of loss expected to be made if the default occurs in the next 12 months and Lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

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The ECL is determined by projecting the PD, LGD and EAD for each future month and for each individual exposure. This effectively calculates an ECL for each future month, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

The Lifetime PD is developed by applying a maturity profile to the current 12M PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the loans. The maturity profile is based on historical observed data (for which internally rated exposures have been split into and analysed in respect of CRE, Corporate and High Net Worth) and is assumed to be the same across all assets within such portfolio and credit grade band.

The 12-month and lifetime EADs are determined based on the expected payment profile which varies by product type.

- For amortising products and bullet repayment loans, this is based on the contractual repayments owed by the borrower over a 12-month or lifetime basis. Early repayment/refinance assumptions are also incorporated into the calculation.
- For revolving products, the exposure at default is predicted by taking the current drawn balance and adding a “credit conversion factor” which allows for the expected drawdown of the remaining limit by the time of default. These assumptions vary by product type and current limit utilisation band based on analysis of the Bank’s recent default data.

The 12-month and lifetime LGDs are determined based on the factors which impact the recoveries made post default. These vary by product type:

- For secured products, this is primarily based on collateral type (secured on either real estate or other e.g., cash) and projected collateral values, historical discounts to market/book values due to forced sales, time to repossession and recovery costs observed.
- For unsecured products, LGDs are typically set at product level due to the limited differentiation in recoveries achieved across different borrowers. These LGDs are influenced by collection strategies including contracted debt sales and price.

Forward looking economic information is also included in determining the 12-month and lifetime PD, EAD and LGD. These assumptions vary by product type. See Note **28.1.2.4** for explanation of forward-looking information and its inclusion in ECL calculations.

The Stage 3 model has a simpler architecture compared with the Stage 1 / 2 model and operates on the principle of generating discounted cash inflows for a number of recovery and time-to-recovery scenarios which are agreed in consultation between the business head and risk, evidenced and formally approved by Provisions Committee.

28.1.2.4 Forward-looking information incorporated in the ECL models

The assessment of SICR and the calculation of ECL both incorporated forward looking information. The Bank has worked with its ECL platform supplier to identify the key economic variables impacting credit risk and expected credit losses for each portfolio. These include UK unemployment and UK current account balances as percentage of GDP for exposures linked to the UK economy and Kuwaiti inflation and current account balances as a percentage of GDP for exposures linked to the GCC area.

Forward looking macroeconomic information up to five years is sourced from the IMF and incorporated by NBKI in the ECL process. Macroeconomic factors operate based on the country or area of risk of the obligor.

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Currently, the Bank is using five scenarios; base line scenario, upside, downside, better upside and worse downside. The table below shows the ECL provision that would apply with a 100% weighting to each scenario:

Scenario	**ECL**
	US$m
Downside2	13.8
Downside1	8.30
Base Line	5.92
Upside1	5.51
Upside2	5.18

28.1.3 Loss allowance

The loss allowance recognised in the period is impacted by a variety of factors, as described below:

- Transfers between Stage 1 and Stages 2 or 3 due to financial instruments experiencing significant increase (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent "step up" (or "step down") between 12-month and Lifetime ECL;
- Additional allowances for new financial instruments recognised during the period as well as releases for financial instruments de-recognised in the period;
- Impact on the measurement of ECL due to changes in PDs, EADs and LGDs in the period, arising from regular refreshing of inputs to models;
- Impact on the measurement of ECL due to changes made to models and assumptions;
- Discounts unwind within ECL due to passage of time, as ECL is measured on a present value basis;
- Foreign exchange retranslations for assets denominated in foreign currencies and other movements, and
- Financial assets de-recognised during the period and write-offs of allowances related to assets that were written off during the period.

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The following tables explain the changes in the loss allowance between the beginning and the end of the annual period impacted by these factors:

On Balance Sheet	Stage 1	Stage 2	Stage 3	TOTAL
	US$000	US$000	US$000	US$000
Debt securities measured at FVOCI (Note **15**)				
At 1 January 2023	**29**	**-**	**-**	**29**
Origination and acquisition	28	-	-	28
Derecognition, repayments and disposals	(5)	-	-	(5)
Changes due to change in credit risk (net)	5	-	-	5
At 31 December 2023	**57**	**-**	**-**	**57**
Credit institutions (Note **11**, **12** & **13**)				
At 1 January 2023	**58**	**-**	**-**	**58**
Origination and acquisition	244	-	-	244
Derecognition, repayments and disposals	(113)	-	-	(113)
Changes due to change in credit risk (net)	7	-	-	7
At 31 December 2023	**196**	-	-	**196**
Loans and advances to customers (Note **14**)				
At 1 January 2023	**1,310**	**798**	**2,503**	**4,611**
Origination and acquisition	1,039	3	-	1,042
Derecognition, repayments and disposals	(692)	(3)	(819)	(1,514)
Transfer from Stage 1 to 2	(523)	523	-	-
Transfer from Stage 2 to 1	376	(376)	-	-
Transfer from Stage 2 to 3	-	(1)	1	-
Changes due to change in credit risk (net)	349	(305)	1,822	1,866
Changes due to methodology	12	-	-	12
At 31 December 2023	**1,871**	**639**	**3,507**	**6,017**
Total On Balance Sheet	**2,124**	**639**	**3,507**	**6,270**

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Off Balance Sheet	Stage 1	Stage 2	Stage 3	TOTAL
	US$000	US$000	US$000	US$000
Commitments and contingent liabilities				
(Note **20** & **26**)				
At 1 January 2023	**288**	**-**	**-**	**288**
Origination and acquisition	10	-	-	10
Derecognition, repayments and disposals	(2)	-	-	(2)
Transfer from Stage 2 to 1	4	(4)	-	-
Changes due to change in credit risk (net)	228	4	-	232
At 31 December 2023	**528**	**-**	**-**	**528**
Grand Total	**2,652**	**639**	**3,507**	**6,798**

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On Balance Sheet	Stage 1 US$000	Stage 2 US$000	Stage 3 US$000	TOTAL US$000
Debt securities measured at FVOCI (Note **15**)				
At 1 January 2022	37	-	-	37
Origination and acquisition	11	-	-	11
Derecognition, repayments and disposals	-	-	-	-
Changes due to change in credit risk (net)	166	-	-	166
Changes due to change in methodology	(185)	-	-	(185)
At 31 December 2022	29	-	-	29
Credit institutions (Note **11,12** & **13**)				
At 1 January 2022	239	-	-	239
Origination and acquisition	16	-	-	16
Derecognition, repayments and disposals	(56)	-	-	(56)
Changes due to change in credit risk (net)	448	-	-	448
Changes due to change in methodology	(589)	-	-	(589)
At 31 December 2022	58	-	-	58
Loans and advances to customers (Note **14**)				
At 1 January 2022	1,473	1,461	2,244	5,178
Origination and acquisition	441	-	-	441
Derecognition, repayments and disposals	(441)	(28)	(23)	(492)
Transfer from Stage 1 to 2	(173)	173	-	-
Transfer from Stage 2 to 1	236	(236)	-	-
Transfer from Stage 1 to 3	(19)	-	19	-
Transfer from Stage 2 to 3	-	(239)	239	-
Transfer from Stage 3 to 2	-	23	(23)	-
Changes due to change in credit risk (net)	956	(369)	756	1,343
Changes due to methodology	(1,163)	13	(709)	(1,859)
At 31 December 2022	1,310	798	2,503	4,611
Total On Balance Sheet	1,397	798	2,503	4,698

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Off Balance Sheet	**Stage 1 US$000**	**Stage 2 US$000**	**Stage 3 US$000**	**TOTAL US$000**
Commitments and contingent liabilities (Note **20** & **26**)				
At 1 January 2022	96	-	-	96
Origination and acquisition	281	-	-	281
Derecognition, repayments and disposals	(91)	-	-	(91)
Changes due to change in credit risk (net)	(71)	-	-	(71)
Changes due to methodology	73	-	-	73
At 31 December 2022	288	-	-	288
Grand Total	1,685	798	2,503	4,986

The net increase of US$1,812,000 (2022: reduction US$564,000) includes a foreign exchange gain of US$23,000 (2022: US$101,000 gain), which is accounted for through the Income Statement.

28.1.4 MAXIMUM EXPOSURE TO CREDIT RISK

The following table contains an analysis of the credit risk exposure of financial instruments for which an ECL allowance is recognised. The gross carrying amount of financial assets below also represents the Bank's maximum exposure to credit risk on these assets.

Financial assets by instrument and by counterparty sector: financial assets at FVOCI

2023	**Carrying amount* (US$000)**	**Gross carrying amount (US$000)**			**Accumulated impairment (US$000)**		
		Stage 1	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**
		All risks	**SICR**	**Credit-impaired**			
General government	140,796	140,811	-	-	(15)	-	-
Financial corporations	211,556	211,598	-	-	(42)	-	-
Financial assets at FVOCI (Note 15)	**352,352**	**352,409**	**-**	**-**	**(57)**	**-**	**-**

* Carrying amounts are presented without accrued interest

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Financial assets by instrument and by counterparty sector: financial assets at amortised cost

2022	Carrying amount* (US$000)	Gross carrying amount (US$000)			Accumulated impairment (US$000)		
		Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
		All risks	SICR	Credit-impaired			
General government	143,027	143,038	-	-	(11)	-	-
Financial corporations	106,545	106,563	-	-	(18)	-	-
Financial assets at FVOCI (Note 15)	249,572	249,601	-	-	(29)	-	-

2023	Carrying amount* (US$000)	Gross carrying amount (US$000)			Accumulated impairment (US$000)		
		Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
		All risks	SICR	Credit-impaired			
Cash and balances at Central Bank (Note **11**)	549,751	549,752	-	-	(1)	-	-
On demand and short notice (Note **12**)	92,881	92,881	-	-	-	-	-
Credit institutions (Note **12** & **13**)	1,158,868	1,157,767	1,296	-	(195)	-	-
Loans and advances – including hedged loans (Note **14**)	2,010,581	1,775,545	223,370	17,683	(1,871)	(639)	(3,507)
Financial assets at amortised cost	**3,812,081**	**3,575,945**	**224,666**	**17,683**	**(2,067)**	**(639)**	**(3,507)**

*Carrying amounts are presented without accrued interest

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Information on how the ECL is measured and how the three stages above are determined is included in Note **28.1.2** 'ECL measurement'.

2022	Carrying amount* (US$000)	Gross carrying amount (US$000)			Accumulated impairment (US$000)		
		Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
		All risks	SICR	Credit-impaired			
Cash and balances at Central Bank (Note **11**)	527,741	527,744	-	-	(3)	-	-
On demand and short notice (Note **12**)	66,219	66,221	-	-	(2)	-	-
Credit institutions (Note **12** & **13**)	839,222	839,275	-	-	(53)	-	-
Loans and advances – including hedged loans (Note **14**)	1,602,418	1,310,456	199,829	96,744	(1,310)	(798)	(2,503)
Financial assets at amortised cost	3,035,600	2,743,696	199,829	96,744	(1,368)	(798)	(2,503)

* Carrying amounts are presented without accrued interest

Information on how the ECL is measured and how the three stages above are determined is included in note **28.1.2** 'ECL measurement'.

Financial assets subject to impairment that are past due

2023	Carrying amount*									
	Stage 1 Assets with no SICR (US$000)				Stage 2 Assets with SICR but not impaired (US$000)			Stage 3 Credit-impaired assets (US$000)		
DAYS	Not past due	≤ 30	>30 ≤ 90	>90	≤ 30	>30 ≤ 90	>90	≤ 30	>30≤ 90	>90
FVOCI Debt securities (Note **15**)	352,352	-	-	-	-	-	-	-	-	-
Cash and balances at Central Bank (Note **11**)	549,751	-	-	-	-	-	-	-	-	-
On demand and short notice (Note **12**)	92,881	-	-	-	-	-	-	-	-	-
Credit institutions	1,157,572	-	-	-	1,296	-	-	-	-	-
Loans and advances	1,721,739	51,935			222,731			14,176	-	-
TOTAL	**3,874,295**	**51,935**	**-**	**-**	**224,027**	**-**	**-**	**14,176**	**-**	**-**

The balances in ≤30 days within Stage 2 includes balances with no past due of US$181,714 and within Stage 3 includes balances with no past due of US$13,985.

2022	Carrying amount*									
	Stage 1 Assets with no SICR (US$000)				Stage 2 Assets with SICR but not impaired (US$000)			Stage 3 Credit-impaired assets (US$000)		
DAYS	Not past due	≤ 30	>30≤ 90	>90	≤ 30	>30≤ 90	>90	≤ 30	>30≤ 90	>90
FVOCI Debt securities	249,572	-	-	-		-	-	-	-	-
Cash and balances at Central Bank	527,741	-	-	-		-	-	-	-	-
On demand and short notice	66,219	-	-	-		-	-	-	-	-
Credit institutions	839,222	-	-	-		-	-	-	-	-
Loans and advances	1,249,534	19,153	-	-	239,30	185	-	94,24	-	-
TOTAL	2,932,288	19,153	-	-	239,30	185	-	94,24	-	**-**

* Carrying amounts are presented without accrued interest

The balances in ≤30 days within Stage 2 includes balances with no past due of US$262,891 and within Stage 3 includes balances with no past due of US$12,105.

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The following disclosures highlight the diversity of exposures.

An analysis of financial assets and contingent liabilities before and after taking account of collateral held or other credit enhancements, is as follows:

	2023		2022	
	Carrying amount US$000	**Net exposure US$000**	Carrying amount US$000	Net exposure US$000
Deposit with banks	1,156,167	1,156,167	827,564	827,564
Loans and advances to banks	104,012	102,649	77,877	77,877
Loans and advances to customers	2,028,637	228,801	1,602,418	151,178
Other assets	24,501	24,501	19,197	19,197
Contingent liabilities	279,927	278,974	282,328	282,280

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 collateral are performed independently of the business units.

28.1.5 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 Bank's assets to any single counterparty. This risk is managed by diversification of the portfolio. The Bank's internal limit is 22.5% of capital to any single obligor group. The ten largest loans and advances to customers outstanding as a percentage of gross loans and advances to customers as at 31 December 2023 is 36% (2022: 43%).

The Bank'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:

2023 **Geographic region***	**MENA** **US$000**	**North America** **US$000**	**Europe** **US$000**	**Asia** **US$000**	**Others** **US$000**	**Total** **US$000**
Cash and balances at Central Bank	-	-	549,751	-	-	549,751
Deposits with banks	280,984	73,595	534,570	120,456	139,496	1,149,101
Loans and advances to banks	-	-	102,648	-	-	102,648
Loans and advances to customers	282,241	223,029	1,486,240	-	19,071	2,010,581
Investments securities	-	-	329,261	-	25,000	354,261
Derivatives assets	-	-	9,934	-	-	9,934
Other assets	122	-	5,536	-	-	5,536
	563,347	**296,624**	**3,017,940**	**120,456**	**183,567**	**4,181,934**
Commitments and contingent liabilities (Note **26**)	70,788	-	209,139	-	-	279,927
Total	**634,135**	**296,624**	**3,227,079**	**120,456**	**183,567**	**4,461,861**

2022 **Geographic region***	**MENA** **US$000**	**North America** **US$000**	**Europe** **US$000**	**Asia** **US$000**	**Others** **US$000**	**Total** **US$000**
Cash and balances at Central Bank	-	-	526,668	-	-	526,668
Deposits with banks	341,983	19,414	397,108	35,440	33,619	827,564
Loans and advances to banks	-	-	77,877	-	-	77,877
Loans and advances to customers	283,475	10,214	1,109,927	-	198,802	1,602,418
Investments available-for-sale	87,368	54,107	108,097	-	-	249,572
Investment in group entity	-	-	44,000	-	-	44,000
Derivatives assets	3,419	-	11,877	-	-	15,296
Other assets	125	-	17,380	-	-	17,505
	716,370	83,735	2,292,934	35,440	232,421	3,360,900
Commitments and contingent liabilities (Note **26**)	46,207	-	236,103	-	18	282,328
Total	762,577	83,735	2,529,037	35,440	232,439	3,643,228

* Carrying amounts are presented without accrued interest

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The Bank'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:

Industry sector*	2023 US$000	2022 US$000
Manufacturing	127,076	90,511
Banks and other financial institutions	2,047,906	1,623,558
Construction	144,092	139,307
Real estate	1,603,871	1,406,144
Retail	99,497	23,450
Government	142,883	143,038
Others	296,536	217,220
Total	**4,461,861**	3,643,228

* Carrying amounts are presented without accrued interest

28.1.6 Write-off policy

The Bank writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include (i) ceasing enforcement activity, and (ii) where the Bank's recovery method is foreclosing on collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full.

The Bank may write off financial assets that are still subject to enforcement activity. The outstanding contractual amounts of such assets written off during the year 31 December 2023 was US$ nil (2022: US$ nil).

The ECL on loans in Stage 3 are estimated on an individual basis and all relevant considerations that have a bearing on the expected future cash flows across a range of economic scenarios are taken into account. These considerations can be particularly subjective and can include the realisable value of the collateral, as well as the likely cost and duration of the work out process. In particular, changes in collateral estimates would result in a change in the impairment allowance and have a direct impact on the overall impairment charge. Overall a 10% increase in collateral would reduce Stage 3 ECL by US$936,000 and a 10% decrease in collateral would increase Stage 3 ECL by US$1,012,000.

28.2 LIQUIDITY RISK

Liquidity risk is the risk that the Bank will be unable to meet its financial liabilities when they fall due. To limit this risk, management has arranged diversified funding sources and manages its assets with liquidity risk in mind. The Bank ensures that it has sufficient liquidity even in stress scenarios, and liquidity adequacy is monitored daily. The funding is diversified between wholesale and retail funding. The Bank's Treasury manages the daily liquidity and cash flows in accordance with best market practice as set out in its ILAAP. The Treasury relies on diversified wholesale funding from the local and international markets and is active in those markets with limited reliance on Group funding. The Bank has a mixture of direct and broker-introduced relationships. The table below summarises the maturity profile of Bank's assets, liabilities and equity based on contractual cash flows and maturity dates. This does not necessarily take account of the effective maturities.

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2023 Assets	Up to 3 months US$000	3 to 12 months US$000	Over 1 year US$000	Total US$000
Cash and balances at Central Bank	551,396	-	-	551,396
Deposits with banks	869,384	286,783	-	1,156,167
Loans and advances to banks	1,335	-	102,677	104,012
Loans and advances to customers	174,467	196,874	1,657,296	2,028,637
Investment securities	161,762	23,766	172,424	357,952
Fixed assets	-	-	50,764	50,764
Derivatives assets	11,890	-	-	11,890
Other assets	7,177	-	-	7,177
Total	1,777,411	507,423	1,983,161	4,267,995

Liabilities and equity	Up to 3 months US$000	3 to 12 months US$000	Over 1 year US$000	Total US$000
Due to banks and other financial institutions	759,836	474,315	104,231	1,338,382
Customer deposits	1,578,567	320,326	88,341	1,987,234
Certificates of deposit issued	23,634	321,631	-	345,265
Derivative liabilities	18,843	-	-	18,843
Other liabilities	44,542	-	-	44,542
Share capital and reserves	-	-	533,729	533,729
Total	2,425,422	1,116,272	726,301	4,267,995

2022 Assets	Up to 3 months US$000	3 to 12 months US$000	Over 1 year US$000	Total US$000
Cash and balances at Central Bank	527,741	-	-	527,741
Deposits with banks	783,388	44,176	-	827,564
Loans and advances to banks	-	-	77,877	77,877
Loans and advances to customers	103,345	190,363	1,308,710	1,602,418
Investment securities	155,793	-	106,547	262,340
Investment in group entity	-	44,000		44,000
Fixed assets	-	-	49,253	49,253
Derivative assets	15,296	-	-	15,296
Other assets	19,197	-	-	19,197
Total	1,604,760	278,539	1,542,387	3,425,686

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Liabilities and equity	Up to 3 months US$000	3 to 12 months US$000	Over 1 year US$000	Total US$000
Due to banks and other financial institutions	658,656	403,022	10,000	1,071,678
Customer deposits	1,359,222	223,471	20,910	1,603,603
Certificate of deposits issued	96,244	116,123	-	212,367
Derivative liabilities	18,207		-	18,207
Other liabilities	46,008	-	-	46,008
Share capital and reserves	-	-	473,823	473,823
Total	2,178,337	742,616	504,733	3,425,686

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

The Bank is exposed to some interest rate risk, this refers to the current or prospective risk to the Bank's capital and earnings arising from adverse movements in interest rates that affect the Bank's banking book positions.

Most exposures arise due to mismatch between the lending portfolio repricing overnight and the fixed rate nature of the borrowing portfolio. The sensitivity of the portfolio to changes in interest rates are carefully monitored and controlled through limits pre-established by the Board of Directors and adjusted where necessary, to reflect the changing market conditions. These limits are set to monitor both the impact on the economic value of equity and on the earnings at risk.

Interest rate sensitivity

The Bank is exposed to changes in interest rates as the present value and timing of its future cash flows change. Subsequently the economic value of a bank's equity and its earnings change. This risk is managed through the use of interest rate swaps with pre-established risk limits which are ultimately monitored by ALCO.

Gap analysis is undertaken by examining details of interest sensitive assets and liabilities to establish when they will next reprice (i.e., be subject to a change in interest rate), and then tabulating those which reprice within set time periods (known as 'time buckets', within which all items repricing are grouped together). Based on the Bank's financial assets and financial liabilities held at the year-end, measured on this basis with all other variables held constant, the interest rate sensitivity to a parallel shift of 200 basis points would impact the Bank's economic value of equity as follows:

	Basis Points	**2023 Change in Present value US$000**	2022 Change in Present value US$000
Parallel Increase	+200	**7,129**	5,674
Parallel Decrease	-200	**(7,391)**	(5,891)

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28.3.2 FOREIGN EXCHANGE RISK

Foreign exchange risks are controlled through monitoring against limits pre-established by the Board of Directors on currency position exposures. The Bank does not engage in forex trading and has a small net open foreign exchange position deriving from the denomination of part of its balance sheet in foreign currency. As the Bank deals in various currencies, it is not always possible to match these asset and liability in each currency. Accordingly, any foreign exchange exposures are covered by forward foreign exchange contracts. The Bank does not intend to hold a net foreign exchange position above the 2% of own funds. Appropriate segregation of duties exists between the treasury front and back-office functions, while compliance with position limits is independently monitored by risk on an ongoing basis.

The Bank does not currently have any significant net open positions in any foreign currencies, and the total net open foreign exchange position is below the 2% of own funds as per Capital Requirements Regulation Article 351. Net open positions in non-GBP currencies are actively monitored at all times as it seeks to keep its exposure at a de minimis level.

Accordingly, a change in the USD/GBP rate by +/- 5% at the year end would result in an impact on the income statement amounting to US$20k (2022: US$50k).

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 Bank like all other similar organisations is exposed to a variety of operational risks.

The Bank identifies, assesses, monitors, and mitigates these risks through a comprehensive system of internal controls and operational practices as set out in its Operational Risk Management Framework and Policy (“ORMFP”). The Bank has a low tolerance for operating losses and operates in such a way that these losses are mitigated.

The Bank’s operational risk appetite is also included in the Board approved Risk Appetite Statement (“RAS”) in the form of Bank wide metrics with assigned thresholds that define what is acceptable, an early warning indicator, within risk appetite, or within tolerance.

It is the role of the Operational Risk Committee to monitor and facilitate the effective implementation of operational risk policies and controls. Operational risk management is ultimately overseen by the Risk Management Department, which ensures compliance with policies and procedures and monitors operational risk as part of overall Bank risk management.

29. POST BALANCE SHEET EVENT

There are no post balance sheet date events that are significant to the Bank’s financial performance for the year ended 2023.

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30. COUNTRY BY COUNTRY REPORTING

The Capital Requirements (Country by Country Reporting) (“CBCR”) 2013 Regulations 2013 came into effect on 1 January 2014 and impose certain reporting obligations as presented below.

Geographical location – UK

Number of employees and secondees – 188

Turnover - US$97,347,000

Pre-tax profit - US$48,638,000

Corporation tax paid during the year period - US$8,171,801

Country by country reporting basis of preparation.

Employees and secondees represents the average number of full-time equivalent employees and secondees during the period.

Total turnover is the sum of net interest income, net fee and commission income, fair value gains or losses through the profit and loss and net foreign exchange income.

The Bank received no public subsidies during the period.

31. CAPITAL MANAGEMENT (unaudited)

A key objective of the Bank is to maximise shareholders’ value within Board risk tolerances, whilst maintaining a strong capital base to support the development of its business and comply with internal and external capital requirements.

Capital adequacy is monitored on a regular basis against both regulatory and internal capital requirements. The Bank ensures that it has adequate capital even in stress scenarios through the Individual Capital Adequacy Assessment Process.

	2023 **US$000**	2022 US$000
Risk weighted assets	2,599,821	2,131,640
Capital available		
Common Equity Tier 1 capital	533,272	453,162
Tier 1 capital	533,272	453,162
Tier 2 capital	-	-
Total capital	**533,272**	453,162
Common Equity Tier 1 capital adequacy ratio	20.51%	21.26%
Tier 1 capital adequacy ratio	20.51%	21.26%
Total capital adequacy ratio	20.51%	21.26%