The Commercial Bank of Kuwait Group

Consolidated Financial Statement

31 December 2022
(Audited)

Deloitte.

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF COMMERCIAL BANK OF KUWAIT K.P.S.C.

Report on the Audit of Consolidated Financial Statements

Opinion

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

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted for use by the State of Kuwait.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International *Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code)*, and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

We have identified the following key audit matter:

Impairment of loans and advances

As described in Note 6 to the consolidated financial statements, the Bank had loans and advances of KD 2,420 million as at 31 December 2022 representing 56% of total assets.

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

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

Report on the Audit of Consolidated Financial Statements (continued)

Key Audit Matters (continued)

The recognition of ECL under IFRS 9, determined in accordance with CBK guidelines, is a complex accounting policy, which requires considerable judgement in its implementation. ECL is dependent on management's judgement in assessing significant increase in credit risk and classification of credit facilities into various stages, determining when a default has occurred, development of models for assessing the probability of default of customers and estimating cash flows from recovery procedures or realization of collateral. Recognition of specific provision on impaired facility under the CBK rules is based on the instructions by CBK on the minimum provision to be recognized together with any additional provision to be recognised based on management estimate of expected cash flows related to that credit facility.

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

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

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

Further, for the CBK rules provision requirements, we have assessed the criteria for determining whether there is a requirement to calculate any credit loss in accordance with the related regulations and, if required, it has been computed accordingly. For the samples selected, which included rescheduled credit facilities, we have verified whether all impairment events have been identified by the Group's management. For the selected samples which also included impaired credit facilities, we have assessed the valuation of collateral and reperformed the resultant provision calculations.

Other information included in the Annual Report of the Group for the year ended 31 December 2022

Management is responsible for the other information. Other information consists of the information included in the Group's 2022 Annual Report, other than the consolidated financial statements and our auditors' report thereon.

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

Report on the Audit of Consolidated Financial Statements (continued)

We obtained the report of the Bank's Board of Directors, prior to the date of our auditors' report, and we expect to obtain the remaining sections of the Annual Report after the date of our auditors' report.

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

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

Report on the Audit of Consolidated Financial Statements (continued)

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

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

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

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

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

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

We communicate to those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards applied.

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

Deloitte.

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RSM Albazie & Co.

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

Report on the Audit of Consolidated Financial Statements (continued)

Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion, proper books of account have been kept by the Bank and the consolidated financial statements, together with the contents of the report of the Bank's Board of Directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Capital Adequacy Regulations and Financial Leverage Ratio Regulations issued by the Central Bank of Kuwait ("CBK") as stipulated in CBK Circular Nos. 2/RB, RBA/336/2014 dated 24 June 2014 and 2/BS/342/2014 dated 21 October 2014 respectively, the Companies Law No 1 of 2016, as amended, its executive regulations; and by the Bank's Memorandum of Incorporation and Articles of Association, as amended, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Capital Adequacy Regulations and Financial Leverage Ratio Regulations issued by the CBK as stipulated in CBK Circular Nos. 2/RB, RBA /336/2014 dated 24 June 2014 and 2/BS/342/2014 dated 21 October 2014 respectively, the Companies Law No 1 of 2016, as amended, and its executive regulations; or of the Bank's Memorandum of Incorporation and Articles of Association, as amended, have occurred during the year ended 31 December 2021 that might have had a material effect on the business of the Bank or on its financial position.

We further report that, during the course of our audit, we have not become aware of any violations of the provisions of Law No. 32 of 1968, as amended, concerning currency, the CBK and the organisation of banking business, and its related regulations during the year ended 31 December 2022 that might have had a material effect on the business of the Bank or on its financial position.

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Dr Shuaib A. Shuaib
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Kuwait
20 March 2023

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Year ended 31 December 2022

	Note	**2022 KD 000's**	2021 KD 000's
ASSETS			
Cash and short term funds	3	**732,555**	727,513
Treasury and Central Bank bonds	4	**183,555**	177,452
Due from banks and other financial institutions	5	**480,202**	482,586
Loans and advances	6	**2,419,548**	2,278,078
Investment securities	7	**372,903**	551,303
Premises and equipment		**29,414**	28,922
Intangible assets	9	**3,506**	3,506
Other assets	10	**88,790**	40,206
TOTAL ASSETS		**4,310,473**	4,289,566
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks		**224,847**	360,526
Due to other financial institutions		**273,743**	245,676
Customer deposits		**2,340,285**	2,119,614
Other borrowed funds	11	**611,442**	519,459
Other liabilities	12	**199,835**	223,427
TOTAL LIABILITIES		**3,650,152**	3,468,702
EQUITY			
Equity attributable to shareholders of the Bank			
Share capital		**199,206**	199,206
Treasury shares		**(49,798)**	(5,233)
Reserves		**277,398**	427,372
Retained earnings		**185,901**	159,614
		612,707	780,959
Proposed dividend		**47,298**	39,618
		660,005	820,577
Non-controlling interests		**316**	287
TOTAL EQUITY	13	**660,321**	820,864
TOTAL LIABILITIES AND EQUITY		**4,310,473**	4,289,566

Elham Y. Mahfouz

Sheikh Ahmad Duaij Jaber Al Sabah
Chairman

Elham Yousry Mahfouz
Chief Executive Officer

The attached notes 1 to 26 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME
Year ended 31 December 2022

	Note	**2022 KD 000's**	2021 KD 000's
Interest income		**130,894**	98,180
Interest expense		**(45,339)**	(23,925)
NET INTEREST INCOME		**85,555**	74,255
Fees and commissions		**42,788**	38,895
Net gain from dealing in foreign currencies		**7,978**	6,368
Net gain from investment securities		**54**	791
Dividend income		**3,198**	3,646
Other operating income		**292**	907
OPERATING INCOME		**139,865**	124,862
Staff expenses		**(17,872)**	(27,148)
General and administration expenses		**(17,309)**	(14,417)
Depreciation and amortisation		**(1,912)**	(1,994)
OPERATING EXPENSES		**(37,093)**	(43,559)
OPERATING PROFIT BEFORE PROVISIONS		**102,772**	81,303
Net charge of impairment and other provisions	14	**(25,789)**	(24,147)
PROFIT BEFORE TAXATION		**76,983**	57,156
Taxation and contributions	15	**(3,369)**	(2,421)
NET PROFIT FOR THE YEAR		**73,614**	54,735
Attributable to:			
Shareholders of the Bank		**73,585**	54,638
Non-controlling interests		**29**	97
		73,614	54,735
Basic and diluted earnings per share attributable to shareholders of the Bank (fils)	16	**37.2**	27.8

The attached notes 1 to 26 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
Year ended 31 December 2022

	2022 **KD 000's**	2021 KD 000's
Net profit for the year	**73,614**	54,735
OTHER COMPREHENSIVE (LOSS) INCOME		
Items that will not be reclassified subsequently to consolidated statement of income		
Equity securities classified at fair value through other comprehensive income:		
Net changes in fair value	**(144,925)**	73,280
Property revaluation loss	**1,199**	(42)
Items that are or may be reclassified subsequently to consolidated statement of income		
Debt securities classified at fair value through other comprehensive income:		
Net changes in fair value	**(6,155)**	811
Net loss on disposal transferred to income statement	**(93)**	(378)
	(149,974)	73,671
TOTAL COMPREHENSIVE (LOSS) INCOME FOR THE YEAR	**(76,360)**	128,406
Attributable to:		
Shareholders of the Bank	**(76,389)**	128,300
Non-controlling interests	**29**	106
	(76,360)	128,406

The attached notes 1 to 26 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2022

	KD 000's														
	Attributable to shareholders of the Bank														
				Reserves											
	Share capital	**Proposed bonus shares**	**Treasury shares**	**Share premium**	**Statutory reserve**	**General reserve**	**Treasury shares reserve**	**Property revaluation reserve**	**Investment valuation reserve**	**Total reserves**	**Retained earnings**	**Proposed dividend**	**Total**	**Non-controlling interests**	**Total**
Balance as at 1 January 2021	199,206	27,107	(32,340)	66,791	115,977	17,927	-	24,095	128,920	353,710	144,208	-	691,891	933	692,824
Total comprehensive income for the year	-	-	-	-	-	-	-	(52)	73,714	73,662	54,638	-	128,300	106	128,406
Dividend paid	-	(27,107)	27,107	-	-	-	-	-	-	-	-	-	-	(33)	(33)
Proposed dividend (note 13(g))	-	-	-	-	-	-	-	-	-	-	(39,618)	39,618	-	-	-
Ownership changes in subsidiary	-	-	-	-	-	-	-	-		-	386	-	386	(719)	(333)
Balance as at 31 December 2021	**199,206**	**-**	**(5,233)**	**66,791**	**115,977**	**17,927**	**-**	**24,043**	**202,634**	**427,372**	**159,614**	**39,618**	**820,577**	**287**	**820,864**
Total comprehensive loss for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,199**	**(151,173)**	**(149,974)**	**73,585**	**-**	**(76,389)**	**29**	**(76,360)**
Purchase of treasury shares	**-**	**-**	**(44,565)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(44,565)**	**-**	**(44,565)**
Dividend paid	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(39,618)**	**(39,618)**	**-**	**(39,618)**
Proposed dividend (note 13(g))	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(47,298)**	**47,298**	**-**	**-**	**-**
Balance as at 31 December 2022	**199,206**	**-**	**(49,798)**	**66,791**	**115,977**	**17,927**	**-**	**25,242**	**51,461**	**277,398**	**185,901**	**47,298**	**660,005**	**316**	**660,321**

Investment valuation reserve includes a loss of KD 5,498 thousand (2021: loss of KD 5,434 thousand) arising from foreign currency translation of the Bank's investment in its associate.

The attached notes 1 to 26 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
Year ended 31 December 2022

	Note	**2022 KD 000's**	2021 KD 000's
OPERATING ACTIVITIES			
Profit before taxation		**76,983**	57,156
Adjustments for:			
Impairment and other provisions	14	**25,789**	24,147
Income from investment securities		**(3,252)**	(4,437)
Foreign exchange (gain) loss on investment securities		**(3,691)**	159
Depreciation and amortisation		**1,912**	1,994
Profit before changes in operating assets and liabilities		**97,741**	79,019
Changes in operating assets and liabilities:			
Treasury and Central Bank bonds		**(6,103)**	9,070
Due from banks and other financial institutions		**2,374**	99,016
Loans and advances		**(141,002)**	(30,428)
Other assets		**(51,258)**	(21,660)
Due to banks		**(135,679)**	144,601
Due to other financial institutions		**28,067**	(206,823)
Customer deposits		**220,671**	(249,259)
Other liabilities		**(6,082)**	16,144
Net cash from (used in) operating activities		**8,729**	(160,320)
INVESTING ACTIVITIES			
Proceeds from disposal of investment securities		**158,258**	125,084
Acquisition of investment securities		**(173,258)**	(37,812)
Dividend income from investment securities		**3,198**	3,646
Proceeds from disposal of premises and equipment		**665**	468
Acquisition of premises and equipment		**(299)**	(415)
Increase in holding in subsidiaries		**-**	(333)
Net cash (used in) from investing activities		**(11,436)**	90,638
FINANCING ACTIVITIES			
Other borrowed funds		**91,983**	75,807
Purchase of treasury shares		**(44,565)**	-
Dividend paid		**(39,618)**	-
Dividend paid to non-controlling interest		**-**	(33)
Net cash from financing activities		**7,800**	75,774
Net increase in cash and short term funds		**5,093**	6,092
Cash and short term funds as at 1 January		**727,532**	721,440
Cash and short term funds as at 31 December	3	**732,625**	727,532

The attached notes 1 to 26 form part of these consolidated financial statements.

1 INCORPORATION AND REGISTRATION

The Commercial Bank of Kuwait K.P.S.C. ("the Bank") is a public shareholding company incorporated in the State of Kuwait and is registered as a bank with the Central Bank of Kuwait (CBK) and is listed on the Boursa Kuwait. The registered address of the Bank is P.O. Box 2861, 13029 Safat, State of Kuwait.

The Bank and its subsidiary are together referred to as "the Group" in this consolidated financial statements.

The consolidated financial statements of the Group were authorised for issue in accordance with a resolution of the Board of Directors on 12 March 2023 and are issued subject to the approval of the Annual General Assembly of the Shareholders of the Bank. The Annual General Assembly of the Shareholders has the prerogative to amend this consolidated financial statements after issuance.

The principal activities of the Group are explained in note 22.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The consolidated financial statements have been prepared in accordance with the regulations for financial services institutions as issued by the Central Bank of Kuwait (CBK) in the State of Kuwait. These regulations, including the recently issued CBK circulars on regulatory measures in response to COVID-19 and related CBK communications, require banks and other financial institutions regulated by CBK to adopt the International Financial Reporting Standards (IFRS) with the following amendments:

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

ii) Modification losses on financial assets, arising from payment holidays to customers extended during the financial year ended 31 December 2020 as a result of Covid-19, to be recognised in retained earnings as required by the CBK circular no. 2/BS/IBS/461/2020 instead of profit or loss in accordance with IFRS 9. However, modification losses on financial assets, arising from any other payment holidays to customers including payment holidays extended during the year ended 31 December 2021 in response to Covid-19 shall be recognized in the consolidated statement of income.

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

The consolidated financial statements are prepared under the historical cost convention except for the measurement at fair value of derivatives, investment securities and freehold land.

These consolidated financial statements are presented in Kuwaiti Dinar, which is the Group's functional currency.

The accounting policies applied are consistent with those used in the previous year except for the adoption of the new and amended standards effective from 1 January 2022 as described below;

New and amended standards issued and effective

i) Amendments to IAS 16 Property , plant and equipment , proceeds before intended use

The amendment prohibits entities from deducting from the cost of an item of property, plant and equipment, any proceeds of the sale of items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

In accordance with the transitional provisions, the Group applies the amendments retrospectively only to items of Premises and Equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment (the date of initial application). This amendment has no impact.

ii) Amendments to IFRS 9 financial instruments - fees in the 10% test for De-recognition of financial liabilities

The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other’s behalf. This amendment has no impact.

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

New and amended standards issued but not yet effective

A number of new standards and amendments which are effective for annual periods beginning on or after 1 January 2023 have not been early adopted in the preparation of the Group's consolidated financial statements and are not expected to have a significant impact on the consolidated financial statements of the Group.

(b) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and a subsidiary (note 17) as at 31 December each year.

Subsidiaries are those entities controlled by the Bank. Control is achieved when the Bank has power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee); exposure, or rights, to variable returns from its involvement with the investee; and the ability to use its power over the investee to affect its returns. The Bank re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the above three elements of control. The financial statements of subsidiaries are included in these consolidated financial statements on a line-by-line basis, from the date on which the control is transferred to the Group until the date that such control ceases.

Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances based on the financial information of the subsidiaries. Intra-group balances, transactions, income and expenses are eliminated in full. Profits and losses resulting from intra-group transactions are also eliminated in full.

Non-controlling interests represents the equity in the subsidiaries not attributable directly, or indirectly, to the equity holders of the Bank. Equity and net income attributable to non-controlling interests are shown separately in the consolidated statement of financial position, consolidated statement of income, consolidated statement of comprehensive income and consolidated statement of changes in equity. Losses within a subsidiary are attributed to the non controlling interests even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

i) Derecognises the assets (including goodwill) and liabilities of the subsidiary
ii) Derecognises the carrying amount of any non-controlling interests
iii) Derecognises the cumulative translation differences, recorded in equity
iv) Recognises the fair value of the consideration received
v) Recognises the fair value of any investment retained
vi) Recognises any surplus or deficit in profit or loss
vii) Reclassifies the Bank's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

(c) Associates

Associates are entities over which the Group has significant influence but not control, which is the power to participate in the financial and operating policy decisions of the associate.

Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost. Intragroup gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Intragroup losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. For preparation of consolidated financial statements, uniform accounting policies for similar transactions and other events in similar circumstances are used.

The Group's share of its associates' post-acquisition profits or losses is recognised in the consolidated statement of income; and its share of post-acquisition equity movements is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associates recognised at the date of acquisition is recognised as goodwill. Goodwill is included within the carrying amount of the investment in associates and is assessed for impairment as part of the investment annually.

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

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

(d) Financial instruments

Financial instruments comprises of financial assets and financial liabilities.

i) Classification and measurement

Financial assets

Classification and measurement category of all financial assets, except derivatives, is based on a combination of the Group's business model for managing the assets and the assets' contractual cashflow characteristics.

a) Business model assessment

The Group determines its business model at the level that best reflects how it manages various groups of financial assets to achieve its business objective and generates contractual cash flows. That is, whether the Group'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 financial assets. If neither of these are applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'Sell' business model and measured at FVTPL. The Group's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

i) How the performance of the business model and the financial assets held within that business model are evaluated and reported to the Group's' key management personnel;
ii) The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the methodology adopted to manage those risks;
iii) How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected).
iv) The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity.

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

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

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

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

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

All financial instruments are initially recognised at fair value. Transaction costs are included only for those financial instruments that are not measured at fair value through profit or loss.

Based on assessment of business model and cashflow characteristics, the Group classifies financial assets into the following categories upon initial recognition:

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

a) Financial assets carried at amortised cost

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

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

Financial assets carried at amortised cost are subsequently measured at amortised cost using the effective interest method. Interest income, foreign exchange gains and losses and Expected Credit Loss (ECL) charges are recognised in the consolidated statement of income. Any gain or loss on derecognition is recognised in the consolidated statement of income.

b) Financial assets carried at FVOCI

i) Debt securities at FVOCI

A debt securities is carried at FVOCI if it meets both of the following conditions:

a) it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
b) its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Debt securities at FVOCI are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment losses are recognised in the consolidated statement of income. Fair value changes which are not part of an effective hedging relationship are recognised in consolidated other comprehensive income and presented in the cumulative changes in fair values as part of equity until the financial asset is derecognised or reclassified. When the financial asset is derecognised or reclassified, the cumulative gain or loss previously recognised in consolidated other comprehensive income is reclassified from equity to the consolidated statement of income.

ii) Equity securities at FVOCI

Upon initial recognition, the Group makes an irrevocable election to classify some of its equity securities as at FVOCI if they meet the definition of equity under IAS 32: Financial Instruments: Presentation and are not held for trading. Such classification is determined on an instrument by instrument basis.

Equity securities at FVOCI are subsequently measured at fair value. Changes in fair values including foreign exchange component are recognised in consolidated other comprehensive income and presented in the cumulative changes in fair values as part of equity. Cumulative gains and losses previously recognised in consolidated other comprehensive income are transferred to retained earnings on derecognition and are not recognised in the consolidated statement of income. Dividend income on equity securities at FVOCI are recognised in the consolidated statement of income unless they clearly represent a recovery of part of the cost of the investment in which case they are recognised in consolidated other comprehensive income. Equity investments at FVOCI are not subject to impairment assessment.

c) Financial assets carried at FVTPL

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

Financial assets at FVTPL are subsequently measured at fair value. Changes in fair value are recognised in the consolidated statement of income.

The Group financial assets are classified and measured as follows:

i) Cash and short term funds

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

ii) Treasury and Central Bank bonds

Treasury and Central Bank bonds are carried at amortised cost using effective interest rate method.

iii) Due from banks and other financial institutions

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

iv) Loans and advances

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

v) Investment securities

The Group's investment securities consists of debt securities, equity securities and other investments.

Debt securities that meet SPPI Criteria are classified either at amortised cost or at FVOCI based on the business model in which these securities are managed.

Equity securities are generally carried at FVTPL except for those specific instruments for which the Group has made an irrevocable election to classify at FVOCI on date of initial application of IFRS 9 or on initial recognition.

Other investments that does not meet SPPI criteria are carried at FVTPL.

vi) Other assets

Fees and commissions receivables' included under 'Other assets', represent the Bank's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due). These are measured at amortised cost and subject to the impairment provisions of IFRS 9.

ii) Financial liabilities

Financial liabilities are classified as "other than at fair value through profit or loss". These are subsequently measured at amortised cost using the effective yield.

Financial liabilities carried on the consolidated statement of financial position includes due to banks and other financial institutions, customer deposits, other borrowed funds and certain balances included in other liabilities.

iii) Recognition and De-recognition

A financial asset or a financial liability is recognised when the Group becomes a party to the contractual provisions of the instrument. All 'regular way' purchase and sale of financial assets are recognised using settlement date accounting. Changes in fair value between the trade date and settlement date are recognised in income in accordance with the policy applicable to the related instruments. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulations or conventions in the market place.

A financial asset is derecognised

a) when the contractual rights to the cash flows from the financial asset expire or;
b) when the Group has transferred substantially all the risks and rewards of ownership or;
c) when it has neither transferred nor retained substantially all risks and rewards of ownership and it no longer has control over the asset or portion of the asset.

If the Group has retained control, it shall continue to recognise the financial asset to the extent of its continuing involvement in the financial asset.

A financial liability is derecognised when the obligation specified in the contract is discharged.

iv) Derivative financial instruments and hedge accounting

The Group has adopted hedge accounting model as per IFRS 9. This requires the Group to ensure that hedge accounting relationships are aligned with the risk management objective and strategy and to apply a more qualitative and forward looking approach to assess hedge effectiveness. The Group accounts for them using hedge accounting principles, provided certain criteria is met.

The carrying amount of a hedged item not already measured at fair value is adjusted for the fair value change attributable to the hedged risk with a corresponding entry in consolidated statement of income. For debt instruments measured at FVOCI, the carrying amount is not adjusted as it is already at fair value, but the hedging gain or loss is recognised in profit or loss instead of other comprehensive income. When the hedged item is an equity instrument designated at FVOCI, the hedging gain or loss remains in other comprehensive income to match that of the hedging instrument.

The Group discontinues hedge accounting only when the hedging relationship (or a part thereof) ceases to meet the qualifying criteria (after rebalancing, if applicable). This includes instances when the hedging instrument expires or is sold, terminated or exercised. The discontinuation is accounted for prospectively. In the case of fair value hedge, the fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to consolidated statement of income from that date.

For cash flow hedge, any gain or loss recognised in other comprehensive income and accumulated in cash flow hedge reserve at that time remains in equity and is reclassified to profit or loss when the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in the cash flow hedge reserve is reclassified immediately to consolidated statement of income.

If a derivative contract does not qualify for hedge accounting as per the hedge accounting rules of the Group, they are treated as derivatives held for trading. Derivatives with positive market values (unrealised gains) are included in other assets and derivatives with negative market values (unrealised losses) are included in other liabilities in the consolidated statement of financial position. The resultant gains and losses are included in the consolidated statement of income.

v) Financial guarantee

In the ordinary course of business, the Group gives financial guarantees consisting of letters of credit, guarantees and acceptances on behalf of its customers. Financial guarantees are initially recognised as a liability in the consolidated statement of financial position at fair value, being the fee and commission received. The fee and commission received is amortised over the life of the guarantee and recognised in the consolidated statement of income. The guarantee liability is subsequently carried at initial measurement, less amortisation. When a payment under the guarantee liability is likely to become payable, the present value of the net expected cash flows, less the unamortised fee and commission is charged to the consolidated statement of income.

vi) Offsetting financial instruments

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

vii) Asset pending sale

The Group occasionally acquires assets in settlement of certain loans and advances. Such assets are stated at the lower of the carrying value of the related loans and advances and the current fair value of such assets. Gains or losses on disposal, and revaluation losses, are recognised in the consolidated statement of income.

viii) Fair values

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.

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

Fair value of interest bearing financial instruments which are not traded in an active market is estimated based on discounted cash flows using interest rates for items with similar terms and risk characteristics and dealer price quotations. The estimated fair value of deposits with no stated maturity, which include non-interest bearing deposits, is the amount payable on demand.

The fair value of a derivative is the equivalent of the unrealised gain or loss from marking to market the derivative using the prevailing market rate or internal pricing models.

The fair value of unquoted equity securities is determined by reference to the market value of a similar investment, on the estimated discounted cash flows, adjusted net asset value, other appropriate valuation models or dealer price quotations. When the fair values of unquoted equity securities can not be measured reliably, these are stated at cost less impairment losses, if any.

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

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

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

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

ix) Amortised cost

Amortised cost is computed by taking into account any discount or premium on acquisition of the financial instrument, and fees and costs that are an integral part of the effective interest rate.

x) Impairment of financial assets

The Group computes provision for credit losses on the following financial instruments that are not measured at FVTPL:

a) Loans and advances, financial guarantee and loan commitments (credit facilities)
b) Debt securities measured at amortised cost or at FVOCI
c) Balances and deposits with banks

Equity securities are not subject to expected credit losses.

As per CBK guidelines, provision for credit losses on Credit facilities to be recognised is higher of the followings;

a) Provision for credit losses computed as per the CBK's IFRS 9 guidelines (ECL) or;
b) Provision for credit losses computed based on the CBK's rules on credit facilities

Impairment of financial assets other than credit facilities is based on IFRS 9 ECL.

a) Expected credit loss (ECL)

The Group applies a three stage approach to measure the ECL as follows:

i) Stage Classification

Financial instruments are classified into stage 1, 2 or 3 based on assessment of increase in credit risk since initial recognition.

At each reporting date, the Group assesses whether there has been significant increase in credit risk since initial recognition by comparing the risk of default occurring over the remaining expected life from the reporting date with the risk of default at the date of initial recognition.

When determining whether the risk of default has increased significantly since initial recognition, the Group considers quantitative, qualitative information, backstop indicators, analysis based on the Group's historical experience and expert credit risk assessment, including forward-looking information.

The quantitative criteria used to determine a significant increase in credit risk is a series of relative and absolute thresholds including categorisation of credit facilities as investment and non investment grade. For details on categorisation of credit facilities please refer note 20(b)(i).

The above quantitative criteria are further subjected to the following minimum thresholds as stipulated by the CBK in respect of credit facilities.

a) Credit facilities are classified under Stage 2 where there has been a default in principal or interest payment for more than 30 days.

b) Credit facilities are classified under Stage 2 when there has been a downgrade in the facility's credit rating by 2 grades for the facilities, with Investment Grade rating and by 1 grade with Non-Investment Grade rating.

c) All rescheduled credit facilities are classified under the Stage 2 unless it qualifies for Stage 3 classification

Stage 1: 12-month ECL

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

Stage 2: Life time ECL - not credit impaired

When a credit facility has shown a significant increase in credit risk since origination, but is not credit impaired, the Group records an allowance for the life time ECL.

Life time ECL, is ECL that result from all possible default events over the expected life of a financial asset. The 12 month ECL is the portion of life time expected credit loss that result from default events that are possible within the 12 months after the reporting date.

In order to estimate life time ECL the following minimum maturity thresholds, as stipulated by CBK were applied for credit facilities.

Facility Type	Minimum Maturities
Corporate credit facility, except that have cash flows and non extendable maturity provided that the final repayment does not constitute more than 50% of the total facility	7 Years
Consumer credit and credit cards	5 Years
Housing finance	15 Years

Both life time and 12 month ECLs are calculated on either an individual basis or a collective basis depending on the nature of the underlying portfolio of financial assets.

Stage 3: Life time ECL - Credit impaired

When a credit facility is impaired, the Group measures loss allowances at an amount equal to the net exposure (asset balance net of eligible collateral value). A credit facility is considered as credit-impaired, when any payment of principal or interest is overdue by more than 90 days or there are any objective evidence of impairment such as difficulties in the cash flows including the sustainability of the counterparty's business plan, credit rating downgrades, breach of original terms of the contract, its ability to improve performance once a financial difficulty has arisen, deterioration in the value of collateral etc.

ii) Measurement of ECLs

ECL are the discounted product of Probability of Default, Exposure at Default and Loss Given Default.

a) Probability of Default (PD) estimation

The PD represents the likelihood of a borrower defaulting on its financial obligation, either over next 12 months (12M PD), or over the remaining lifetime (lifetime PD) of the obligation.

The Group's PD estimation for corporate credit facilities is based upon obligor risk rating, internal default and macro-economic data. Under macro-economic data, three scenarios (a base case, upside case, and a downside case) have been considered. While, for the PD estimation of retail credit facilities, the facilities were segmented into pools that share the similar risk characteristics.

The Group has applied the minimum PD thresholds as per CBK guidelines of 100 bps (1%) for all credit facilities rated below investment grade and 75 bps (0.75%) for facilities rated as investment grade or better. However, minimum PD threshold was not applied for the following.

i) Consumer credit facility (excluding credit card), housing financing
ii) Credit facility extended to governments and banks rated as investment grade or better by eligible external credit rating agency.

b) Exposure at Default (EAD)

EAD represents the expected exposure in the event of default. The Group derives the EAD from current credit exposure of the financial assets and potential changes to the current amounts allowed under the contract including amortization. The EAD of financial assets is the gross carrying amount plus interest.

EAD for financial unfunded facility is calculated by applying 100% credit conversion factor (CCF). EAD for unutilized balance is computed by applying CCF as per the financial leverage ratio instructions issued by CBK on 21 October 2014.

c) Loss Given Default (LGD)

The LGD represents expected credit loss in the event of default, its expected value when realised and the time value of money. For credit facilities classified under stage 1 and 2, the internal LGD estimation of the Group is used if it is higher than the minimum LGD as per CBK guidelines. The LGD models also considers minimum haircut to the collateral values as per CBK guidelines. LGD for stage 3 facilities are required 100% as per CBK guidelines.

Incorporation of forward looking information

The Group considers key economic variables that are expected to have an impact on the credit risk and the ECL in order to incorporate forward looking information into the ECL models. These primarily reflect reasonable and supportable forecasts of the future macro-economic conditions. The consideration of such factors increases the degree of judgment in determination of ECL. The management reviews the methodologies and assumptions including any forecasts of future economic conditions on regular basis.

d) Letter of credit and letter of guarantee

The Group's liability under each guarantee or letter of credit is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the income statement, and the ECL provision. For this purpose, the Group estimates ECL's based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs. The shortfalls are discounted by the risk adjusted interest rate relevant to the exposure. The calculation is made using a PD – weighing of the three scenarios.

iii) Modified loans and advances

Under certain circumstances, the Group renegotiates or modifies terms of loans and advances. This may involve extending the repayment period, providing concession in rate etc. If the modifications are substantial, such a facility is derecognised and new facility is recognised with substantially different terms and conditions. 12 months credit losses is recognised on the new facility, except when the new facility is considered as originated credit impaired. When loans and advances have been modified but not derecognised, an impairment is measured using effective interest rate. Management continuously reviews modified loans and advances to ensure that all criteria are met and that future payments are likely to occur. Management also assesses whether there has been a significant increase in credit risk or the facility should be classified as stage 3.

b) Provision for credit losses computed based on the CBK's rules on credit facilities

CBK's rule on provision for credit facilities stipulates two tier approach for credit loss estimation. Total credit loss to be recognised is sum of general and specific provision.

i) General provision

General provision computed as 1% of outstanding cash facility balance and 0.5% of outstanding non cash facility balance after netting off certain restricted categories of collateral.

ii) Specific provision

Specific provision is calculated by applying a loss percentage to the exposure amount after netting off eligible collateral. Loss percentage to be applied is based on past due days as shown below.

Past Due Days	Loss %
> 90 days < 180 days	20%
>180 days <365 days	50%
>365 days	100%

Credit facilities are classified in above categories when there is an objective evidence of impairment based on specified criteria, including management judgement of increase in credit risk.

Write off

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due. For detailed disclosure on credit exposure, please refer to note VI of Public Disclosures on Capital Adequacy Standard.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented as a deduction from the gross carrying amount of the financial assets, that are carried at amortised cost. In the case of debt instruments measured at FVOCI, the Group recognises the ECL charge in the consolidated statement of income and a corresponding amount is recognised in consolidated statement of other comprehensive income with no reduction in the carrying amount of the financial asset in the consolidated statement of financial position. ECL for loan commitments, letters of credit and financial guarantee contracts are recognised in the other liabilities.

(e) Impairment of non-financial assets

Intangible assets and premises and equipment's that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

(f) Premises and equipment

Freehold land is stated at fair value and is not depreciated. Fair value is determined by annual appraisals of market value and is performed by independent experts. An increase in the carrying amount of an asset as a result of revaluation is taken to property revaluation reserve through consolidated statement of comprehensive income. A revaluation decrease is charged directly to the property revaluation reserve to the extent that the decrease does not exceed the amount held in reserve for that asset. Any further decrease in the carrying amount of an asset as a result of revaluation is recognised as an expense in the consolidated statement of income. The balance in this reserve is taken directly to retained earnings upon disposal of property.

Buildings and other assets are stated at historical cost less accumulated depreciation. Depreciation is calculated using the straight-line method to write down the cost of such assets over their estimated useful lives as follows:

Buildings	up to 20 years
Leasehold improvements	up to 3 years
Furniture and equipment	up to 5 years
Computer hardware and software	up to 5 years
Vehicles	up to 5 years

Premises and equipment are reviewed periodically for any impairment. If there is an indication that the carrying value of an asset is greater than its recoverable amount, the asset is written down to its recoverable amount and the resultant impairment loss is taken to the consolidated statement of income.

(g) Leases

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

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

a) Right of use assets

The Group recognises right of use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right of use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any re-measurement of lease liabilities. The cost of right of use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right of use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right of use assets are subject to impairment. The carrying value of the right-of-use assets are recorded under premises and equipment in the consolidated statement of financial position.

b) Lease liabilities

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

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the borrowing rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of profit and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset and are recorded under other liabilities in the consolidated statement of financial position.

(h) Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when sale is highly probable and the asset is available for immediate sale in its present condition. Non-current assets held for sale are measured at the lower of carrying amount and the fair value less costs to sell. Non-current assets, once classified as held for sale, are not depreciated or amortised.

(i) Intangible assets

Identifiable non-monetary assets acquired in connection with the business and from which future benefits are expected to flow are treated as intangible assets. Intangible assets with indefinite useful lives are not subject to amortization but tested for impairment annually and whenever there is an indication that the asset may be impaired. Intangible assets which have a finite life are amortised over their useful lives.

At the end of each reporting period, the Group reviews the carrying amounts of its intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of the fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the consolidated statement of income, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so much that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in the consolidated statement of income, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

(j) Treasury shares

The Bank’s holding in its own shares is stated at acquisition cost. Treasury shares are accounted for using the cost method. Under this method, the weighted average cost of the shares reacquired is charged to a contra account in the equity. When the treasury shares are reissued, gains are credited to a treasury shares reserve in equity, which is not distributable.

Any realised losses are charged to a treasury share reserve to the extent of the credit balance on that account. Any excess losses are charged to retained earnings then to the general reserve and statutory reserve. Gains realised subsequently on the sale of treasury shares are first used to offset any previously recorded losses in the order of reserves, retained earnings and the treasury shares reserve. These shares are not entitled to any cash dividend that the Bank may propose. The issue of bonus shares increases the number of shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

(k) Revenue recognition

Interest income and expense for all interest bearing financial instruments are recognised using the effective interest rate. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, all fees and points paid or received between parties to the contract, transaction costs and all other premiums or discounts are considered, but not future credit losses.

Once a financial asset or a group of financial assets has been impaired, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Fee and commission income earned for the provision of services over a period of time are accrued over that period. Other fee and commission income are recognised as and when the services are provided. Asset management fees are recognised over the period in which the service is provided.

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

(l) Government grants

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

(m) Foreign currencies

Foreign currency transactions are translated into Kuwaiti Dinar at rates of exchange prevailing at value dates of the transactions. Monetary assets and liabilities in foreign currencies and forward foreign currency transactions outstanding at the date of the consolidated statement of financial position are translated into Kuwaiti Dinar at rates of exchange prevailing at the date of consolidated statement of financial position. Any resultant gains or losses are taken to the consolidated statement of income.

In the case of non-monetary assets whose change in fair values are recognised directly in other comprehensive income and net investment in foreign operation, foreign currency exchange differences are recognised directly in other comprehensive income and for non-monetary assets whose change in fair value are recognised directly in the consolidated statement of income, foreign currency exchange differences are recognised in the consolidated statement of income.

(n) End of service pay

The Group is liable under Kuwait Labour Law to make payments to employees for post-employment benefits in respect of defined benefit plans. This liability is finally computed and fully settled at the end of an employee's service.

The Group recognises this cost as an expense of the year and represents the amount payable to each employee as a result of involuntary termination on the reporting date. The Group considers this to be a reliable approximation of the present value of this obligation.

(o) Segment information

A segment is a distinguishable component of the Group that engages in business activities from which it earns revenues and incurs costs. The operating segments are used by the management of the Group to allocate resources and assess performance. Operating segments exhibiting similar economic characteristics, product and services, class of customers where appropriate are aggregated and reported as reportable segments.

(p) Fiduciary assets

Assets held in trust or in a fiduciary capacity are not treated as assets of the Group.

(q) Securities financing arrangements

Securities purchased under agreements to resell (reverse repurchase agreements) and securities sold under agreements to repurchase (repurchase agreements) are treated as collateralised lending and borrowing transactions and are recorded in the consolidated statement of financial position at the amounts the securities were initially acquired or sold. Interest earned on reverse repurchase agreements and interest incurred on repurchase agreements are included in interest income and interest expense respectively.

(r) Significant accounting judgements and estimates

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

Judgments

Classification of financial assets

The Group determines the classification of financial assets, except equity securities and derivatives, based on the assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding. Judgments are required in determining the business model at an appropriate level that best reflects an aggregated group or portfolio of assets which are managed together to achieve a particular business objective. The Group also applies judgment to assess if there is a change in business model in circumstances when the assets within that business model are realised differently than the original expectations. Refer note 2(d)(i) classification of financial assets for more information.

Estimation uncertainty and assumptions

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

Impairment loss on loans and advances and other financial instruments

The Group estimates ECL for all financial assets carried at amortised cost or FVOCI except for equity instruments. Significant judgment are required in applying the accounting requirements for measuring ECL For information on significant judgement and estimates made by the Group refer note 2(d)(x).

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

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

Provision for credit losses

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

Valuation of unquoted equity securities

Valuation techniques for unquoted equity securities are based on estimates such as expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics; recent arm's length market transactions; current fair value of another instrument that is substantially the same; adjusted net asset value of the investee; or other relative valuation models.

Any changes in these estimates and assumptions as well as the use of different, but equally reasonable estimates and assumptions, may have an impact on the carrying value of impairment loss for loans and advances, investment in debt securities and fair values of unquoted equity securities.

Impairment of intangible assets

The Group determines whether intangible assets are impaired at least on an annual basis. This requires an estimation of the "value in use" of the asset. Estimating a "value in use" requires the Group to make an estimate of the expected future cash-flows from the asset or the cash-generating unit and also choose an appropriate discount rate in order to calculate the present value of the cash flows.

Significant judgement in determining the lease term of contracts with renewal options

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

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

3 CASH AND SHORT TERM FUNDS

	2022	2021
	KD 000's	KD 000's
Cash and cash items	**274,839**	124,779
Balances with the CBK	**153,833**	147,199
Deposits with banks maturing within seven days	**303,953**	455,554
	732,625	727,532
Less: Provision for impairment (ECL)	**(70)**	(19)
	732,555	727,513

4 TREASURY AND CENTRAL BANK BONDS

	2022	2021
	KD 000's	KD 000's
Treasury bonds	**18,641**	46,825
Central Bank bonds	**164,914**	130,627
	183,555	177,452

Treasury bonds issued by the CBK carry a fixed and floating rate of interest until maturity. Central Bank bonds are issued at a discount by the CBK and carry a fixed yield to maturity.

5 DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	2022	2021
	KD 000's	KD 000's
Placements with banks	**412,620**	448,493
Less: Provision for impairment (ECL)	**(23)**	(65)
	412,597	448,428
Loans and advances to banks	**68,288**	34,197
Less: Provision for impairment	**(683)**	(39)
	67,605	34,158
	480,202	482,586

6 LOANS AND ADVANCES

The Group's assessment of the credit risk concentration, based on the primary purpose of the loans and advances given, is provided below:

As at 31 December 2022

	KD 000's				
	Kuwait	**Asia**	**Europe**	**Others**	**Total**
Trade and commerce	**620,157**	**6,786**	**-**	**-**	**626,943**
Construction and real estate	**962,932**	**45,535**	**4,466**	**-**	**1,012,933**
Other financial institutions	**29,716**	**-**	**-**	**9,238**	**38,954**
Retail customers	**502,593**	**-**	**-**	**-**	**502,593**
Others	**426,574**	**15**	**-**	**-**	**426,589**
	2,541,972	**52,336**	**4,466**	**9,238**	**2,608,012**
Less: Provision for impairment					**(188,464)**
					2,419,548

As at 31 December 2021

	KD 000's				
	Kuwait	Asia	Europe	Others	Total
Trade and commerce	557,649	38,400	-	-	596,049
Construction and real estate	696,690	22,813	2,053	14	721,570
Other financial institutions	50,379	-	-	9,095	59,474
Retail customers	493,677	-	-	-	493,677
Others	558,249	31,035	-	19	589,303
	2,356,644	92,248	2,053	9,128	2,460,073
Less: Provision for impairment					(181,995)
					2,278,078

Movement in provisions for loans and advances

	2022 KD 000's			2021 KD 000's		
	Specific	**General**	**Total**	Specific	General	Total
Provisions 1 January	**-**	**181,995**	**181,995**	-	135,712	135,712
Written-off	**(16,325)**	**-**	**(16,325)**	(11,927)	-	(11,927)
Exchange differences	**-**	**22**	**22**	-	(38)	(38)
Charged to consolidated statement of income	**16,325**	**6,447**	**22,772**	11,927	46,321	58,248
Provisions 31 December	**-**	**188,464**	**188,464**	-	181,995	181,995

The specific and general provision for cash credit facilities amounting to KD 188,464 thousand (2021: KD 181,995 thousand) includes additional provision amounting to KD 156,350 thousand (2021: KD 151,350 thousand) which is over and above the CBK's minimum general provision requirements. The available provision for non-cash credit facilities of KD 30,338 thousand (2021: KD 34,130 thousand) is included in other liabilities.

Provision on credit facilities are the higher of expected credit losses (ECL) under IFRS 9, determined in accordance with the CBK guidelines and the provision required by the CBK rules on classification of credit facilities.

Total available provsion on credit facilities (cash and non cash) determined in accordance with the CBK rules on classification of credit facilities as at 31 December 2022 is KD 218,802 thousand (31 December 2021: KD 216,125 thousand).

The ECL on credit facilities determined under IFRS 9 amounted to KD 82,548 thousand as at 31 December 2022 (31 December 2021: KD 94,137 thousand).

The provision required under CBK rules on classification of credit facilities is higher than ECL under CBK guidelines for IFRS 9.

An analysis of the gross amounts of credit facilities, and the corresponding ECL based on the staging criteria under IFRS 9 in accordance with CBK guidelines are as follows:

	2022 KD 000's			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Superior	**398,510**	**1,439**	**-**	**399,949**
Good	**1,033,762**	**105,228**	**-**	**1,138,990**
Standard	**698,867**	**237,687**	**-**	**936,554**
Past due but not impaired	**66,314**	**66,205**	**-**	**132,519**
Impaired	-	-	-	-
Cash credit facilities	**2,197,453**	**410,559**	**-**	**2,608,012**
Non cash credit facilities	**2,632,800**	**204,457**	**22,703**	**2,859,960**
ECL provision for credit facilities	**24,684**	**35,890**	**21,974**	**82,548**

	2021			
	KD 000's			
	Stage 1	Stage 2	Stage 3	Total
Superior	384,183	405	-	384,588
Good	913,791	103,489	-	1,017,280
Standard	715,177	276,300	-	991,477
Past due but not impaired	46,671	20,057	-	66,728
Impaired	-	-	-	-
Cash credit facilities	2,059,822	400,251	-	2,460,073
Non cash credit facilities	2,325,752	237,650	27,365	2,590,767
ECL provision for credit facilities	22,989	44,716	26,432	94,137

Movement in ECL for credit facilities:

	2022			
	KD 000's			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
ECL 1 January 2021	**22,989**	**44,716**	**26,432**	**94,137**
Transfer to Stage 1	**175**	**(175)**	-	**-**
Transfer to Stage 2	**(214)**	**214**	-	**-**
Transfer to Stage 3	**(10)**	**(2)**	**12**	**-**
Net charged / (released)	**1,735**	**(8,865)**	**11,849**	**4,719**
Written-off	**-**	**-**	**(16,325)**	**(16,325)**
Exchange difference	**10**	**1**	**6**	**17**
ECL 31 December 2022	**24,685**	**35,889**	**21,974**	**82,548**

	2021			
	KD 000's			
	Stage 1	Stage 2	Stage 3	Total
ECL 1 January 2020	21,425	47,406	35,875	104,706
Transfer to Stage 1	335	(335)	-	-
Transfer to Stage 2	(310)	310	-	-
Transfer to Stage 3	-	(128)	128	-
Net charged / (released)	1,552	(2,504)	2,357	1,405
Written-off	-	-	(11,927)	(11,927)
Exchange difference	(13)	(33)	(1)	(47)
ECL 31 December 2021	22,989	44,716	26,432	94,137

Sensitivity

The weighting of the multiple scenarios increased Group's reported allowance for credit losses for credit facilities in Stage 1 and Stage 2, relative to our base case scenario, to KD 60,592 thousand from KD 60,033 thousand (2021: KD 67,705 thousand from 66,598 thousand). If the Bank were to use only downside case scenario for the measurement of allowance for credit losses for credit facilities, allowance for credit losses on performing loans would be KD 2,908 thousand (2021 : KD 13,464 thousand) higher than the reported allowance for credit losses as at 31 December 2022. Actual results will differ as this does not consider the migration of exposures or incorporate changes that would occur in the portfolio due to risk mitigation actions and other factors.

7 INVESTMENT SECURITIES

	2022 KD 000's	2021 KD 000's
Financial assets at FVOCI:		
Debt securities -quoted	**312,440**	233,898
Debt securities -unquoted	**10,437**	10,309
Equity securities -quoted	**37,316**	282,799
Equity securities -unquoted	**12,710**	24,297
	372,903	551,303

The following table shows changes in gross carrying amount and the corresponding ECL in relation to investment in debt securities:

	2022			
	Stage 1 KD 000's	Stage 2 KD 000's	Stage 3 KD 000's	Total KD 000's
Gross carrying amount as at 1 January	227,061	17,417	1,745	246,223
Net movement during the year	75,879	2,657	-	78,536
	302,940	20,074	1,745	324,759

Movement in ECL	2022			
	Stage 1 KD 000's	Stage 2 KD 000's	Stage 3 KD 000's	Total KD 000's
ECL allowance as at 1 January	32	239	1,745	2,016
Charged (Released) during the year	5	(139)	-	(134)
	37	100	1,745	1,882

	2021			
	Stage 1 KD 000's	Stage 2 KD 000's	Stage 3 KD 000's	Total KD 000's
Gross carrying amount as at 1 January	314,743	18,119	1,745	334,607
Net movement during the year	(87,682)	(702)	-	(88,384)
	227,061	17,417	1,745	246,223

Movement in ECL	2021			
	Stage 1 KD 000's	Stage 2 KD 000's	Stage 3 KD 000's	Total KD 000's
ECL allowance as at 1 January	67	136	1,745	1,948
(Released) Charged during the year	(35)	103	-	68
	32	239	1,745	2,016

a) During 2008, the Bank acquired 221,425,095 shares of Boubyan Bank at a cost of KD 94,103 thousand under multiple purchase transactions, all of which were executed under the standard procedures adopted by Boursa Kuwait. However, at a subsequent date, and as a result of the availability of cash balances in the account of the parent company (“the Borrower”) related to the five subsidiaries which sold the mentioned shares in Boursa Kuwait (we refer to the five subsidiaries companies below as “Appellants”) , the Bank utilized these balances to close the loan due from the Borrower. In 2009, the Borrower, along with the appellants, filed a legal case challenging the Bank’s ownership of the above mentioned shares where a final court judgment was issued in this dispute on 27 December 2017. A summary of major events is detailed hereunder:

In February 2009, the Court of Summary Appeal restricted the sale of 221,425,095 shares until a final court judgment is issued in the ownership dispute of these shares.

During 2010, the Bank participated in the rights issue and acquired 127,058,530 shares at a cost of KD 32,401 thousand and thereafter, during the years 2013 to the reporting date, the Bank received a total of 150,072,925 bonus shares.

In April 2016, the Court of First Instance issued a verdict in favor of the Bank confirming the validity of the Bank’s ownership of 221,425,095 shares.

In February 2017, the Court of Appeal issued a verdict, voiding the five sale contracts dated 30 November 2008 as concluded between the appellants and the Bank with regard to the sale of Boubyan Bank shares totalling 221,425,095 shares and revert the situation back to its pre-contract status, most importantly to revert back the shares, their yields, interests and any benefits the Bank has obtained, to the appellants along with voiding all acts the Bank has taken on the account of the Borrower following the sale date.

The Bank appealed against this verdict in the Court of Cassation. On 27 December 2017, the Court of Cassation issued a judgment partially accepting the appeal as the court obligated the appellants mentioned above to pay the price of shares to the Bank. The Court of Cassation also validated all the actions taken by the Bank on the account of the borrower following the date of the five sales contracts of the shares dated 30 November 2008. Furthermore, the Court of Cassation obligated the Borrower and the appellants to pay the required legal expenses on the litigation.

On 29 January 2018, the Bank obtained the execution stamp for the execution of the judgment issued by the Court of Cassation against the appellants, whereby the Bank currently enjoys the power to collect the shares’ value and in return to transfer the shares’ ownership to the appellants.

On 16 June 2019, a judgment was issued by the Court of First Instance in favor of the Bank, which stipulates, firstly, to immediately stop execution of the earlier judgment by Court of Appeal as well as the amended judgment issued by the Court of Cassation and directed the appellants to refund the amount due to the Bank as consideration for returning the shares. Secondly, a delegated expert will determine the amount due from each Appellant out of the principal amount to be refunded to the Bank, determine share of each Appellant in the nullified shares and yields from the shares, subject of the nullified agreements, along with their interests and benefits, determine the fees and expenses paid in shares sale transactions and determine who is obligated to pay.

On 7 February 2021, the Bank raised an objection on the report submitted by the expert department. During the session held on 4 April 2021, the Court issued a ruling to refer the case back to the expert department to review the objection raised by the Bank. During the session held on 30 January 2022, the Court issued a verdict prescribing the financial right and obligation of each party based on expert’s report. However, the Bank and the opponent both appealed against this judgment. On 12 June 2022, the Bank submitted a defense memorandum and related documents in response to questions/interrogations by the Court.

On 3 July 2022, the Court of Appeal issued a verdict and directed the Appellants to refund the amount due to the Bank as consideration for returning the shares. In view of this verdict, Bank has derecognised the shares and recognised a receiavbles from each Appellant at value validated by the Court of Appeal, however, the Bank and Appellants have appealed in the Court of Cassation.

b) The Group designated certain debt securities as hedged items, to hedge the fair value changes arising from changes in market interest rates. Interest rate swap (IRS) is used as hedging instruments in which the Group pays fixed and receives floating interest rate.

Based on the matching of critical terms between the hedge items and the hedged instruments it was concluded that the hedges were effective.

The carrying value of debt securities designated as hedged item as at 31 December 2022 was KD 176,702 thousand (2021: KD 180,468 thousand). The change in fair value of these securities resulting from changes in market interest rate (hedged risk) during the year was KD 7,041 thousand (2021: KD 4,954 thousand). The changes in fair value related to hedged risk during the year was recognised in the consolidated statement of income.

8 INVESTMENT IN AN ASSOCIATE

The Group owns 32.26% (2021: 32.26%) interest in Al Cham Islamic Bank S.A, a private bank incorporated in Syrian Arab Republic, engaged in Islamic banking activities. This has been fully impaired and orovided for in the prior years.

9 INTANGIBLE ASSETS

Intangible assets represent the value of a brokerage license KD 3,506 thousand (2021: KD 3,506 thousand). The brokerage license is considered to have an indefinite useful life.

As at 31 December 2022, the carrying value of brokerage license was tested for impairment by estimating the recoverable amount of the cash generating unit to which these items are allocated using value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management over a five-year period and a relevant terminal growth rate of 2.6% (2021: 3.5%). These cash flows were then discounted using a pre-tax discount rate of 12% (2021: 8%) to derive a net present value which is compared to the carrying value. The discount rate used is pre-tax and reflects specific risks relating to the relevant cash generating unit. The Group has also performed a sensitivity analysis by varying these input factors by a reasonable possible margin. Based on such analysis, there are no indications that the additional impairment is required for the brokerage license (2021: KD nil thousand).

10 OTHER ASSETS

	2022 **KD 000's**	2021 KD 000's
Accrued interest receivable	**5,738**	962
Other receivables	**83,052**	39,244
	88,790	40,206

Other receivables include unrealised gain related to Interest Rate Swaps amounted to KD 35,438 thousand (2021: KD 10,708 thousand).

11 OTHER BORROWED FUNDS

Other borrowed funds include securities sold under agreements to repurchase amounting to KD 106,038 thousand (2021: KD 104,809 thousand). The Group enters into collateralised borrowing transactions (repurchase agreements) in the ordinary course of its financing activities. Collateral is provided in the form of securities held within the investment securities portfolio. At 31 December 2022, the fair value of investment securities that had been pledged as collateral under repurchase agreements was KD 96,888 thousand (2021: KD 98,194 thousand). The collateralised borrowing transactions are conducted under standardised terms that are usual and customary for such transactions.

12 OTHER LIABILITIES

	2022 KD 000's	2021 KD 000's
Accrued interest payable	**16,947**	6,731
Deferred income	**5,909**	5,654
Provision for non-cash facilities and others	**33,018**	100,735
Staff related accruals	**10,854**	10,031
Others	**133,107**	100,276
	199,835	223,427

Others include unrealised loss related to Interest Rate Swaps amounted to KD 27,876 thousand (2021: KD 9,855 thousand).

13 EQUITY

(a) Share capital

The authorised share capital of the Bank comprises of 2,500,000,000 (2021: 2,500,000,000) shares of 100 fils each.

The share capital comprises of 1,992,056,445 (2021: 1,992,056,445) subscribed and fully paid ordinary shares of 100 fils each. For detailed qualitative disclosure on capital management, please refer to note II "Capital adequacy" of the Public Disclosures on Capital Adequacy Standard.

(b) Treasury shares

	2022	2021
Number of treasury shares	**100,140,469**	11,138,485
Percentage of total shares issued	**5.03%**	0.56%
Cost of shares (KD 000's)	**49,798**	5,233
Fair value of shares (KD 000's)	**50,070**	5,569
Weighted average fair value per treasury share (fils)	**310**	420

Movement in treasury shares are as follows:

	No. of shares	
	2022	2021
Balance as at 1 January	**11,138,485**	68,834,561
Purchases	**89,001,984**	580
Bonus distribution (note g)	**-**	(57,696,656)
Balance as at 31 December	**100,140,469**	11,138,485

The Board of Directors has been given the authority to purchase treasury shares up to a maximum of 10% of the share capital of the Bank.

An amount equal to the cost of treasury shares is not available for distribution from general and statutory reserves throughout the holding period of these treasury shares.

(c) Share premium

This represents the excess over the nominal value collected on the issue of shares and is not available for distribution.

(d) Statutory and general reserves

In accordance with the Companies Law and the Bank's Articles of Association, the Bank has resolved not to transfer any amount from the profit to statutory reserve as the statutory reserve has exceeded 50% of the share capital.

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

The general reserve was created in accordance with the Bank's Articles of Association and is available for distribution. During the years 2022 and 2021 there were no transfers to general reserve.

(e) Property revaluation reserve

This represents surplus arising from the revaluation of property.

(f) Investment valuation reserve

This represents gains or losses arising from changes in the fair value of investment securities classified as FVOCI. The reserve related to debt securities is transferred to the consolidated statement of income when the underlying assets are disposed off or impaired. The reserve related to equity securities will remain within consolidated statement of changes in equity.

(g) Dividend and bonus shares

Annual General Assembly of the shareholders held on 13 April 2022 approved to distribute cash dividend of 20 fils per share amounting to KD 39,618 thousand (2020: nil) and nil bonus shares (2020: 3% bonus shares from the treasury shares held by the Bank).

The Board of Directors has proposed a cash dividend of 25 fils per share (2021: 20 fils). This proposal is subject to the approval of regulatory authorities and shareholders' Annual General Assembly.

14 NET CHARGE OF IMPAIRMENT AND OTHER PROVISIONS

The following amounts were (charged) / released to the consolidated statement of income:

	2022 **KD 000's**	2021 KD 000's
Loans and advances - specific	**(16,325)**	(11,927)
Loans and advances - recoveries	**23,884**	26,058
Loans and advances - general	**(7,091)**	(45,538)
Investment securities	**134**	(68)
Non cash facilities	**3,796**	8,116
Other provisions	**(30,187)**	(788)
	(25,789)	(24,147)

Impairment and other provisions includes released of ECL on financial assets other than loans and advances for the year ended 31 December 2022 amounting to KD 134 thousand (2021: charged of KD 68 thousand).

15 TAXATION AND CONTRIBUTIONS

	2022 KD 000's	2021 KD 000's
National Labour Support Tax (NLST)	**(1,852)**	(1,317)
Contribution to Kuwait Foundation for Advancement of Sciences (KFAS)	**(770)**	(570)
Zakat	**(747)**	(534)
	(3,369)	(2,421)

The Group calculates the NLST in accordance with Law No. 19 of 2000 and the Ministry of Finance Resolutions No. 24 of 2006 at 2.5% of taxable profit for the year.

The Group calculates the contribution to KFAS at 1% of profit in accordance with the calculation based on the Foundation's Board of Directors' resolution.

Contribution to Zakat is calculated at 1% of the profit of the Group in accordance with Law No. 46 of 2006 and the Ministry of Finance resolution No. 58 of 2007.

16 EARNINGS PER SHARE

Basic and diluted earnings per share is calculated by dividing the net profit for the year attributable to shareholders of the Bank by the weighted average number of shares outstanding during the year.

	2022	2021
Net profit for the year attributable to shareholders of the Bank (KD 000's)	**73,585**	54,638
Weighted average of subscribed and fully paid ordinary shares (numbers in 000's)	**1,992,056**	1,992,056
Less: Weighted average of treasury shares held (numbers in 000's)	**(15,736)**	(27,262)
	1,976,320	1,964,794
Basic and diluted earnings per share attributable to shareholders of the Bank (fils)	**37.2**	27.8

17 SUBSIDIARY

Name of Entity	Country of Incorporation	Principal Business	% of Ownership 2022	% of Ownership 2021
Al-Tijari Financial Brokerage Company K.S.C. (Closed)	Kuwait	Brokerage services	**98.16%**	98.16%

18 RELATED PARTY TRANSACTIONS

During the year, certain related parties (directors and officers of the Group, their families and companies of which they are principal owners) were customers of the Group in the ordinary course of business. The terms of these transactions are approved by the Group's management. The balances at the date of consolidated statement of financial position are as follows:

	2022			2021		
	Number of Directors/ Executives	**Number of Related Members**	**Amount in KD 000's**	Number of Directors/ Executives	Number of Related Members	Amount in KD 000's
Board of Directors						
Loans	**3**	**2**	**2,038**	2	2	1,775
Credit cards	**4**	**1**	**20**	4	1	11
Deposits	**11**	**13**	**11,604**	10	10	683
Executive Management						
Loans	**26**	**2**	**1,334**	30	3	1,045
Credit cards	**27**	**-**	**47**	24	1	23
Deposits	**42**	**44**	**1,394**	37	39	695
Associates						
Deposits	**1**	**-**	**13,691**	1	-	13,457
Major Shareholders						
Deposits	**1**	**-**	**17**	1	-	16

Interest income and interest expense include KD 85 thousand (31 December 2021: KD 65 thousand) and KD 96 thousand (31 December 2021: KD 57 thousand) respectively on transactions with related parties.

Details of compensation for key management including remuneration of the Chief Executive Officer amounting to KD 240 thousand (31 December 2021 KD: 236 thousand) are as follows:

	2022 KD 000's	2021 KD 000's
Salaries and other short-term benefits	**1,900**	1,538
Post employment benefits	**27**	27
End of service benefits	**154**	210

The remuneration to the Chairman and members of the Board of Directors is KD 483 thousand (2021: KD 465 thousand) for assignments performed by them related to the Board Committees.

Note XII "Remuneration" of Public Disclosures on Capital Adequacy Standard disclosed based on the capital adequacy regulations issued by CBK as stipulated in CBK circular number 2/BS//IBS/336/2014 dated 24 June 2014 include further disclosures on key management remuneration.

19 FAIR VALUES OF FINANCIAL INSTRUMENTS

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. Fair values of all financial instruments are not materially different from their carrying values. For financial assets and financial liabilities that are liquid or having short-term maturity (less than three months) it is assumed that the carrying amount approximates to their fair value. The assumption is also applied to demand deposits, saving accounts without the specific maturity and variable rate financial instruments.

Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

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

Financial assets and liabilities that are carried at amortised cost, are not materially different from their fair values as most of these financial assets and liabilities are of short term maturities or repriced immediately based on market movement in interest rates.

The techniques and assumptions used to determine fair values of financial instruments are described in the fair value section of note 2(d)(viii): "Significant Accounting Policies".

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

	2022			
	KD 000's			
	Level 1	**Level 2**	**Level 3**	**Total**
Debt securities	**312,440**	**10,437**	**-**	**322,877**
Equities and other securities	**37,316**	**12,710**	**-**	**50,026**
	349,756	**23,147**	**-**	**372,903**
Derivative financial instruments net. (note 20 (b)(i)(f))	**-**	**11,893**	**-**	**11,893**

During the year ended 31 December 2022, there were no transfers between level 1, level 2 and level 3.

	2021			
	KD 000's			
	Level 1	Level 2	Level 3	Total
Debt securities	233,898	10,309	-	244,207
Equities and other securities	282,799	24,297	-	307,096
	516,697	34,606	-	551,303
Derivative financial instruments net. (note 20 (b)(i)(f))	-	1,395	-	1,395

20 FINANCIAL INSTRUMENTS

(a) Strategy in using financial instruments

As a commercial bank, the Group's activities are principally related to the use of financial instruments including derivatives. It accepts deposits from customers at both fixed and floating rates and for various periods and seeks to invest these funds in high quality assets at a fair interest margin while maintaining sufficient liquidity to meet the Group's needs.

The Group also seeks to raise interest margins through lending to commercial and retail borrowers with a range of credit ratings. Such exposures involve not only loans and advances but also guarantees and other commitments such as letters of credit issued by the Bank.

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

(b) Overall risk management

The strategy of the Group is to maintain a strong risk management culture and manage the risk/reward relationship within and across each of the Group's major risk-based lines of business. The Group continuously reviews its risk management policies and practices to ensure that the Group is not subject to large asset valuation volatility and earnings volatility. For detailed qualitative disclosure on the risk management functions please refer to note V, "Risk management", of the Public Disclosures on Capital Adequacy Standard.

The Group's risk management measures are based on the specific type of risks as mentioned below:

(i) CREDIT RISK

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

For detailed qualitative disclosure on the credit risk measurement please refer to note V(a),"Risk management - Credit risk", of the Public Disclosures on Capital Adequacy Standard.

(a) Credit risk concentration

The geographic and industry-wise credit risk concentration within loans and advances, which form the significant portion of assets subject to credit risk, is given in note 6.

(b) Maximum exposure to credit risk before collateral held or other credit enhancements

The following table represents the maximum credit risk exposure at the date of consolidated statement of financial position without taking account of any collateral and other credit enhancements.

	2022 **KD 000's**	2021 KD 000's
Credit exposure relating to on-balance sheet items		
Cash and short term funds	**732,555**	727,513
Treasury and Central Bank bonds	**183,555**	177,452
Due from banks and OFIs	**480,202**	482,586
Loans and advances - Corporate	**1,921,963**	1,789,224
Loans and advances - Retail	**497,585**	488,854
Debt securities	**322,877**	244,207
Other assets	**88,790**	40,206
	4,227,527	3,950,042
Credit exposure relating to off-balance sheet items		
Acceptances	**113,129**	12,282
Letters of credit	**123,317**	98,917
Letters of guarantee	**1,584,664**	1,530,409
Undrawn lines of credit	**1,016,388**	922,035
	2,837,498	2,563,643
	7,065,025	6,513,685

The primary purpose of off balance sheet financial instruments is to ensure that funds are available to customers as required. The contractual amounts represent the credit risk, assuming that the amounts are fully advanced and that any collateral or other security is of no value. However, the total contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

(c) Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. CBK guidelines are implemented regarding the acceptability of types of collateral and valuation parameters. To assess the recoverable value of collateral the Group applies the minimum haircut as stipulated in CBK guidelines.

For detailed qualitative disclosure on the collateral and other credit enhancements please refer to note VII " Credit risk mitigation", of the Public Disclosures on Capital Adequacy Standard.

(d) Quality of credit exposure

The following table represents the gross credit risk exposure by credit quality of loans and advances by class, grade and status.

	KD 000's						
	Neither past due nor impaired			**Past due but not impaired**		**Impaired**	**Fair value of collateral**
	Superior grade	**Good grade**	**Standard grade**	**0 - 60 days**	**61 - 90 days**		
As at 31 December 2022							
Banks	**-**	**68**	**68,220**	**-**	**-**	**-**	**-**
Corporate	**399,949**	**1,138,990**	**451,283**	**115,110**	**87**	**-**	**-**
Retail	**-**	**-**	**485,271**	**17,322**	**-**		**-**
	399,949	**1,139,058**	**1,004,774**	**132,432**	**87**	**-**	**-**
As at 31 December 2021							
Banks	22,798	286	11,113	-	-	-	-
Corporate	384,588	1,017,280	513,176	51,060	292	-	-
Retail	-	-	478,301	15,376	-	-	-
	407,386	1,017,566	1,002,590	66,436	292	-	-

The Group's risk grading system is a systematic methodology for analysing risk factors associated with the extension of extending credit.

The Group uses the external ratings of credit rating agencies for the assessment of banks and financial institution and an internal grading for corporate customers, if external ratings are not available.

Internal grades are further mapped to external credit ratings based on probability of default corresponding to these grades. This mapping is used to categorise credit facilities into investment and non-investment categories

The parameters that are considered for grading the customers include quantitative metrics, which consist of key financial ratios and qualitative metrics which include but not limited to entity specific, management specific, business specific, age and quality of financial information, historical account performance, general economic and political conditions and financial condition and performance, where applicable.

	Internal	**External**
Superior grade	Grades 1 to 4	Ratings AAA, AA+, AA, AA-, A+, A,A-, BBB+, BBB, BBB-
Good grade	Grades 5 & 6	Rating BB+, BB, BB-, B+
Standard grade	Grades 7 & 8	Rating B, B-, CCC+, CCC, CCC-
Default grade	Grades 9 to 11	Ratings D or equivalent

(e) Concentration of financial assets and off-balance sheet items

	2022 KD 000's		2021 KD 000's	
	Assets	**Off Balance Sheet**	Assets	Off Balance Sheet
Geographic sector				
Kuwait	**3,114,039**	**2,270,757**	3,436,512	2,043,302
Asia	**917,461**	**284,835**	686,861	286,645
Europe	**190,699**	**127,823**	91,595	175,559
USA	**12,886**	**67,207**	10,180	58,026
Others	**42,468**	**86,876**	31,990	111
	4,277,553	**2,837,498**	4,257,138	2,563,643

	2022 KD 000's		2021 KD 000's	
	Assets	**Off Balance Sheet**	Assets	Off Balance Sheet
Industry sector				
Government	**225,998**	**-**	231,391	-
Trade and commerce	**626,945**	**677,205**	596,048	619,420
Construction and real estate	**786,934**	**1,240,739**	721,570	1,148,411
Banks and financial institutions	**1,583,663**	**482,645**	1,827,584	404,093
Others	**1,054,013**	**436,909**	880,545	391,719
	4,277,553	**2,837,498**	4,257,138	2,563,643

(f) Financial instruments with contractual or notional amounts that are subject to credit risk

In the ordinary course of business the Group uses derivative financial instruments to manage its exposure to fluctuations in interest and foreign exchange rates. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price of one or more underlying financial instruments, reference rate or index.

The table below shows the positive and negative fair values of derivative financial instruments, together with the notional amounts analysed by the term to maturity. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured.

The fair valuation gain or loss of the derivatives is taken to the consolidated statement of income.

Interest rate swaps held as fair value hedges are predominantly based on USD LIBOR and are subject to interest rate benchmark reforms. The Group has applied the hedging relief available under the amendments to IFRS 9 Financial Instruments relating to interest rate benchmark reforms such as relief on assessment of economic relationship between hedged items and hedging instruments.

	KD 000's						
			Notional amount by term maturity				
As at 31 December 2022	**Positive fair value**	**Negative fair value**	**Up to 1 Month**	**1 to 3 Months**	**3 to 12 Months**	**Over 1 Year**	**Total**
Forward Foreign Exchange Contracts	**6,314**	**1,983**	**67,417**	**192,683**	**44,625**	**-**	**304,725**
Interest Rate Swaps (held as fair value hedges)	**5,956**	**242**	**2,502**	**2,144**	**34,598**	**128,979**	**168,223**
Interest Rate Swaps (others)	**29,482**	**27,634**	**-**	**-**	**-**	**238,314**	**238,314**
	41,752	**29,859**	**69,919**	**194,827**	**79,223**	**367,293**	**711,262**

	KD 000's						
			Notional amount by term maturity				
As at 31 December 2021	Positive fair value	Negative fair value	Up to 1 Month	1 to 3 Months	3 to 12 Months	Over 1 Year	Total
Forward Foreign Exchange Contracts	2,328	1,786	436,140	104,531	13,883	-	554,554
Interest Rate Swaps (held as fair value hedges)	677	2,003	-	47,693	18,108	113,579	179,380
Interest Rate Swaps (others)	10,031	7,852	-	-	-	235,553	235,553
	13,036	11,641	436,140	152,224	31,991	349,132	969,487

(ii) MARKET RISK

Market risk is the risk that the fair value or the future cash flows of the financial instruments will fluctuate due to changes in the market variables such as interest rates, foreign exchange rates and equity prices. For detailed qualitative disclosure on the market risk please refer to note V(b),"Risk management - Market risk", of the Public Disclosures on Capital Adequacy Standard.

(A) Interest rate risk

Interest rate risk arises from the difference in repricing maturities of assets and liabilities. The majority of the Group's assets and liabilities reprice within one year. The Group manages the risk by matching the repricing of assets and liabilities by setting up a tolerance limit. The exposure is regularly measured by reviewing the risk to the set tolerance limit. For detailed qualitative disclosure on the interest rate risk please refer to note V(d), "Risk management - Interest rate risk", of the Public Disclosures on Capital Adequacy Standard.

Based on the Group’s financial assets and financial liabilities held at the year end, an assumed 25 basis points increase in interest rate, with all other variables held constant, would impact on the consolidated statement of income of the Group over a period of one year as follows:

		KD 000's	
	Basis points	**2022**	2021
Kuwaiti dinar	+25	**3,932**	1,873
US dollar	+25	**(491)**	(42)
Other currencies	+25	**274**	402
		3,715	2,233

(B) Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign currency exchange rates. The Group views itself as a Kuwaiti entity, with Kuwaiti Dinar as its functional currency. Net exposure in currencies is managed by setting overall limits by the Board of Directors and regularly monitoring through technological and managerial controls. For detailed qualitative disclosure on the currency risk refer to note V(b),"Risk management - Market risk", of the Public Disclosures on Capital Adequacy Standard.

The table below shows the effect on consolidated statement of income and changes in equity, as a result of strengthening in currency rate, with all other variables held constant. A negative amount reflects a potential net reduction in consolidated statement of income or changes in equity, where as a positive amount reflects a net potential increase.

		KD 000's			
		2022		2021	
	% Change in currency rates	**Statement of income**	**Equity**	Statement of income	Equity
US Dollar	+5	**(681)**	**-**	(356)	-
Sterling Pound	+5	**(1)**	**48**	3	141
Australian Dollar	+5	**2**	**-**	155	-
Saudi Riyal	+5	**41**	**-**	111	-
UAE Dirham	+5	**64**	**-**	130	-
Qatari Riyal	+5	**14**	**-**	67	-
Others	+5	**103**	**-**	(109)	-
		(458)	**48**	1	141

(C) Equity price risk

Equity price risk is the risk that the fair value of equities fluctuate as a result of changes in the level of equity indices and the value of individual stocks. The equity price risk exposure arises from the Group's investment portfolio. For detailed qualitative disclosure on the equity price risk please refer to note V(b),"Risk management - Market risk", of the Public Disclosure on Capital Adequacy Standard.

The effect on the consolidated statement of income and the consolidated statement of changes in equity due to possible changes in equity indices, with all other variables held constant, is as follows:

		KD 000's			
		2022		2021	
	% Change in equity price	**Statement of income**	**Equity**	Statement of income	Equity
Boursa Kuwait	+5	**-**	**1,866**	-	14,140

(iii) LIQUIDITY RISK

Liquidity risk is the risk that the Group will be unable to meet its funding requirements. Liquidity risk can arise from market disruptions or credit down grading which may cause certain sources of funding to dry up immediately. For more detailed disclosure on liquidity risk control please refer to note V(c),"Risk management - Liquidity risk", of the Public Disclosures on Capital Adequacy Standard.

(A) The table below summarises the maturity profile of the Group's assets and liabilities. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the date of consolidated statement of financial position to the contractual maturity date and do not take account of the effective maturities as indicated by the Group's deposit retention history and the availability of the liquid funds. It is unusual for the Group to ever completely match the maturities of their assets and liabilities since business transacted is often of uncertain term and of different type. However, the management constantly monitors its maturity profile to ensure that adequate liquidity is maintained at all times.

	KD 000's					
As at 31 December 2022	**Up to 1 Month**	**1 to 3 Months**	**3 to 6 Months**	**6 to 12 Months**	**Over 1 Year**	**Total**
ASSETS						
Cash and short term funds	**732,555**	**-**	**-**	**-**	**-**	**732,555**
Treasury and Central Bank bonds	**183,451**	**67**	**37**	**-**	**-**	**183,555**
Due from banks and OFIs	**20,744**	**305,291**	**53,527**	**54,776**	**45,864**	**480,202**
Loans and advances	**215,650**	**376,412**	**375,172**	**267,434**	**1,184,880**	**2,419,548**
Investment securities	**192,495**	**4,012**	**33,299**	**10,371**	**132,726**	**372,903**
Premises and equipment	**-**	**-**	**-**	**-**	**29,414**	**29,414**
Intangible assets	**-**	**-**	**-**	**-**	**3,506**	**3,506**
Other assets	**71,476**	**2,345**	**805**	**738**	**13,426**	**88,790**
	1,416,371	**688,127**	**462,840**	**333,319**	**1,409,816**	**4,310,473**
LIABILITIES						
Due to banks	**42,504**	**83,693**	**34,189**	**51,143**	**13,318**	**224,847**
Due to OFI's	**114,260**	**76,738**	**37,262**	**45,483**	**-**	**273,743**
Customer deposits	**1,435,901**	**455,366**	**280,084**	**163,196**	**5,738**	**2,340,285**
Other borrowed funds	**-**	**53,603**	**29,711**	**-**	**528,128**	**611,442**
Other liabilities	**120,479**	**10,372**	**6,865**	**1,255**	**60,864**	**199,835**
	1,713,144	**679,772**	**388,111**	**261,077**	**608,048**	**3,650,152**
Net liquidity gap	**(296,773)**	**8,355**	**74,729**	**72,242**	**801,768**	**660,321**

	KD 000's					
As at 31 December 2021	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Over 1 Year	Total
ASSETS						
Cash and short term funds	727,513	-	-	-	-	727,513
Treasury and Central Bank bonds	177,219	212	21	-	-	177,452
Due from banks and OFIs	12,520	137,540	147,453	185,073	-	482,586
Loans and advances	513,992	248,752	247,636	241,785	1,025,913	2,278,078
Investment securities	94,246	12,132	423	1,744	442,758	551,303
Premises and equipment	-	-	-	-	28,922	28,922
Intangible assets	-	-	-	-	3,506	3,506
Other assets	23,697	83	204	445	15,777	40,206
	1,549,187	398,719	395,737	429,047	1,516,876	4,289,566

	KD 000's					
	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Over 1 Year	Total
LIABILITIES						
Due to banks	183,348	129,274	26,095	15,138	6,671	360,526
Due to OFI's	103,678	43,017	25,191	73,790	-	245,676
Customer deposits	1,547,383	454,824	41,673	70,979	4,755	2,119,614
Other borrowed funds	-	26,642	-	101,971	390,846	519,459
Other liabilities	75,978	16,534	4,262	351	126,302	223,427
	1,910,387	670,291	97,221	262,229	528,574	3,468,702
Net liquidity gap	(361,200)	(271,572)	298,516	166,818	988,302	820,864

(B) Contractual expiry by maturity.

	KD 000's					
	Up to 1 Month	**1 to 3 Months**	**3 to 6 Months**	**6 to 12 Months**	**Over 1 Year**	**Total**
As at 31 December 2022						
Contingent Liabilities	**346,404**	**570,112**	**456,490**	**540,113**	**924,379**	**2,837,498**
As at 31 December 2021						
Contingent Liabilities	527,767	422,935	326,565	406,478	879,898	2,563,643

(C) Contractual undiscounted repayment obligations by maturity.

	KD 000's					
As at 31 December 2022	**Up to 1 Month**	**1 to 3 Months**	**3 to 6 Months**	**6 to 12 Months**	**Over 1 Year**	**Total**
UNDISCOUNTED LIABILITIES						
Due to banks	**42,511**	**84,257**	**34,542**	**53,112**	**16,146**	**230,568**
Due to OFI's	**114,273**	**77,255**	**40,803**	**59,707**	**-**	**292,038**
Customer deposits	**1,436,299**	**457,954**	**280,776**	**163,328**	**5,798**	**2,344,155**
Other borrowed funds	**109**	**56,921**	**3,006**	**-**	**598,433**	**658,469**
Other liabilities	**120,480**	**10,371**	**6,865**	**1,255**	**60,864**	**199,835**
	1,713,672	**686,758**	**365,992**	**277,402**	**681,241**	**3,725,065**

	KD 000's					
As at 31 December 2021	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Over 1 Year	Total
UNDISCOUNTED LIABILITIES						
Due to banks	183,378	129,423	26,153	15,209	6,780	360,943
Due to OFI's	103,684	43,044	25,219	74,020	-	245,967
Customer deposits	1,547,429	455,268	41,696	71,092	4,755	2,120,240
Other borrowed funds	167	27,333	651	102,034	402,692	532,877
Other liabilities	75,982	16,533	4,262	351	126,299	223,427
	1,910,640	671,601	97,981	262,706	540,526	3,483,454

21 OPERATIONAL RISK

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.

The business and support units have primary responsibility for identifying, assessing and managing their operational risks. They employ internal control techniques to reduce their likelihood or impact to tolerable levels within the Group's risk appetite. Where appropriate, risk is mitigated by way of insurance.

For detailed qualitative disclosure on operational risk control please refer to note V(e),"Risk management - Operational risk", of the Public Disclosures on Capital Adequacy Standard.

22 SEGMENTAL ANALYSIS

The Group operates in banking, brokerage services and investment banking activities, which is segmented between:

a) Corporate and Retail banking provides a full range of lending, deposit and related banking services to domestic and international corporate and individual customers.

b) Treasury and Investment banking comprises of money market, foreign exchange, treasury bonds and brokerage services.

Management monitors the operating results of these segments separately for the purpose of making decisions based on key performance indicators.

	KD 000's					
	Corporate and Retail Banking		**Treasury and Investment Banking**		**Total**	
	2022	2021	**2022**	2021	**2022**	2021
Net interest income	**74,727**	62,964	**10,828**	11,291	**85,555**	74,255
Non interest income	**42,300**	37,794	**12,010**	12,813	**54,310**	50,607
Operating income	**117,027**	100,758	**22,838**	24,104	**139,865**	124,862
Impairment and other provisions	**4,251**	(23,047)	**(30,040)**	(1,100)	**(25,789)**	(24,147)
Net profit for the year	**96,396**	56,779	**(22,782)**	(2,044)	**73,614**	54,735
Total Assets	**2,479,692**	2,302,312	**1,830,781**	1,987,254	**4,310,473**	4,289,566
Total Liabilities	**1,734,095**	1,681,540	**1,916,057**	1,787,162	**3,650,152**	3,468,702

23 OFF BALANCE SHEET ITEMS

(a) Financial instruments with contractual amounts

In the normal course of business the Group makes commitments to extend credit to customers. The contracted amounts represent the credit risk assuming that the amounts are fully advanced and that any collateral is of no value. The total contractual amount of the commitment does not necessarily represent the future cash requirement as in many cases these contracts terminate without being funded.

(b) Legal claims

At the date of consolidated statement of financial position certain legal claims existed against the Group and for which KD 2,680 thousand (2021: KD 2,605 thousand) has been provided.

24 CAPITAL ADEQUACY

The disclosures relating to Capital Adequacy Regulations issued by CBK as stipulated in circular number 2BS/IBS/336/2014 dated 24 June 2014 are included under the "Public Disclosures on Capital Adequacy Standard" section of the annual report.

25 IMPACT OF COVID 19

The Group is gradually recovering from the effects of Covid-19 pandemic. The Group’s operating environment is moderately rebound and signs of economic recovery is visible across the region and globally. High vaccination rates and strict social distancing measures significantly reduced the impact of latest variants of virus.

During the years 2020 and 2021, Central Bank of Kuwait (CBK) implemented various measures targeted at reinforcing the banking sector's ability to play a vital role in the economy.

26 CHANGES IN INTERBANK OFFERED RATES (IBOR)

The Bank's exposure to its floating-rate financial assets and liabilities is mainly through USD LIBOR, which will be replaced as part of the fundamental reform of various major interest rate benchmarks. The Bank's Treasury Division is managing the transition activities and continues to engage with various stakeholders to support an orderly transition and to mitigate the risk: resulting from the transition. Transition away from LIBORs to the risk-free or alternative "reference rate" regime will affect the pricing of loans and floating rate debt securities.