

United Gulf Bank B.S.C. (c)

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2023

United Gulf Bank B.S.C. (c)
REPORT OF THE BOARD OF DIRECTORS

The Board of Directors is pleased to submit its report and the audited consolidated financial statements of United Gulf Bank B.S.C. (c) ("the Bank") for the year ended 31 December 2023.

Principal activities and review of business developments

The principal activities of the Bank and its subsidiaries (together the "Group") comprise of investment and commercial banking. Investment banking include asset portfolio management, corporate finance, advisory, investment in quoted and private equity / funds, real estate, capital markets, international banking and treasury functions. Commercial banking includes extending loans and other credit facilities, accepting deposits and current accounts from corporate and institutional customers.

Results for the year

During the year ended 31 December 2023, the Group recorded a net loss of US\$ 9.5 million (2022: net profit of US\$ 5.2 million) and total operating income of US\$ 64.9 million (2022: US\$ 92.5 million). The decrease is mainly attributable to the global economic conditions and increase in interest rates.

As of 31 December 2023, total assets of the Group were US\$ 775.4 million (2022: US\$ 783.0 million) with total equity of shareholders at US\$ 191.8 million (2022: US\$ 195.2 million).

Appropriations for the year

For the year ended 31 December 2023, the Board of Directors recommends that an allocation of US\$ nil thousand (2022: 515 thousand) 10% of total profits attributable to the Shareholders be done from retained earnings to statutory and general reserves.

Remuneration of Board of Directors and Executive Management

As part of the Group's commitment to transparency and fair disclosures, below are the remunerations paid to the Directors and Executive management of the Bank for the year ended 31 December 2023:

Board of Directors' remuneration

United Gulf Bank B.S.C. (c)
REPORT OF THE BOARD OF DIRECTORS

Remuneration of Board of Directors and Executive Management (continued)

Executive management's remuneration

Aggregate Amount	Any other cash/ in kind remuneration for 2023	Total paid remuneration (Bonus)	Total paid salaries and allowances	Executive management
976,401	82,950	3,480	889,971	Top 6 remunerations for executives, including CEO* and Senior Financial Officer**

Note: All amounts must be stated in Bahraini Dinars.

* The highest authority in the executive management of the company, the name may vary: (CEO, President, General Manager (GM), Managing

** The company's highest financial officer (CFO, Finance Director, ...etc)

Notes:

In line with the Service Level Agreement signed between UGB and UGH on 23 August 2017, the CEO, CFO, Corporate Secretary, the Chief Audit Executive & Corporate Secretary, Chief Compliance Officer, and other officers of UGB including the AML, risk management and shareholders/investor relations functions, perform their corresponding roles for UGH. There are hence no employees hired separately by UGH.

In the event it is deemed appropriate to pay certain UGB officers a variable, one-off compensation in lieu of the additional critical responsibilities undertaken by them on behalf of UGH, such compensation is approved by the NRC of UGB and disclosed appropriately.

Auditors

Resolution for their appointment of the auditors of the Bank for the year ending 31 December 2024 will be put for approval of the Shareholders.

Signed on behalf of the Board of Directors



Masaud Hayat

Chairman



Mohammed Al Rahma

Independent Director



Ernst & Young - Middle East
P O Box 140
10th Floor, East Tower
Bahrain World Trade Centre
Manama
Kingdom of Bahrain

Tel: +973 1753 5455
Fax: +973 1753 5405
manama@bh.ey.com
C.R. No. 29977-1

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF UNITED GULF BANK B.S.C. (c)

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of United Gulf Bank B.S.C. (c) ("the Bank") and its subsidiaries (together "the Group"), which comprise the consolidated statement of financial position as at 31 December 2023, and the consolidated statements of income, comprehensive income, cash flows and changes in equity for the year then ended, and notes to the consolidated financial statements, including material accounting policy information.

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 2023, and its consolidated financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

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 *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in the Kingdom of Bahrain, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information included in the Group's 2023 Annual Report

Other information consists of the information included in the Group's 2023 Annual Report, other than the consolidated financial statements and our auditor's report thereon. The Board of Directors is responsible for the other information. Prior to the date of this auditor report, we obtained the Report of the Board of Directors which forms part of the annual report, and the remaining sections of the annual report are expected to be made available to us after that date.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information obtained prior to the date of the 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.



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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF UNITED GULF BANK B.S.C. (c) (continued)

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

Responsibilities of the Board of Directors for the consolidated financial statements

The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors 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 the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Group's financial reporting process.

Auditor's 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 auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs 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 skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.



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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF UNITED GULF BANK B.S.C. (c) (continued)

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

Auditor's responsibilities for the audit of the consolidated financial statements (continued)

- Conclude on the appropriateness of the Board of Directors' 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 auditor's 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 auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee 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.

Report on Other Legal and Regulatory Requirements

As required by the Bahrain Commercial Companies Law and Volume 1 of the Central Bank of Bahrain (CBB) Rule Book, we report that:

- a) the Bank has maintained proper accounting records and the consolidated financial statements are in agreement therewith;
- b) the financial information contained in the Report of the Board of Directors is consistent with the consolidated financial statements;
- c) we are not aware of any violations of the Bahrain Commercial Companies Law, the CBB and Financial Institutions Law, the CBB Rule Book (Volume 1 and applicable provisions of Volume 6) and CBB directives, or the terms of the Bank's memorandum and articles of association during the year ended 31 December 2023 that might have had a material adverse effect on the business of the Bank or on its consolidated financial position; and



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**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF
UNITED GULF BANK B.S.C. (c) (continued)**

Report on Other Legal and Regulatory Requirements (continued)

- d) satisfactory explanations and information have been provided to us by management in response to all our requests.

Partner's registration no. 244
28 February 2024
Manama, Kingdom of Bahrain

United Gulf Bank B.S.C. (c)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2023

	Note	2023 US\$ 000	2022 US\$ 000
ASSETS			
Demand and call deposits with banks	5	82,467	102,969
Placements with banks	5	78,625	96,465
Investments carried at fair value through profit or loss	6	128,274	88,064
Investments carried at fair value through other comprehensive income	6	130,218	104,021
Investments carried at amortised cost	6	-	25,036
Loans and receivables	7	19,679	21,690
Other assets	8	70,515	75,985
Investment in associates	9	60,386	87,050
Investment properties	10	127,388	99,962
Property and equipment	11	15,679	15,846
Goodwill and other intangible assets	12	62,151	63,556
Assets held for sale	13	-	2,306
TOTAL ASSETS		775,382	782,950
LIABILITIES AND EQUITY			
Liabilities			
Due to banks and other financial institutions		121,510	138,878
Deposits from customers		15,915	20,772
Term loans	14	203,622	61,324
Long term bonds	15	-	130,595
Other liabilities	16	89,759	109,804
Total liabilities		430,806	461,373
Equity			
Share capital	17	116,132	116,132
Share premium	17	5,687	5,687
Statutory reserve	17	54,034	54,034
General reserve	17	3,765	33,765
Fair value reserve	18	14,641	(7,586)
Foreign currency translation reserve	17	(6,505)	(5,379)
Retained earnings / (accumulated deficit)		4,007	(1,425)
Equity attributable to the shareholders of the Parent		191,761	195,228
Perpetual Additional Tier 1 Capital	19	33,000	33,000
Non-controlling interests		119,815	93,349
Total equity		344,576	321,577
TOTAL LIABILITIES AND EQUITY		775,382	782,950

Masaud Hayat
Chairman

Faisal Al Ayyar
Vice Chairman

Hussain Lalani
Chief Executive Officer

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

United Gulf Bank B.S.C. (c)

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2023

	Note	2023 US\$ 000	2022 US\$ 000
Interest income	20	9,562	9,399
Investment income - net	21	13,987	10,082
		23,549	19,481
Fees and commissions - net	22	49,833	69,489
Foreign exchange gain (loss) - net		1,887	(1,409)
Share of results of associates	9,23	(10,390)	4,955
Total income		64,879	92,516
Interest expense	24	(21,482)	(17,223)
Operating income before expenses and expected credit losses		43,397	75,293
Salaries and benefits		(33,969)	(42,095)
General and administrative expenses		(18,949)	(19,086)
Operating (loss) income before expected credit losses		(9,521)	14,112
Reversal of (allowances for) expected credit losses		721	(1,089)
(Loss) profit before tax		(8,800)	13,023
Tax expense		(122)	(1,065)
Net (loss) profit for the year		(8,922)	11,958
Net profit attributable to non-controlling interests		595	6,806
Net (loss) profit attributable to shareholders of the Parent		(9,517)	5,152

Masaud Hayat
Chairman

Faisal Al Ayyar
Vice Chairman

Hussain Lalani
Chief Executive Officer

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

United Gulf Bank B.S.C. (c)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2023

	Note	2023 US\$ 000	2022 US\$ 000
Net (loss) profit for the year		(8,922)	11,958
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Other Comprehensive Income (OCI)			
<i>Items that will not be reclassified to profit or loss in subsequent periods</i>			
Net change in fair value reserve of equity investments measured at fair value through OCI		1,434	1,684
Net change in fair value reserve of associates		3,587	-
		5,021	1,684
<i>Items that may be reclassified to profit or loss in subsequent periods</i>			
Net change of cash flow hedges	18	6	443
Foreign currency translation adjustments		(1,087)	(1,693)
Net change in fair value reserve of associates	9	8,578	1,575
		7,497	325
Other comprehensive income for the year		12,518	2,009
Total comprehensive income for the year		3,596	13,967
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Total comprehensive income attributable to:			
- Shareholders of the Parent		2,169	7,960
- Non-controlling interests		1,427	6,007
		3,596	13,967

United Gulf Bank B.S.C. (c)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2023

	Attributable to shareholders of the Parent								Perpetual Additional Tier 1 Capital US\$ 000	Non- controlling interests US\$ 000	Total equity US\$ 000
	Share capital US\$ 000	Share premium US\$ 000	Statutory reserve US\$ 000	General reserve US\$ 000	Fair value reserve US\$ 000	Foreign currency translation reserve US\$ 000	Retained earnings (accumulated deficit) US\$ 000	Total US\$ 000			
Balance at 1 January 2023	116,132	5,687	54,034	33,765	(7,586)	(5,379)	(1,425)	195,228	33,000	93,349	321,577
Net (loss) profit for the year	-	-	-	-	-	-	(9,517)	(9,517)	-	595	(8,922)
Other comprehensive income (loss)	-	-	-	-	12,773	(1,087)	-	11,686	-	832	12,518
Total comprehensive income (loss) for the year	-	-	-	-	12,773	(1,087)	(9,517)	2,169	-	1,427	3,596
Transfer upon disposal of equity investments carried at fair value through OCI	-	-	-	-	348	-	(348)	-	-	-	-
Other movements in associate	-	-	-	-	-	-	(3,045)	(3,045)	-	(305)	(3,350)
Other movements (note 18.1)	-	-	-	-	9,106	(39)	(8,154)	913	-	636	1,549
Interest payment on Tier 1 capital	-	-	-	-	-	-	(3,504)	(3,504)	-	-	(3,504)
Transfer from general reserve to retained earnings (note 17)	-	-	-	(30,000)	-	-	30,000	-	-	-	-
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	24,708	24,708
Balance at 31 December 2023	116,132	5,687	54,034	3,765	14,641	(6,505)	4,007	191,761	33,000	119,815	344,576
Balance at 1 January 2022	116,132	5,687	53,519	33,250	(13,477)	(4,572)	261	190,800	33,000	92,902	316,702
Net profit for the year	-	-	-	-	3,615	(807)	5,152	5,152	-	6,806	11,958
Other comprehensive income (loss)	-	-	-	-	-	-	-	2,808	-	(799)	2,009
Total comprehensive income (loss) for the year	-	-	-	-	3,615	(807)	5,152	7,960	-	6,007	13,967
Transfer upon disposal of equity investments carried at fair value through other comprehensive income	-	-	-	-	2,276	-	(2,276)	-	-	-	-
Transfers during the year (note 17)	-	-	515	515	-	-	(1,030)	-	-	-	-
Interest payment on Perpetual Additional Tier 1 Capital	-	-	-	-	-	-	(3,532)	(3,532)	-	-	(3,532)
Other movements in non-controlling interests	-	-	-	-	-	-	-	-	-	(5,560)	(5,560)
Balance at 31 December 2022	116,132	5,687	54,034	33,765	(7,586)	(5,379)	(1,425)	195,228	33,000	93,349	321,577

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

United Gulf Bank B.S.C. (c)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2023

	Note	2023 US\$ 000	2022 US\$ 000
OPERATING ACTIVITIES			
(Loss) profit before tax		(8,800)	13,023
Adjustments for non-cash items:			
Depreciation and amortisation		2,798	2,685
Share of results of associates	9,23	10,390	(4,955)
(Reversal of) allowances for expected credit losses		(721)	1,089
Gain on bargain purchase	31	(3,265)	-
Unrealised gain on investments carried at fair value through profit or loss	21	(2,238)	(1,293)
Realised loss (gain) on investments carried at fair value through profit or loss	21	104	(2,236)
Unrealised gain on investment properties	10,21	(1,014)	(560)
Interest income	20	(9,562)	(9,399)
Interest expense	24	21,482	17,223
Operating profit before changes in operating assets and liabilities		9,174	15,577
Changes in operating assets and liabilities:			
Placements with banks		(3,190)	(10,610)
Investments carried at fair value through profit or loss		(34,436)	8,670
Investments carried at fair value through other comprehensive income		(75)	5,646
Investments carried at amortised cost		25,036	136
Loans and receivables		3,053	11,906
Other assets		(1,159)	6,257
Due to banks and other financial institutions		(17,368)	(10,723)
Deposits from customers		(4,857)	(49,405)
Other liabilities		(13,474)	(4,978)
Interest received		6,029	9,833
Interest paid		(19,678)	(16,029)
Donations paid		(200)	(200)
Directors' remuneration		(245)	(260)
Net cash flow used in operating activities		(51,390)	(34,180)
INVESTING ACTIVITIES			
Cash acquired as a result of business combinations	31	2,644	-
Investment in associates - net		9,601	2,229
Acquisition of non-current asset classified as held for sale		-	(13,594)
Proceeds from disposal of non-current asset classified as held for sale		-	11,298
Property and equipment - net		(939)	(3,750)
Purchase of software	12	(503)	(835)
Net cash flow from (used in) investing activities		10,803	(4,652)
FINANCING ACTIVITIES			
New loans obtained		142,298	44,778
Repayment of bonds		(130,595)	-
Interest payment on Perpetual Tier 1 Capital		(3,504)	(3,532)
Movement in non-controlling interests		(887)	(5,560)
Net cash flow from financing activities		7,312	35,686
Foreign currency translation adjustments		(8,257)	(3,031)
NET CHANGE IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at 1 January		184,906	191,083
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	5	143,374	184,906

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

1 INCORPORATION AND PRINCIPAL ACTIVITIES

United Gulf Bank B.S.C. (c) ("UGB" or the "Bank") is a closed joint stock company incorporated in the Kingdom of Bahrain in 1980, under Commercial Registration number 10550. The Bank's registered office is situated at UGB Tower, Diplomatic Area, P.O. Box 5964, Manama, Kingdom of Bahrain.

The Bank operates in the Kingdom of Bahrain under a Wholesale Banking License of Volume 1 issued by the Central Bank of Bahrain (the "CBB").

The principal activities of the Bank and its subsidiaries (together the "Group") comprise of investment and commercial banking activates. Investment banking includes asset and portfolio management, corporate finance, advisory, investment in quoted and private equity funds, real estate, capital markets, international banking and treasury functions. Commercial Investment banking includes extending loans and other credit facilities, accepting deposits and current accounts from corporate and institutional customers.

The Bank's parent company is United Gulf Holding Company B.S.C. ("UGH" or "Parent") which owns 100% shares of the Bank and the ultimate holding company is Kuwait Projects Company (Holding) K.S.C. ["KIPCO" or "Ultimate Parent"]. UGH is incorporated in the Kingdom of Bahrain as a joint stock company and is listed on the Bahrain Bourse. KIPCO is incorporated in the State of Kuwait and is listed on the Kuwait Stock Exchange (Boursa Kuwait).

These consolidated financial statements were authorised for issue by the Board of Directors on 28 February 2024.

2 BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICIES

2.1 Statement of compliance and framework

The consolidated financial statements of the Group are prepared in accordance with the relevant provisions of the Bahrain Commercial Companies Law, directives, regulations and associated resolutions, rules and procedures of the CBB, which require the preparation of financial statements under International Financial Reporting Standards ("IFRS").

2.2 Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments, investment properties and financial instruments designated at Fair Value Through Profit or Loss (FVTPL) and at Fair Value Through Other Comprehensive Income (FVOCI), which have been measured at fair value.

Certain corresponding figures have been reclassified in order to conform to the presentation of the consolidated financial statements for the current period. Such reclassifications did not affect previously reported net profit and total equity of the Group.

2.3 Presentation and functional currency

The consolidated financial statements have been presented in United States Dollar (US\$), which is also the functional currency of the Bank and all the amounts reported in the consolidated financial statements are rounded to the nearest US\$ thousands, unless otherwise indicated.

2.4 New and amended standards, interpretations and amendments adopted by the Group

The accounting policies adopted in the preparation of these consolidated financial statements are consistent with those followed in the preparation of the Group's consolidated financial statements for the year ended 31 December 2022, except for the adoption of new and amended standards and interpretations effective as of 1 January 2023. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

2 BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICIES (continued)

2.4 New and amended standards, interpretations and amendments adopted by the Group (continued)

The following new amendments to the accounting standards became effective as of 1 January 2023 and have been adopted by the Group in preparation of these consolidated financial statements as applicable.

2.4.1 IFRS 17 Insurance Contracts

IFRS 17 Insurance Contracts is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. IFRS 17 replaces IFRS 4 Insurance Contracts; IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entity that issues them, as well as certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of IFRS 17 is to provide a comprehensive accounting model for insurance contracts that is more useful and consistent for insurers, covering all relevant accounting aspects. IFRS 17 is based on a general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach); and
- A simplified approach (the premium allocation approach) mainly for short-duration contracts.

The new standard had no impact on the consolidated financial statements of the Group.

2.4.2 Definition of Accounting Estimates - Amendments to IAS 8

The amendments to IAS 8 clarifies the distinction between changes in accounting estimates, changes in accounting policies and the correction of errors. They also clarify how entities use measurement techniques and inputs to develop accounting estimates.

The amendments had no impact on the consolidated financial statements of the Group.

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

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

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

2.4.4 Deferred Tax related to Assets and Liabilities arising from a Single Transaction - Amendments to IAS 12

The amendments to IAS 12 Income Tax narrows the scope of the initial recognition exception, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences such as leases and decommissioning liabilities.

The amendments had no impact on the consolidated financial statements of the Group.

2 BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICIES (continued)

2.4 New standards, interpretations and amendments adopted by the Group (continued)

2.4.5 International Tax Reform—Pillar Two Model Rules – Amendments to IAS 12

The amendments to IAS 12 have been introduced in response to the OECD's BEPS Pillar Two rules and include:

- A mandatory temporary exception to the recognition and disclosure of deferred taxes arising from the jurisdictional implementation of the Pillar Two model rules; and
- Disclosure requirements for affected entities to help users of the financial statements better understand an entity's exposure to Pillar Two income taxes arising from that legislation, particularly before its effective date.

The mandatory temporary exception – the use of which is required to be disclosed – applies immediately. The remaining disclosure requirements apply for annual reporting periods beginning on or after 1 January 2023, but not for any interim periods ending on or before 31 December 2023.

The amendments had no impact on the Group's financial statements as the Group is not in scope of the Pillar Two model rules as its revenue is less than EUR 750 million/year.

2.5 Basis of consolidation

The consolidated financial statements include the financial statements of the Bank and its subsidiaries as at 31 December 2023 and 2022. The reporting dates of the subsidiaries and the Bank are identical and the subsidiaries' accounting policies conform to those used by the Bank for like transactions and events in similar circumstances.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Specifically, the Group controls an investee if and only if the Group 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.

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- the contractual arrangement with the other vote holders of the investee;
- rights arising from other contractual arrangements; and
- the Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of OCI are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

2 BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICIES (continued)

2.5 Basis of consolidation (continued)

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:

- a) Derecognises the assets (including goodwill) and liabilities of the subsidiary;
- b) Derecognises the carrying amount of any non-controlling interest;
- c) Derecognises the cumulative transaction differences, recorded in equity;
- d) Recognises the fair value of consideration received;
- e) Recognises the fair value of any investment retained;
- f) Recognises any surplus or deficit in the consolidated statement of income; and
- g) Reclassifies the parent's share of a component previously recognised in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

The principal subsidiaries of the Bank are as follows:

<i>Name of the subsidiary</i>	<i>Country of incorporation</i>	<i>Ownership at 31 December</i>		<i>Year of incorporation</i>
		<i>2023</i>	<i>2022</i>	
<i>Held directly</i>				
KAMCO Investment Company K.S.C.P. [KAMCO]	Kuwait	60%	60%	1998
United Gulf Realty International, Limited [UGRIL]	The British Virgin Islands	50%	50%	2012
<i>Partly held directly and partly through KAMCO</i>				
Manafae Investment Company (note 31)	Kuwait	54%	-	2005
N.S. 88 (note 31)	Bahrain	77%	-	2007
<i>Held through KAMCO</i>				
1925 Investor Inc.	Jersey	100%	100%	2022
Al Jazi Money Market Fund	Kuwait	51%	51%	2007
Al Tadamun United Holding Company K.S.C.	Kuwait	96%	96%	2017
American Boulevard Investor, Inc	U.S.A.	100%	100%	2022
Bukeye Power Advisory Company L.L.C.	U.S.A.	48%	48%	2017
Bukeye Power Manager Limited	Jersey	100%	100%	2017
Centerstone Investor Inc.	U.S.A.	100%	100%	2021
First Securities Brokerage Company K.S.C.	Kuwait	93%	93%	1985
KAMCO Investment Company DIFC Limited	U.A.E.	100%	100%	2013
KAMCO Investment Company Saudi	Saudi Arabia	100%	100%	2013
KAMCO GCC Opportunistic Fund	Kuwait	61%	91%	2013
KAMCO MENA Plus Fixed Income Fund OEIC Ltd	U.A.E.	54%	56%	2019
Kubbar United Real Estate Company	Kuwait	100%	100%	2017
Kuwait Private Equity Opportunity Fund	Kuwait	73%	73%	2004
Lawson Lane Investor Incorporation	U.S.A.	100%	100%	2020
Nawasi United Holding Company K.S.C. (Closed)	Kuwait	96%	100%	2017
Plans United Real Estate Co.	Kuwait	100%	100%	2017
HP Plaza Investor Inc	U.S.A.	100%	100%	2019
KAMCO Investment Company Ltd	U.K.	100%	-	2023
KAMCO Capital Management Ltd.	Cayman Islands	100%	100%	1998
KAMCO Capital Partners Ltd.	Cayman Islands	100%	100%	2007
KAMCO Investment Company DIFC Limited	U.A.E.	100%	100%	2016
Martley Finance GP Limited	Jersey	100%	100%	2020
Martley Holdings GP Limited	Jersey	100%	100%	2020

2 BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICIES (continued)

2.6 Summary of material accounting policies

2.6.1 Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in general and administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through the consolidated statement of income. It is then considered in the determination of goodwill.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IFRS 9 Financial Instruments, is measured at fair value with the changes in fair value recognised in accordance with IFRS 9. Other contingent consideration that is not within the scope of IFRS 9 is measured at fair value at each reporting date with changes in fair value recognised in the consolidated statement of income.

2.6.2 Goodwill and other intangible assets

Goodwill

Goodwill represents the excess of the cost of acquisition over the Group's share of the fair value of the net identifiable assets of the acquired subsidiary or associate / joint venture at the date of the acquisition. Goodwill arising on the acquisition of an associate / joint venture is included in the carrying amount of the respective associate / joint venture and, therefore, is not separately tested for impairment. Goodwill arising on the acquisition of a subsidiary is recognised as a separate asset in the consolidated statement of financial position.

Goodwill acquired in a business combination is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the Group's interest in the net fair value of the identifiable assets, liabilities, and contingent liabilities acquired.

If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the re-assessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in the consolidated statement of income.

After initial recognition, goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment. If the recoverable amount of the cash generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. The recoverable amount of a cash-generating unit is the higher of the cash-generating unit's fair value less costs to sell, and its value in use. Any impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a part of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

2 BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICIES (continued)

2.6 Summary of material accounting policies (continued)

2.6.2 Goodwill and other intangible assets (continued)

Other intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses.

The useful lives of intangible assets are assessed as either finite or definite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the consolidated statement of income in the expense category that is consistent with the function of the intangible assets.

An intangible asset is derecognised upon disposal (i.e., at the date the recipient obtains control) or when no future economic benefits are expected from its use or disposal. Any gain or loss arising upon derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of income.

2.6.3 Investments in associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The Group's investments in its associates are accounted for using the equity method.

Under the equity method, the investment in an associate is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The consolidated statement of income reflects the Group's share of the results of operations of the associate. Any change in OCI of those investees is presented as part of the Group's consolidated OCI. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the Group's interest in the associate.

The financial statements of associates are prepared for the same reporting period as that of the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investments in its associates. At each reporting date, the Group determines whether there is objective evidence that an investment in an associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the investment in associate and its carrying value and then recognises the loss in the consolidated statement of income.

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

2 BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICIES (continued)

2.6 Summary of material accounting policies (continued)

2.6.4 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Date of recognition

Financial assets and liabilities, with the exception of loans and receivables, due to banks and other financial institutions and deposits from customers, are initially recognised on the trade date, i.e., the date that the Group becomes a party to the contractual provisions of the instrument. This includes regular way trades: purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. Loans and receivables are recognised when funds are transferred to the customers' accounts. The Group recognises due to banks and other financial institutions and deposits from customers when funds are transferred to the Group.

Initial measurement

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. At initial recognition, the Group measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at FVTPL, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at FVTPL are expensed in consolidated statement of income. Immediately after initial recognition, an Expected Credit Loss ("ECL") is recognised for financial assets measured at amortised cost and for debt instruments measured at FVOCI, which results in an accounting loss being recognised in the consolidated statement of income.

When the fair value of financial assets and liabilities at initial recognition differs from the transaction price, the Group accounts for the day 1 profit or loss as follows:

- (a) When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a Level 1 input) or based on a valuation technique that uses data only from observable markets, the difference is recognised as a day 1 gain or loss.
- (b) In all other cases, the difference is deferred and the timing of recognition of deferred day 1 profit or loss is determined individually. It is either amortised over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or when the instrument is derecognised.

Measurement categories of financial assets and liabilities

The Group classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

- Amortised cost;
- FVOCI; or
- FVTPL;

The Group classifies and measures its derivative and trading portfolio at FVTPL. The Group may designate financial instruments at FVTPL, if doing so eliminates or significantly reduces measurement or recognition inconsistencies.

Financial liabilities, other than derivatives, are measured at amortised cost. Derivative instruments are classified at FVTPL.

2.6.5 Financial assets

Classification and subsequent measurement

The classification requirements for financial assets is as below:

(a) Debt type instrument classification and subsequent measurement:

Classification and subsequent measurement of debt instruments depend on:

2 BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICIES (continued)

2.6 Summary of material accounting policies (continued)

2.6.5 Financial assets (continued)

Classification and subsequent measurement (continued)

(a) Debt type instrument classification and subsequent measurement (continued):

- (i) the Group's business model for managing the asset; and
- (ii) the cash flow characteristics of the asset i.e. Solely Payments of Principal and Interest (SPPI) test.

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

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent SPPI, and that are not designated at FVTPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any ECL allowance recognised. Interest income from these financial assets is included in 'Interest income' using Effective Interest Rate ("EIR") method.
- FVOCI: Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent SPPI, and that are not designated at FVTPL, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognised in consolidated statement of income. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to consolidated income and recognised in 'Investment income - net'. Interest income from these financial assets is included in 'Interest income' using the EIR method.
- FVTPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at FVTPL and is not part of a hedging relationship is recognised in consolidated profit or loss and presented in the consolidated statement of income within 'Investment income - net' in the period in which it arises. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

Business model

The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. The business model reflects how the Group manages the assets in order to generate 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 assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'held for trading' business model and measured at FVTPL. The business model assessment is not carried out on an instrument-by-instrument basis but at the aggregate portfolio level and is based on observable factors such as:

- The stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;
- How the asset's and business model performance is evaluated and reported to key management personnel and Asset and Liability Committee (ALCO);
- How risks are assessed and managed; and
- The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realised.

2 BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICIES (continued)

2.6 Summary of material accounting policies (continued)

2.6.5 Financial assets (continued)

Classification and subsequent measurement (continued)

(a) Debt type instrument classification and subsequent measurement (continued):

Business model (continued)

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.

Financial assets that are held for trading and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

SPPI test

As a second step of its classification process 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 (for example, if there are repayments of principal or amortisation of the premium/discount).

Interest is the consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement.

In assessing whether the contractual cash flows are SPPI, the Group considers the contractual terms of the instrument. This includes assessing 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. In making the assessment, the Group considers:

- the currency in which the financial asset is denominated, and the period for which the interest rate is set;
- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms; and
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse asset arrangements).

Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at FVTPL.

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

(b) Equity type instruments: classification and subsequent measurement

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

2 BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICIES (continued)

2.6 Summary of material accounting policies (continued)

2.6.5 Financial assets (continued)

Classification and subsequent measurement (continued)

(b) Equity type instruments classification and subsequent measurement (continued):

Equity instruments at FVOCI

Upon initial recognition, the Group may elect to classify irrevocably some of its equity investments as equity instruments at FVOCI when they meet the definition of Equity under IAS 32 *Financial Instruments: Presentation* and are not held for trading. Such classification is determined on an instrument-by-instrument basis. Fair value gains and losses are recognised in other comprehensive income and are not subsequently reclassified to consolidated statement of income, including on disposal. Equity investments at FVOCI are not subject to impairment assessment. All other equity investments which the Group has not irrevocably elected at initial recognition or transition, to classify at FVOCI, are recognised at FVTPL.

Financial assets at FVTPL

The Group classifies financial assets at fair value through profit or loss when they have been purchased or issued primarily for short-term profit making through trading activities or form part of a portfolio of financial instruments that are managed together, for which there is evidence of a recent pattern of short-term profit taking. Held-for-trading assets are recorded and measured in the consolidated statement of financial position at fair value. In addition, on initial recognition, the Group may irrevocably designate a financial asset at FVTPL that otherwise meets the requirements to be measured at FVOCI if by doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise. Changes in fair values gain and losses, financing income and dividends are recorded in consolidated statement of income according to the terms of the contract, or when the right to payment has been established.

Dividends are recognised in the consolidated statement of income within 'Investment income - net' when the Group's right to receive payments is established.

Impairment

The Group assesses on a forward-looking basis, the ECL associated with its debt instrument assets carried at amortised cost and FVOCI and with the exposure arising from loan commitments and financial guarantee contracts. The Group recognises a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

To calculate ECL, the Group estimates the risk of a default occurring on the financial instrument during its expected life. ECLs are estimated based on the present value of all cash shortfalls over the remaining expected life of the financial asset, i.e., the difference between: the contractual cash flows that are due to the Group under the contract, and the cash flows that the Group expects to receive, discounted at the effective interest rate of the loan or an approximation thereof.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

2 BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICIES (continued)

2.6 Summary of material accounting policies (continued)

2.6.5 Financial assets (continued)

Impairment (continued)

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: an estimate is made for the expected portion of the loan commitment that are drawn down over the expected life of the loan commitment; and then a calculation is made for the present value of cash shortfalls between the contractual cash flows that are due to the entity if the holder of the loan commitment draws down that expected portion of the loan and the cash flows that the entity expects to receive if that expected portion of the loan is drawn down; and
- financial guarantee contracts: ECL based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the guarantor expects to receive from the holder, the debtor or any other party. If a loan is fully guaranteed, the ECL estimate for the financial guarantee contract would be the same as the estimated cash shortfall estimate for the loan subject to the guarantee.

For the purposes of calculation of ECL, the Group categorises its FVOCI debt securities, loans and receivable and loan commitments and financial guarantee contracts into Stage 1, Stage 2 and Stage 3, based on the applied impairment methodology, as described below:

- Stage 1 – Performing: when assets are first recognised, the Group recognises an allowance based up to 12-month ECL.
- Stage 2 – Significant Increase in Credit Risk (SICR): when an assets shows a significant increase in credit risk, the Group records an allowance for the lifetime ECL.
- Stage 3 – Credit-impaired: the Group recognises the lifetime ECL for these loans.

For the purposes of categorisation into above stages, the Group has established a policy to perform an assessment at the end of each reporting period of whether credit risk has increased significantly since initial recognition by considering the change in the risk of default occurring over the remaining life of the financial instrument.

The Group records impairment for FVOCI debt securities, depending on whether they are classified as Stage 1, 2, or 3, as explained above. However, the ECL does not reduce the carrying amount of these financial assets in the consolidated statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the asset were measured at amortised cost is recognised in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss.

No impairment is recorded on equity investments.

Stage 1

The Group measures loss allowances at an amount up to 12-month ECL for Stage 1 customers. All financial assets are classified as Stage 1 on initial recognition date. Subsequently on each reporting date the Group classifies following as Stage 1:

- debt type assets that are determined to have low credit risk at the reporting date; and
- on which credit risk has not increased significantly since their initial recognition.

Stage 2

IFRS 9 requires financial assets to be classified in Stage 2 when their credit risk has increased significantly since their initial recognition. For these assets, a loss allowance needs to be recognised based on their lifetime ECLs.

2 BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICIES (continued)

2.6 Summary of material accounting policies (continued)

2.6.5 Financial assets (continued)

Impairment (continued)

Measurement of ECL (continued)

Stage 2 (continued)

The Group considers whether there has been a significant increase in credit risk of an asset by comparing the rating migration upon initial recognition of the asset against the risk of a default occurring on the asset as at the end of each reporting period. In each case, this assessment is based on forward-looking assessment that takes into account a number of economic scenarios, in order to recognise the probability of higher losses associated with more negative economic outlooks.

It is the Group's policy to evaluate additional available reasonable and supportive forward-looking information as further additional drivers.

Stage 3

Financial assets are included in Stage 3 when there is objective evidence that the financial asset is credit impaired. At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, an asset that is overdue for 90 days or more is considered impaired.

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Group considers the following factors.

- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of creditworthiness.
- The country's ability to access the capital markets for new debt issuance.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.
- The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

Other than originated credit-impaired loans, loans are transferred from Stage 3 if they no longer meet the criteria of credit-impaired after a probation period of 12 months.

2 BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICIES (continued)

2.6 Summary of material accounting policies (continued)

2.6.5 Financial assets (continued)

Impairment (continued)

Forward looking information

The Group incorporates forward-looking information in the measurement of ECLs.

The Group considers forward-looking information such as macroeconomic factors (e.g., GDP growth, inflation and unemployment rates) and economic forecasts.

The Group uses internal information coming from internal economic experts, combined with published external information from government and private economic forecasting services. These forward looking assumptions undergo an internal governance process before they are applied for different scenarios.

Presentation of allowance for ECL in the consolidated statement of financial position

Loss allowances for ECL are presented in the consolidated statement of financial position as follows:

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: as a provision under other liabilities; and
- The ECL for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognised in OCI is recycled to the profit and loss upon derecognition of the assets.

Limitation of estimation techniques

The models applied by the Group may not always capture all characteristics of the market at a point in time as they cannot be recalibrated at the same pace as changes in market conditions. Interim adjustments are expected to be made until the base models are updated. Although the Group uses data that is as current as possible, models used to calculate ECLs are based on data that is up to date except for certain factors for which the data is updated once it is available and adjustments are made for significant events occurring prior to the reporting date.

Experience credit adjustment

The Group's ECL allowance methodology requires the Group to use its experienced credit judgement to incorporate the estimated impact of factors not captured in the modelled ECL results, in all reporting periods.

2.6.6 Financial liabilities

Financial liabilities comprise of due to banks and other financial institutions, deposits from customers, term loans, long term bonds and other liabilities. Financial liabilities are classified as either FVTPL or at amortised cost. In case of financial liabilities at FVTPL, all fair value movements are taken to profit or loss, except for gains or losses arising from changes to issuers' credit rating which is presented in OCI with no subsequent reclassification to profit or loss. Currently, all financial liabilities of the Group (apart from derivatives) are classified as at amortised cost.

Classification and subsequent measurement

Gains or losses arising from a change in the entity's own credit risk are presented in OCI with no subsequent reclassification to the consolidated statement of income.

2 BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICIES (continued)

2.6 Summary of material accounting policies (continued)

2.6.7 Derivatives and hedging activities

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided that, in the case of a non-financial variable, it is not specific to a party to the contract (i.e., the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts expected to have a similar response to changes in market factors.
- It is settled at a future date.

The Group enters into derivative transactions with various counterparties. These include interest rate swaps and forward foreign exchange contracts. Derivatives are initially recognised at fair value on the date on which the derivative contract is entered into and are subsequently remeasured at fair value. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated and qualifies as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either:

- (a) Hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedges);
- (b) Hedges of highly probable future cash flows attributable to a recognised asset or liability (cash flow hedges); or
- (c) Hedges of a net investment in a foreign operation (net investment hedges).

The Group documents, at the inception of the hedge, the relationship between hedged items and hedging instruments, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

(a) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the consolidated statement of income, together with changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss over the period to maturity and recorded as interest income / expense, as the case may be.

(b) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the consolidated statement of income.

Amounts accumulated in equity are recycled to the consolidated statement of income in the periods when the hedged item affects profit or loss. They are recorded in the income or expense lines in which the income or expense associated with the related hedged item is reported.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised in the periods when the hedged item affects profit or loss. When a forecast transaction is no longer expected to occur (for example, the recognised hedged asset is disposed of), the cumulative gain or loss previously recognised in other comprehensive income is immediately reclassified to the consolidated statement of income.

2 BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICIES (continued)

2.6 Summary of material accounting policies (continued)

2.6.7 Derivatives and hedging activities (continued)

(c) Net investment hedge

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised directly in other comprehensive income; the gain or loss relating to the ineffective portion is recognised immediately in the consolidated statement of income. Gains and losses accumulated in equity are reclassified in the consolidated statement of income when the foreign operation is disposed of as part of the gain or loss on the disposal.

(d) Derivative product types

Forwards and futures are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market. Foreign currency and interest rate futures are transacted in standardised amounts on regulated exchanges and are subject to daily cash margin requirements. Forward rate agreements are effectively tailor-made interest rate futures which fix a forward rate of interest on a notional loan, for an agreed period of time starting on a specified future date.

Swaps are contractual agreements between two parties to exchange interest or foreign currency amounts based on a specific notional amount. For interest rate swaps, counterparties generally exchange fixed and floating rate interest payments based on a notional value in a single currency. For cross-currency swaps, notional amounts are exchanged in different currencies. For cross-currency interest rate swaps, notional amounts and fixed and floating interest payments are exchanged in different currencies.

Options are contractual agreements that convey the right, but not the obligation, to either buy or sell a specific amount of a commodity or financial instrument at a fixed price, either at a fixed future date or at any time within a specified period.

(e) Derivative related credit risk

Credit risk in respect of derivative financial instruments arises from the potential for a counterparty to default on its contractual obligations and is limited to the positive fair value of instruments that are favourable to the Group. The majority of the Group's derivative contracts are entered into with other financial institutions.

As part of its asset and liability management, the Group uses derivatives for hedging purposes in order to reduce its exposure to currency and interest rate risks. This is achieved by hedging specific financial instruments, forecasted transactions as well as strategic hedging against overall statement of financial position exposures. For interest rate risk this is carried out by monitoring the duration of assets and liabilities using simulations to estimate the level of interest rate risk and entering into interest rate swaps and futures to hedge a proportion of the interest rate exposure, where appropriate. Since strategic hedging does not qualify for special hedge accounting, related derivatives are accounted for as trading instruments.

The Group uses forward foreign exchange contracts to hedge against specifically identified currency risks. In addition, the Group uses interest rate swaps to hedge against the interest rate risk arising from specifically identified loans and securities bearing floating interest rates. In all such cases the hedging relationship and objective, including details of the hedged item and hedging instrument, are formally documented and the transactions are accounted for as hedges.

(f) Hedge strategies

The Group applies hedge accounting in two separate hedging strategies, as follows:

(i) Interest rate risk on floating rate debt type instruments (cash flow hedge)

The Group holds a portfolio of long-term variable loans and therefore is exposed to changes in fair value due to movements in market interest rates. The Group manages this risk exposure by entering into pay fixed / receive floating interest rate swaps.

2 BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICIES (continued)

2.6 Summary of material accounting policies (continued)

2.6.7 Derivatives and hedging activities (continued)

(f) Hedge strategies (continued)

(i) Interest rate risk on floating rate debt type instruments (cash flow hedge) (continued)

Only the interest rate risk element is hedged and therefore other risks, such as credit risk, are managed but not hedged by the Group. The interest rate risk component is determined as the change in fair value of the long-term variable / fixed rate loans and securities arising solely from changes in the benchmark rate of interest. Such changes are usually the largest component of the overall change in fair value. This strategy is designated as a cash flow hedge and its effectiveness is assessed by comparing changes in the fair value of the loans attributable to changes in the benchmark rate of interest with changes in the fair value of the interest rate swaps.

The Group establishes the hedging ratio by matching the notional of the derivatives with the principal of the portfolio being hedged. Possible sources of ineffectiveness are as follows:

- differences between the expected and actual volume of prepayments, as the Group hedges to the expected repayment date taking into account expected prepayments based on past experience;
- hedging derivatives with a non-zero fair value at the date of initial designation as a hedging instrument; and
- counterparty credit risk which impacts the fair value of uncollateralised interest rate swaps but not the hedged items.

(ii) Net investment in foreign operation (net investment hedge)

The Group has investments in foreign operations which are consolidated and equity accounted for in these financial statements. The foreign exchange rate exposure arising from this investment is hedged through the use of forward exchange contracts. These contracts are designated as net investment hedges to hedge the equity of the foreign operations. The Group establishes the hedging ratio by matching the contracts with the net assets of the foreign operations.

(g) Hedge ineffectiveness

Hedge effectiveness is determined at the inception of the hedge relationship, and through periodic prospective effectiveness assessments to ensure that an economic relationship exists between the hedged item and hedging instrument. For hedges of exposures to fluctuations in foreign exchange rates, the Group enters into hedge relationships where the critical terms of the hedging instrument match exactly with the terms of the hedged item. The Group therefore performs a qualitative assessment of effectiveness.

In hedges of foreign currency exposures, ineffectiveness may arise if the timing of the cash flows changes from what was originally estimated, or if there are changes in the credit risk of the Group or the derivative counterparty.

The Group enters into interest rate swaps that have similar critical terms as the hedged item, such as reference rate, reset dates, payment dates, maturities and notional amount. In cases, where the Group does not hedge 100% of its loans, the hedged item is identified as a proportion of the outstanding loans up to the notional amount of the swaps. As all critical terms matched during the year, the economic relationship was 100% effective.

Hedge ineffectiveness for interest rate swaps is assessed using the same principles as for hedges of foreign currency. It may occur due to the credit value/debit value adjustment on the interest rate swaps which is not matched by the loan, and differences in critical terms between the interest rate swaps and loans.

2 BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICIES (continued)

2.6 Summary of material accounting policies (continued)

2.6.8 Fair value measurement

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

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

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

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

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

The 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) 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; and

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 financial statements 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.

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

The Group measures financial instruments, such as, derivatives, investments carried at FVTPL and FVOCI and non-financial assets such as investment properties, at fair value at each reporting date.

For financial instruments traded in an active market, fair value is determined by reference to quoted market bid prices for assets and quoted market offer prices for liabilities, without deduction for transaction costs.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive. Indications that a market is inactive are when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions.

2 BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICIES (continued)

2.6 Summary of material accounting policies (continued)

2.6.8 Fair value measurement (continued)

For financial instruments where there is no active market, fair value is determined using appropriate valuation techniques. Such techniques may include the following:

- brokers' quotes;
- recent arm's length market transactions;
- the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics;
- option pricing models; and
- other valuation methods.

The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is the amount payable on demand.

The fair value of forward foreign exchange contracts is determined using forward exchange rates at the reporting date with the resulting value discounted back to present value.

The fair value of interest rate swaps is determined by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date.

2.6.9 Derecognition

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

- (a) the right to receive cash flows from the asset have expired;
- (b) the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or
- (c) the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset.

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expired.

The Group derecognises financial assets and financial liabilities if there has been a substantial modification of their terms and conditions. In the context of Interbank Offered Rates ("IBORs") reform, many financial instruments have already been amended during 2023 as they transitioned from IBORs to Risk-Free Rates ("RFRs"). In addition to the interest rate of a financial instrument changing, there may be other changes made to the terms of the financial instrument at the time of transition.

For financial instruments measured at amortised cost, the Group first applies the practical expedient to reflect the change in the referenced interest rate from an IBORs to a RFRs. Second, for any changes not covered by the practical expedient, the Group applies judgement to assess whether the changes are substantial and if they are, the financial instrument is derecognised and a new financial instrument is recognised. If the changes are not substantial, the Group adjusts the gross carrying amount of the financial instrument by the present value of the changes not covered by the practical expedient, discounted using the revised EIR.

2 BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICIES (continued)

2.6 Summary of material accounting policies (continued)

2.6.10 Write-offs

Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. 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. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to consolidated statement of income.

2.6.11 Investment properties

All properties held for rental or for capital appreciation purposes, or both, are classified as investment properties. Where a property is partially occupied by the Group and the portions could be sold separately, the Group accounts for the portions separately either as an investment property or property and equipment, as appropriate. If the portions cannot be sold separately, the property is classified as an investment property only if an insignificant portion is held for own use.

The Group applies the fair value model of accounting for investment properties. All investment properties are initially recorded at cost, including acquisition expenses associated with the property.

Subsequent to initial recognition, all investment properties are remeasured at fair value and changes in fair value are recognised in the consolidated statement of income. The Group engages independent valuation specialists to determine the fair value of investment properties. Fair values are determined based on an annual evaluation performed by an accredited external independent valuer applying a valuation model recommended by the International Valuation Standards Committee.

Investment properties are derecognised either when they have been disposed of or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in profit or loss in the period of derecognition.

Transfers are made to (or from) investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property and equipment up to the date of change in use.

2.6.12 Property and equipment

Property and equipment are stated at cost less accumulated depreciation and impairment losses. When assets are sold or retired, their cost and accumulated depreciation are eliminated from the consolidated statement of financial position and any gain or loss resulting from disposal is included in the consolidated statement of income.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their fair value less costs to sell and their value in use.

Depreciation is provided on all property and equipment, except land and work in progress, at rates calculated to write off the cost of each asset on a straight line basis to their residual values over its expected useful life which is between 3 to 5 years for all property and equipment, except for certain building fixtures and fittings which are depreciated over expected useful life of 10 years and building civil structure, which is depreciated over its expected useful life of 20 years.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate.

2 BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICIES (continued)

2.6 Summary of material accounting policies (continued)

2.6.13 Treasury shares and treasury share reserve

Own equity instruments that are reacquired (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognised in the share premium. Any gain or loss arising on reissuance of treasury shares is taken directly to treasury share reserve in the consolidated statement of changes in equity.

2.6.14 Cash and cash equivalents

Cash and cash equivalents include cash, demand and call deposits, highly liquid investments that are readily convertible into cash and placements (excluding escrow balances) with original maturities up to ninety days from the date of acquisition. These cash and cash equivalents are readily convertible to known amount of cash and subject to as insignificant changes in value.

2.6.15 Fiduciary assets

Assets held in a fiduciary capacity are not treated as assets of the Group in the consolidated statement of financial position.

2.6.16 Dividends on ordinary shares

The Group recognises a liability to make cash or non-cash distributions to its equity holders when the distribution is authorised and the distribution is no longer at the discretion of the Bank. A distribution is authorised when it is approved by the shareholders. A corresponding amount is recognised directly in equity.

Dividends for the year that are approved after the reporting date are disclosed as an event after the reporting date.

2.6.17 Taxes

There is no tax on corporate income in the Kingdom of Bahrain. Taxation on overseas subsidiaries is calculated on the basis of the tax rates applicable and prescribed according to the prevailing laws, regulations and instructions of the countries where these subsidiaries operate. Income tax payable on taxable profit ("current tax") is recognised as an expense in the period in which the profits arise in accordance with the fiscal regulations of the respective countries in which the Group operates.

2.6.18 Offsetting

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

2.6.19 Employees benefits

The Group provides for end of service benefits to all its employees. Entitlement to these benefits is usually based upon the employees' length of service and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. National employees of the Bank are also covered by the Social Insurance Organisation scheme and the Bank's obligations are limited to the amount contributed to the scheme.

2.6.20 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) arising from a past event and the costs to settle the obligation are both probable and reliably measurable.

2 BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICIES (continued)

2.6 Summary of material accounting policies (continued)

2.6.21 Foreign currencies

The consolidated financial statements have been presented in US Dollars being the functional currency of the Group. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded in the functional currency rate of exchange ruling at the date of transaction.

a) Translation of foreign currency transactions and balances

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Exchange differences arising on the retranslation of monetary items, are included in consolidated statement of income for the year. Non-monetary items measured at fair value in a foreign currency are retranslated using the exchange rates at the date when the fair value was determined. Exchange differences arising on the retranslation of non-monetary investments carried at fair value through profit or loss are included in the consolidated statement of income for the year. Exchange differences arising on the retranslation of investments carried at fair value through other comprehensive income, are recognised in a fair value reserve through the consolidated statement of comprehensive income. Non-monetary items that are measured at historical cost in a foreign currency are translated using the spot exchange rates as at the date of recognition.

b) Translation of financial statements of foreign operations

Assets (including goodwill) and liabilities of foreign operations are translated at the exchange rates prevailing at the reporting date. Income and expense items are translated at average exchange rates for the relevant period. All resulting exchange differences are taken to a foreign currency translation reserve in equity through OCI.

On disposal of a foreign operation, the component of OCI relating to that particular foreign operation is reclassified in the consolidated statement of income.

2.6.22 Recognition of income and expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

(i) Interest income and expense

Interest income and related fees are recognised using the effective yield method, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

Recognition of interest income is suspended when the related financial asset becomes impaired.

(ii) Fees and commission income

Commission income and other fees are recognised when earned.

(iii) Performance-based fees

Performance-based fees is not recognised until it is highly probable that a significant reversal in the amount of cumulative revenue will not occur. The recognition of performance-based fees requires significant judgement and is unlikely to be recognised in full until it is crystallised or is no longer subject to clawback.

2 BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICIES (continued)

2.6 Summary of material accounting policies (continued)

2.6.22 Recognition of income and expenses (continued)

(iv) Advisory income

The Group applies significant judgement to identify the performance obligations in an advisory service contract and whether each service is capable of being distinct in the context of contract. Revenue from these performance obligations are recognised either at a point in time or over time when the respective performance obligations in a contract are delivered to the customer.

(v) Rental income

Rental income on investment properties is recognised on a straight line basis.

(vi) Dividend income

Dividend income is recognised when the Group's right to receive the dividend is established.

2.6.23 Contingent liabilities and contingent assets

Contingent liabilities are not recognised in the consolidated financial statements, but are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

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

2.6.24 Financial guarantee contracts and commitments

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of the contract. Financial guarantee contracts are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount recognised less cumulative amortisation.

The premium received is recognised in the consolidated statement of income on a straight line basis over the life of the guarantee.

Undrawn loan commitments and letters of credits are commitments under which, over the duration of the commitment, the Bank is required to provide a loan with pre-specified terms to the customer. Similar to financial guarantee contracts, these contracts are in the scope of the ECL requirements.

The nominal contractual value of financial guarantees and undrawn loan commitments, where the loan agreed to be provided is on market terms, are not recorded in the consolidated statement of financial position.

2.6.25 Non-current assets held for sale and discontinued operations

The Group classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the disposal of an asset (disposal group), excluding finance costs and income tax expense.

The criteria for held for sale classification is regarded as met only when the sale is highly probable, and the asset or disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. Management must be committed to the plan to sell the asset and the sale expected to be completed within one year from the date of the classification.

2 BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICIES (continued)

2.6 Summary of material accounting policies (continued)

2.6.25 Non-current assets held for sale and discontinued operations (continued)

Property, plant and equipment and intangible assets are not depreciated or amortised once classified as held for sale.

Assets and liabilities classified as held for sale are presented separately in the consolidated statement of financial position.

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the consolidated statement of

Additional disclosures are provided in note 13. All other notes to the consolidated financial statements include amounts for continuing operations, unless indicated otherwise.

2.7 Significant assumptions, accounting judgements and estimates

In the process of applying the Group's accounting policies, management has made the following assumptions, judgements and estimates in determining the amounts recognised in the consolidated financial statements:

a) Classification of financial assets

Business model:

In making an assessment of whether a business model's objective is to hold assets in order to collect contractual cash flows, the Group considers at which level of its business activities such assessment should be made. Generally, a business model is a matter of fact which can be evidenced by the way business is managed and the information provided to management.

In determining whether its business model for managing financial assets is to hold assets in order to collect contractual cash flows, the Group considers:

- i) Management's stated policies and objectives for the portfolio and the operation of those policies in practice;
- ii) Management's evaluation of the performance of the portfolio and liquidity requirements in the current market conditions; and
- iii) Management's strategy in terms of earning contractual interest revenues or generating capital gains.

SPPI test:

Classification of financial assets in the appropriate category depends upon the business model and SPPI test. Determining the appropriate business model and assessing whether the cash flows generated by the financial asset meet the SPPI test is complex and requires significant judgements by management.

The Group applies judgement while carrying out SPPI test and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

b) Going concern

The Group's management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on the going concern basis.

c) Impairment of goodwill and intangible assets

The Group determines whether goodwill and intangibles with indefinite useful lives are impaired at least on an annual basis. Impairment exists when carrying value of an asset or cash generating unit (CGU) exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The key assumptions and estimates used to determine the recoverable amount for the different CGUs, are disclosed and further explained in note 12 to these consolidated financial statements.

2 BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICIES (continued)

2.7 Significant assumptions, accounting judgements and estimates (continued)

d) Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using valuation techniques including discounted cash flow models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

3 NEW AND AMENDED STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's consolidated financial statements are disclosed below. The Group intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

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

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

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

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

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

In January 2020 and October 2022, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

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

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

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

3.3 Supplier Finance Arrangements - Amendments to IAS 7 and IFRS 7

In May 2023, the IASB issued amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures to clarify the characteristics of supplier finance arrangements and require additional disclosure of such arrangements.

The amendments will be effective for annual reporting periods beginning on or after 1 January 2024. Early adoption is permitted, but will need to be disclosed. The amendments are not expected to have a material impact on the future consolidated financial statements of the Group.

United Gulf Bank B.S.C. (c)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2023

4 FINANCIAL ASSETS AND LIABILITIES

The table below summarises the accounting classification of the Group's financial assets and financial liabilities:

31 December 2023	<i>At FVTPL</i>	<i>At FVOCI</i>	<i>Amortised cost</i>	<i>Total</i>
	US\$ 000	US\$ 000	US\$ 000	US\$ 000
Demand and call deposits with banks	-	-	82,467	82,467
Placements with banks	-	-	78,625	78,625
Investments carried at fair value through profit or loss	128,274	-	-	128,274
Investments carried at fair value through other comprehensive income	-	130,218	-	130,218
Loans and receivables	-	-	19,679	19,679
Other assets	22,885	669	45,329	68,883
Total financial assets	151,159	130,887	226,100	508,146

Due to banks and other financial institutions	-	-	121,510	121,510
Deposits from customers	-	-	15,915	15,915
Term loans	-	-	203,622	203,622
Other liabilities	23,094	132	66,459	89,685
Total financial liabilities	23,094	132	407,506	430,732

31 December 2022	<i>At FVTPL</i>	<i>At FVOCI</i>	<i>Amortised cost</i>	<i>Total</i>
	US\$ 000	US\$ 000	US\$ 000	US\$ 000
Demand and call deposits with banks	-	-	102,969	102,969
Placements with banks	-	-	96,465	96,465
Investments carried at fair value through profit or loss	88,064	-	-	88,064
Investments carried at fair value through other comprehensive income	-	104,021	-	104,021
Investments carried at amortised cost	-	-	25,036	25,036
Loans and receivables	-	-	21,690	21,690
Other assets	32,335	444	42,122	74,901
Total financial assets	120,399	104,465	288,282	513,146
Due to banks and other financial institutions	-	-	138,878	138,878
Deposits from customers	-	-	20,772	20,772
Term loans	-	-	61,324	61,324
Long term bonds	-	-	130,595	130,595
Other liabilities	32,400	854	76,440	109,694
Total financial liabilities	32,400	854	428,009	461,263

United Gulf Bank B.S.C. (c)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2023

5 CASH AND CASH EQUIVALENTS

	2023 US\$ 000	2022 US\$ 000
Demand and call deposits with banks	82,467	102,969
Placements with banks	78,625	96,465
	<hr/>	<hr/>
	161,092	199,434
<i>Adjusted for:</i>		
Mandatory reserves	318	318
Time deposits having original maturities of more than 90 days	17,400	14,210
Cash and cash equivalents	<u>143,374</u>	<u>184,906</u>
	<hr/>	<hr/>

6 INVESTMENT SECURITIES

	2023			
	Designated at FVTPL US\$ 000	Designated at FVOCI US\$ 000	Amortised cost US\$ 000	Total US\$ 000
Quoted investments				
Equities	25,601	29,147	-	54,748
Debt securities	11,064	-	-	11,064
Managed funds	3,991	-	-	3,991
Total quoted investments	40,656	29,147	-	69,803
Unquoted investments				
Equities	26,449	100,978	-	127,427
Debt securities	325	-	-	325
Managed funds	60,844	93	-	60,937
Total unquoted investments	87,618	101,071	-	188,689
Total investments	128,274	130,218	-	258,492
	2022			
	Designated at FVTPL US\$ 000	Designated at FVOCI US\$ 000	Amortised cost US\$ 000	Total US\$ 000
Quoted investments				
Equities	2,303	34,629	-	36,932
Debt securities	14,504	-	-	14,504
Managed funds	4,324	-	-	4,324
GCC government bonds *	-	-	25,036	25,036
Total quoted investments	21,131	34,629	25,036	80,796
Unquoted investments				
Equities	5,826	69,352	-	75,178
Debt securities	326	-	-	326
Managed funds	60,781	40	-	60,821
Total unquoted investments	66,933	69,392	-	136,325
Total investments	88,064	104,021	25,036	217,121
	<hr/>	<hr/>	<hr/>	<hr/>

6 INVESTMENT SECURITIES (continued)

*As at 31 December 2022, the investments in GCC government bonds were rated A- (as per the S&P ratings) or better, and classified as Stage 1 exposures. The fair values of these bonds approximated to their carrying values as of 31 December 2022.

7 LOANS AND RECEIVABLES

	<i>Stage 1</i> US\$ 000	<i>Stage 2</i> US\$ 000	<i>Stage 3</i> US\$ 000	<i>Total</i> US\$ 000
At 31 December 2023				
Loans to customers	14,257	-	7,840	22,097
Staff loans	5,759	-	-	5,759
	20,016	-	7,840	27,856
Less: Expected credit losses	(337)	-	(7,840)	(8,177)
	19,679	-	-	19,679
At 31 December 2022				
Loans to customers	17,416	-	7,915	25,331
Staff loans	5,198	-	-	5,198
	22,614	-	7,915	30,529
Less: Expected credit losses	(924)	-	(7,915)	(8,839)
	21,690	-	-	21,690

Stage 1 loans in the table above were neither past due nor impaired as of 31 December 2023 (31 December 2022: same)

The movements in the Expected Credit Losses is as follows:

	<i>2023</i>			
	<i>Stage 1</i> US\$ 000	<i>Stage 2</i> US\$ 000	<i>Stage 3</i> US\$ 000	<i>Total</i> US\$ 000
As at 1 January 2023	924	-	7,915	8,839
Net remeasurement of loss allowances	(587)	-	(47)	(634)
Foreign exchange and other adjustments	-	-	(28)	(28)
	337	-	7,840	8,177
	<i>2022</i>			
	<i>Stage 1</i> US\$ 000	<i>Stage 2</i> US\$ 000	<i>Stage 3</i> US\$ 000	<i>Total</i> US\$ 000
As at 1 January 2022	92	200	8,444	8,736
Transfers from Stage 2	200	(200)	-	-
Net remeasurement of loss allowances	635	-	(416)	219
Foreign exchange and other adjustments	(3)	-	(113)	(116)
	924	-	7,915	8,839

United Gulf Bank B.S.C. (c)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2023

8 OTHER ASSETS

	2023 US\$ 000	2022 US\$ 000
Due from customers	57,040	56,028
Derivative asset (note 27)	23,422	29,506
Accounts receivable	387	5,349
Interest receivable	3,923	390
Prepayments	1,632	1,084
 Gross receivables	 86,404	 92,357
Less: Expected credit losses	(15,889)	(16,372)
 Net receivables	 70,515	 75,985

The movement in the Expected Credit Losses is as follows:

	2023			
	Stage 1 US\$ 000	Stage 2 US\$ 000	Stage 3 US\$ 000	Total US\$ 000
As at 1 January 2023	16,372	-	-	16,372
Transfers between stages	(122)	-	122	-
Net remeasurement of loss allowances	(87)	-	-	(87)
Written-off during the year	-	-	(122)	(122)
Foreign exchange and other adjustments	(274)	-	-	(274)
 As at 31 December 2023	 15,889	 -	 -	 15,889

	2022			
	Stage 1 US\$ 000	Stage 2 US\$ 000	Stage 3 US\$ 000	Total US\$ 000
As at 1 January 2022	14,738	587	-	15,325
Transfers between stages	(62)	(587)	649	-
Net remeasurement of loss allowances	769	-	101	870
Written-off during the year	-	-	(750)	(750)
Foreign exchange and other adjustments	927	-	-	927
 As at 31 December 2022	 16,372	 -	 -	 16,372

9 INVESTMENT IN ASSOCIATES

	Name	Activity	2023		2022	
			Carrying value US\$ 000	Ownership %	Carrying value US\$ 000	Ownership %
a)	Kamco Investment Fund	Fund	38,740	44	39,822	35
b)	KAMCO Real Estate Yield Fund	Real estate	5,613	36	6,233	36
c)	N.S. 88 W.L.L	Real estate	-	-	15,829	30
d)	Manafae Investment Company	Islamic Investment	-	-	10,286	34
e)	North Africa Holding Company	Investments	12,843	47	11,435	48
f)	United Capital Transport Company K.S.C.C.	Transport	3,182	40	3,436	40
	Others	Various	8	Various	9	Various
			 60,386		 87,050	

9 INVESTMENT IN ASSOCIATES (continued)

- a) The Group holds a 44% (2022: 35%) equity interest in KAMCO Investment Fund ("KIF") through its subsidiary KAMCO. The increase in ownership is mainly on account of redemption of units by other unit holders.
- b) The Group holds a 36% (2022: 36%) equity interest in KAMCO Real Estate Yield Fund through its subsidiary KAMCO.
- c) As at 31 December 2022, the Group owned 34% of Manafae Holding Company ("Manafae") and 30% of N.S. 88 W.L.L ("NS88") through its subsidiary KAMCO. During the year, the Group acquired an additional 20% stake in Manafae, following which Manafae became a subsidiary of the Group. Since Manafae also owns 47% in NS88 therefore NS88 also became a subsidiary of the Group following the additional acquisition of ownership in Manafae by the Group. Accordingly, both Manafae and NS88 have been consolidated in these consolidated financial statements as of 31 December 2023. Refer note 31 for details.
- e) The Bank directly owns 37% and indirectly owns 10% through its subsidiary KAMCO (2022: directly 37% and indirectly 11% through KAMCO), in North Africa Holding Company (NAHC), a closed company incorporated in the State of Kuwait in 2006.
- f) United Capital Transport Company K.S.C.C. (UniCap) was incorporated in State of Kuwait in 2011. The Group owns a 40% (2022: 40%) equity interest through its subsidiary KAMCO. UniCap is a dedicated leasing solutions provider to governments, international oil companies and varied construction, mining and industrial services businesses.

The Group has no share of any contingent liabilities or capital commitments as at 31 December 2023 and 2022 on behalf of its associates.

The Group's recoverable amount of investments in associates was in excess of their carrying values and accordingly, no impairment was recognised during the year ended 31 December 2023 (2022: same).

The following table reconciles the movements in investment in associates:

	2023 US\$ 000	2022 US\$ 000
At 1 January	87,050	83,429
Additions	16,145	-
Share of results	(10,390)	4,955
Dividend received	(645)	(2,163)
Share of other comprehensive income	12,165	1,575
Other equity movements	1,545	-
Foreign currency translation adjustment	(3,884)	(680)
Transfers to FVTPL	(4,040)	-
Reclassified to subsidiaries (note 31)	(25,455)	-
Disposals	(12,105)	(66)
At 31 December	60,386	87,050

9 INVESTMENT IN ASSOCIATES (continued)

Investments in material associates

Kamco Investment Fund ("KIF") is considered by the Group as a material associate. Presented below is the financial information of KIF.

	2023 US\$ 000	2022 US\$ 000
Summarised statement of financial position:		
Total assets	93,705	113,330
Total liabilities	5,324	561
Equity	<u>88,381</u>	<u>112,769</u>
Group's ownership in equity of associate	<u>44%</u>	<u>35%</u>
Group's ownership in equity as at 31 December	<u>38,737</u>	<u>39,819</u>
Carrying amount of investment in KIF	<u>38,740</u>	<u>39,822</u>
Summarised statement of income:		
Revenue	(805)	15,483
Expenses	(1,737)	(3,092)
(Loss) profit for the year	<u>(2,542)</u>	<u>12,391</u>
Other comprehensive income for the year	-	-
Total comprehensive (loss) income for the year	<u>(2,542)</u>	<u>12,391</u>

Investments in associates that are not individually significant

The aggregate summarised financial information of the Group's associates that are not individually significant is provided below:

	2023 US\$ 000	2022 US\$ 000
Group's share of the operations of associates		
Net revenue	(6,699)	2,084
(Loss) profit for the year	(9,444)	1,074
Other comprehensive income for the year	-	-
Total comprehensive (loss) income for the year	<u>(9,444)</u>	<u>1,074</u>

10 INVESTMENT PROPERTIES

	2023 US\$ 000	2022 US\$ 000
At 1 January	99,962	100,564
Acquired on acquisition of subsidiaries (note 31)	26,729	-
Change in fair values	1,014	560
Foreign exchange adjustments	(317)	(1,162)
At 31 December	<u>127,388</u>	<u>99,962</u>

10 INVESTMENT PROPERTIES (continued)

Investment properties comprise of land and buildings owned by the Group. These are stated at fair values, determined based on independent valuations performed by external professional valuers at the year end.

Valuations of investment properties were conducted by independent appraisers with a recognised and relevant professional qualification and recent experience of the location and category of investment property being valued. The comparable method of valuation has been used and deemed appropriate considering the nature and usage of the properties. The Group's investment properties are categorized in Level 3 of the fair value hierarchy as at 31 December 2023 and 2022. Significant increases (decreases) in estimated rental value and rent growth per annum in isolation would result in a significantly higher (lower) fair value of the properties. Significant increases (decreases) in the long-term vacancy rate and discount rate (and exit yield) in isolation would result in a significantly lower (higher) fair value.

11 PROPERTY AND EQUIPMENT

	<i>Land</i> US\$ 000	<i>Buildings</i> US\$ 000	<i>Furniture and fixtures</i> US\$ 000	<i>Computers and vehicles</i> US\$ 000	<i>Total</i> US\$ 000
Cost:					
Balance as at 1 January 2023	3,947	13,373	15,816	16,403	49,539
Additions during the year	-	-	70	879	949
Disposals during the year	-	-	-	(123)	(123)
Exchange rate and other movements	(3)	(7)	(40)	(44)	(94)
At 31 December 2023	3,944	13,366	15,846	17,115	50,271
Accumulated depreciation:					
Balance as at 1 January 2023	-	(2,578)	(15,300)	(15,815)	(33,693)
Depreciation charge for the year	-	(764)	(197)	(145)	(1,106)
Depreciation relating to disposals during the year	-	-	-	123	123
Exchange rate and other movements	-	2	39	43	84
At 31 December 2023	-	(3,340)	(15,458)	(15,794)	(34,592)
Net book value:					
At 31 December 2023	3,944	10,026	388	1,321	15,679
Cost:					
Balance as at 1 January 2022	3,951	12,037	15,560	16,689	48,237
Additions during the year	-	1,339	441	485	2,265
Disposals during the year	-	-	(64)	(582)	(646)
Exchange rate and other movements	(4)	(3)	(121)	(189)	(317)
At 31 December 2022	3,947	13,373	15,816	16,403	49,539
Accumulated depreciation:					
Balance as at 1 January 2022	-	(1,933)	(15,224)	(16,301)	(33,458)
Depreciation charge for the year	-	(645)	(195)	(284)	(1,124)
Depreciation relating to disposals during the year	-	-	64	582	646
Exchange rate and other movements	-	-	55	188	243
At 31 December 2022	-	(2,578)	(15,300)	(15,815)	(33,693)
Net book value:					
At 31 December 2022	3,947	10,795	516	588	15,846

12 GOODWILL AND OTHER INTANGIBLE ASSETS

	<i>Licenses with Customer relationships</i>				<i>indefinite useful lives</i>	<i>Software</i>	<i>Total</i>
	<i>Goodwill</i> <i>US\$ 000</i>	<i>US\$ 000</i>	<i>US\$ 000</i>	<i>US\$ 000</i>	<i>US\$ 000</i>	<i>US\$ 000</i>	<i>US\$ 000</i>
Cost:							
Balance as at 1 January 2023	51,640	11,179	3,595	2,592	69,006		
Additions during the year	-	-	-	503	503		
Exchange rate and other movements	(176)	(38)	(21)	-	(235)		
At 31 December 2023	51,464	11,141	3,574	3,095	69,274		
Amortisation and impairment:							
Balance as at 1 January 2023	-	(4,844)	-	(606)	(5,450)		
Amortisation	-	(1,114)	-	(578)	(1,692)		
Exchange rate and other movements	-	16	-	3	19		
At 31 December 2023	-	(5,942)	-	(1,181)	(7,123)		
Net book value:							
At 31 December 2023	51,464	5,199	3,574	1,914	62,151		
Cost:							
Balance as at 1 January 2022	52,342	11,331	3,640	1,779	69,092		
Additions during the year	-	-	-	835	835		
Exchange rate and other movements	(702)	(152)	(45)	(22)	(921)		
At 31 December 2022	51,640	11,179	3,595	2,592	69,006		
Amortisation and impairment:							
Balance as at 1 January 2022	-	(3,776)	-	(165)	(3,941)		
Amortisation	-	(1,118)	-	(443)	(1,561)		
Exchange rate and other movements	-	50	-	2	52		
At 31 December 2022	-	(4,844)	-	(606)	(5,450)		
Net book value:							
At 31 December 2022	51,640	6,335	3,595	1,986	63,556		

Goodwill

The goodwill relates to KAMCO (a subsidiary) and is allocated to the asset management and investment banking operating segment, a Cash Generating Unit (CGU). The recoverable amount of the CGU is determined based on a value in use calculation using cash flow projections from financial budgets approved by the Group's senior management covering a four year period. The key assumptions used in the fair value calculation include a perpetuity growth rate of 1.9% (2022: 2%) and discount factor of 10.2% (2022: 11%). During the years ended 31 December 2023 and 2022, no goodwill impairment was identified as the recoverable amount of the CGU was higher than its net book value.

The calculation of fair value for the CGU is sensitive primarily to the expected growth rate and discount rate. Reasonable changes in these assumptions will not result in an impairment of the goodwill.

Other intangible assets

Customer relationships with finite useful lives have a useful economic life of 10 years each and are amortised on a straight line basis.

13 ASSETS HELD FOR SALE

In the prior year, the following were the major transactions:

- The Group made an investment in certain special purpose vehicles (the “SPV Entities”) and subsequently disposed majority interest in these SPV Entities with the remaining interest amounting to US\$ 2,306 thousand at the reporting date. These were classified as assets held for sale in accordance with IFRS 5, due to Group's plans to dispose its stake in these SPV Entities.

14 TERM LOANS

	<i>Currency</i>	<i>2023</i> <i>US\$ 000</i>	<i>2022</i> <i>US\$ 000</i>
Maturing in 2024	KWD*	12,202	-
Maturing in 2025	KWD*	16,269	16,324
Maturing in 2025	US\$	45,000	45,000
Maturing in 2028	KWD*	130,151	-
		203,622	61,324

* KWD represents Kuwaiti Dinars

15 LONG TERM BONDS

		<i>2023</i> <i>US\$ 000</i>	<i>2022</i> <i>US\$ 000</i>
Fixed interest rate of 6% per annum and maturing on 26 July 2023		-	48,647
Floating interest at CBK discount rate + 2.75% per annum (capped at 7% per annum) and maturing on 26 July 2023		-	81,948
		-	130,595

16 OTHER LIABILITIES

		<i>2023</i> <i>US\$ 000</i>	<i>2022</i> <i>US\$ 000</i>
Staff related payables		34,741	33,563
Derivative liabilities (note 27)		23,226	29,982
Accrued expenses		6,444	14,686
Interest payable		4,663	2,859
Dividends payable		1,627	1,513
Deferred income		74	110
Tax payable		3,036	3,568
Other payables		15,948	23,523
		89,759	109,804

17 EQUITY

a) Share capital

		<i>2023</i> <i>US\$ 000</i>	<i>2022</i> <i>US\$ 000</i>
Authorised share capital		500,000	500,000
Number of shares (in thousands)		0.50	0.50
Par value (US\$)		250,000	250,000

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As at 31 December 2023

17 EQUITY (continued)

a) Share capital (continued)

	2023 US\$ 000	2022 US\$ 000
Issued and fully paid up share capital		
Number of shares (in thousands)	232,263	232,263
Par value (US\$)	0.50	0.50
	<hr/> <hr/> <hr/> <hr/> <hr/>	<hr/> <hr/> <hr/> <hr/> <hr/>
	116,132	116,132

b) Share premium

The share premium arising on issue of ordinary shares is not distributable, except in such circumstances as stipulated in the Bahrain Commercial Companies Law (BCCL) and following the approval of the CBB.

c) Statutory reserve

In accordance with the Bahrain Commercial Companies Law and the Bank's articles of association, 10% of the profit for the year is transferred to a statutory reserve until such time as the reserve reaches 50% of the Bank's paid-up share capital. The reserve is not available for distribution, except in circumstances as stipulated in the Bahrain Commercial Companies Law and following the approval of the CBB. During the year, no transfers have been made into this reserve as the Group incurred a net loss (2022: 10% of the profit was transferred).

d) General reserve

No transfers were made to this reserve for the year ended 31 December 2023. During 2023, the Directors approved a transfer 10% of the profit of the Group for the year ended 31 December 2022 to general reserve in accordance with the Bank's Articles of Association.

In an Extraordinary General Meeting (the "EGM") held on 28 September 2023, the shareholders approved transferring US\$ 30 million from the general reserves to the retained earnings, in line with the provisions of Article No. (57) paragraph (c) of the existing Amended and Restated Articles of Association of the Bank. All of the required regulatory approval were obtained.

e) Dividend paid

No dividend was proposed or paid during the years ended 31 December 2023 or 2022.

f) Foreign currency translation reserve

The foreign currency translation reserve represents the net foreign exchange gain or loss arising from translating the financial statements of the Bank's foreign subsidiaries and associated companies from their functional currencies into United States Dollars.

18 FAIR VALUE RESERVE

	2023 US\$ 000	2022 US\$ 000
Investments carried at FVOCI		
Balance at 1 January	(8,030)	(13,477)
Transferred to retained earnings upon sale of FVOCI investments	348	2,276
Net movement in unrealised fair values during the year	12,767	3,171
Other movements (note 18.1)	9,106	-
	<hr/> <hr/> <hr/> <hr/> <hr/>	<hr/> <hr/> <hr/> <hr/> <hr/>
Balance at 31 December	14,191	(8,030)
Cash flow hedges		
Balance at 1 January	444	-
Net movement in the fair values during the year	6	444
	<hr/> <hr/> <hr/> <hr/> <hr/>	<hr/> <hr/> <hr/> <hr/> <hr/>
Balance at 31 December	450	444
	<hr/> <hr/> <hr/> <hr/> <hr/>	<hr/> <hr/> <hr/> <hr/> <hr/>
	14,641	(7,586)

18 FAIR VALUE RESERVE (continued)

18.1 During the year, the management of the Group reassessed the fair value reserve relating to its investment in associates. This resulted in adjustments to the fair value reserve, foreign currency translation reserve, accumulated deficit, and non-controlling interest, with a net impact of US\$ 1.5 million reported directly in the consolidated statement of changes in equity.

19 PERPETUAL ADDITIONAL TIER 1 CAPITAL

On 28 March 2016, the Bank issued Perpetual Additional Tier 1 Capital (the “AT1 Capital”) amounting to US\$ 33,000 thousand. The AT1 Capital constitutes subordinated obligations of the Bank and is classified as equity in accordance with IAS 32: Financial Instruments – Classification. The AT1 Capital does not have a maturity date and bears interest on its nominal amount from the date of issue at a fixed annual rate.

The AT1 Capital is redeemable by the Bank at its sole discretion on any interest payment date subject to the prior consent of the Central Bank of Bahrain. The Bank at its sole discretion may elect not to distribute interest and this is not considered an event of default. If the Bank does not pay interest on the AT1 Capital (for whatever reason), then the Bank must not make any other distribution on or with respect to its other shares that rank equally with or junior to the AT1 Capital.

20 INTEREST INCOME

	2023 US\$ 000	2022 US\$ 000
Placements with banks	4,629	2,134
Loans and receivables	3,187	5,982
Investments carried at amortised cost	761	338
Investments carried at fair value through profit or loss	621	813
Demand and call deposits with banks	364	132
	<hr/> 9,562	<hr/> 9,399

21 INVESTMENT INCOME - NET

	2023 US\$ 000	2022 US\$ 000
Rental income from investment properties	4,161	3,433
Dividend income	2,312	2,185
Realised (loss) gain on investments carried at FVTPL	(104)	2,236
Unrealised gain on investment properties	1,014	560
Unrealised gain on investments carried at FVTPL	2,238	1,293
Other income	4,366	375
	<hr/> 13,987	<hr/> 10,082

22 FEES AND COMMISSIONS - NET

	2023 US\$ 000	2022 US\$ 000
Management fees from fiduciary activities	39,711	53,461
Credit related fees, commissions and other income - net	2,605	11,445
Advisory fees	7,517	4,583
	<hr/> 49,833	<hr/> 69,489

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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23 SHARE OF RESULTS OF ASSOCIATES

	2023 US\$ 000	2022 US\$ 000
Kamco Investment Fund	(946)	3,881
North Africa Holding Company	(8,864)	2,551
N.S. 88 W.L.L	(187)	92
Manafae Investment Company	(220)	47
United Capital Transport Company K.S.C.C.	(218)	(520)
KAMCO Real Estate Yield Fund	45	(1,096)
	<hr/>	<hr/>
	(10,390)	4,955

24 INTEREST EXPENSE

	2023 US\$ 000	2022 US\$ 000
Long term bonds	4,616	6,832
Due to banks and other financial institutions	6,654	5,089
Deposits from customers	1,457	3,127
Term loans	8,755	2,175
	<hr/>	<hr/>
	21,482	17,223

25 RELATED PARTY TRANSACTIONS AND BALANCES

Related parties represent the Parent, Ultimate Parent, associates and joint ventures, directors and key management personnel and entities which are controlled, jointly controlled or significantly influenced by any of the above mentioned parties.

The income and expenses in respect of related parties transactions during the year and included in the consolidated financial statements are as follows:

	2023			
	Major shareholder US\$ 000	Associates US\$ 000	Other related parties US\$ 000	Total US\$ 000
Investment income - net	-	-	781	781
Fees and commissions - net*	2,000	1,738	7,846	11,584
Dividend income	-	-	1,023	1,023
Rental income	-	-	1,100	1,100
Interest income	-	-	827	827
Interest expense	(219)	-	(5,597)	(5,816)
General and administrative expenses	(12)	-	(2,925)	(2,937)

United Gulf Bank B.S.C. (c)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2023

25 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

	2022			
	Major shareholder	Associates	Other related parties	Total
	US\$ 000	US\$ 000	US\$ 000	US\$ 000
Investment income - net	-	-	225	225
Fees and commissions - net*	1,000	2,251	11,689	14,940
Dividend income	-	-	385	385
Rental income	-	-	1,106	1,106
Interest income**	-	-	3,551	3,551
Interest expense**	(418)	-	(5,520)	(5,938)
General and administrative expenses	-	-	(3,047)	(3,047)
Others	-	-	110	110

Equity transactions with related parties during the year included in the consolidated statement of changes in equity are as follows:

	2023	2022
	US\$ 000	US\$ 000
Interest payment on Perpetual Additional Tier 1 Capital	(1,062)	(1,070)

*The Bank and its Parent entered into arrangement for service sharing between the two entities. In line with the arrangement, the Bank provides certain services and incurs certain expenses on behalf of its Parent.

**The Group had interest bearing receivables from and payables to related parties amounting to US\$ nil million (31 December 2022: US\$ 45.5 million). These receivables and payables were offset in the consolidated financial statements as the criteria for offsetting of financial instruments has been met. Interest income and interest expense on these related party balances for the year ended 31 December 2022 amounting to US\$ 3,229 thousand and US\$ 1,602 thousand respectively had been recorded in these consolidated financial statements.

The year-end balances in respect of related parties included in the consolidated financial statements are as follows:

	2023			
	Major shareholder	Associates	Other related parties	Total
	US\$ 000	US\$ 000	US\$ 000	US\$ 000
Demand and call deposits with banks	-	-	10,783	10,783
Placements with banks	-	-	33,179	33,179
Investments carried at fair value through profit and loss	-	-	21,345	21,345
Investments carried at fair value through other comprehensive income	-	40	69,836	69,876
Loans and receivables	-	-	3,997	3,997
Other assets	1,916	443	3,227	5,586
Due to banks and other financial institutions	-	-	(87,603)	(87,603)
Deposits from customers	(1,526)	-	(3,414)	(4,940)
Other liabilities	(24,536)	-	(539)	(25,075)
Perpetual Additional Tier 1 Capital	-	-	(10,000)	(10,000)
<i>Off statement of financial position items:</i>				
Letters of guarantee	-	-	150	150

United Gulf Bank B.S.C. (c)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2023

25 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

	2022			
	Major shareholder	Associates	Other related parties	Total
	US\$ 000	US\$ 000	US\$ 000	US\$ 000
Demand and call deposits with banks	-	-	16,955	16,955
Placements with banks	-	-	23,255	23,255
Investments carried at fair value through profit and loss	-	-	2,082	2,082
Investments carried at fair value through other comprehensive income	-	56	65,133	65,189
Loans and receivables	-	-	6,641	6,641
Other assets	-	3,506	4,833	8,339
Due to banks and other financial institutions	-	-	(89,904)	(89,904)
Deposits from customers	(4,751)	(345)	(50,307)	(55,403)
Other liabilities	(29,064)	-	(2,774)	(31,838)
Perpetual Additional Tier 1 Capital	-	-	(10,000)	(10,000)
<i>Off statement of financial position items:</i>				
Letters of guarantee	-	-	157	157

All related party transactions were on terms that are mutually agreed between the counterparties. All related party exposures are performing as of 31 December 2023 and 2022.

Compensation of key management personnel was as follows:

	2023	2022
	US\$ 000	US\$ 000
Short-term employee benefits	2,406	2,203
Long-term employee benefits	395	432
	2,801	2,635

26 COMMITMENTS

Credit-related commitments

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

Letters of credit, guarantees (including standby letters of credit) and acceptances committed by the Group to make payments on behalf of customers if certain conditions are met under the terms of the contract.

The Group has the following credit and investment related commitments:

	2023	2022
	US\$ 000	US\$ 000
Credit-related commitments:		
Letters of guarantee	2,307	2,269
	2,307	2,269
Investments related commitments *	3,718	825
	6,025	3,094

*Investment related commitments are Group's commitment to invest in private equity funds representing the uncalled capital by the investment managers (general partners) of various private equity funds in which the Group has made investments. The capital can be called at the investment manager's discretion.

27 DERIVATIVES

In the ordinary course of business, the Group enters into various types of transactions that involve derivative financial instruments.

The table below shows the positive and negative fair values of derivative financial instruments. The notional amount is that 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 notional amounts indicate the volume of transactions outstanding at year end and are not indicative of either market or credit risk.

	<i>Notional amounts by term to maturity</i>					
	<i>Positive fair value</i> US\$ 000	<i>Negative fair value</i> US\$ 000	<i>Total</i> US\$ 000	<i>Within 3 months</i> US\$ 000	<i>3 - 12 months</i> US\$ 000	<i>1 - 5 years</i> US\$ 000
31 December 2023						
Derivatives held for trading *						
Interest rate swaps	20,917	(20,917)	715,000	-	100,000	615,000
Forward foreign exchange contracts	1,968	(2,177)	809,318	94,618	714,700	-
	219	(132)	113,144	73,975	39,169	-
Derivatives used as hedge of net investments in foreign operations						
Forward foreign exchange contracts						
	219	(132)	113,144	73,975	39,169	-
Derivatives used as cash flow hedges						
Interest rate swaps	450	-	22,500	-	-	22,500
	450	-	22,500	-	-	22,500
31 December 2022						
Derivatives held for trading *						
Interest rate swaps	29,063	(29,063)	775,000	100,000	-	675,000
Forward foreign exchange contracts	3,272	(3,337)	762,620	78,318	684,302	-
	29,063	(29,063)	775,000	100,000	-	675,000
Derivatives used as hedge of net investments in foreign operations						
Forward foreign exchange contracts						
	-	(854)	164,079	98,546	65,533	-
Derivatives used as cash flow hedges						
Interest rate swaps	444	-	22,500	-	-	22,500
	444	-	22,500	-	-	22,500

* The Group uses interest rate swaps and foreign exchange contracts to manage some of its risk exposures. These contracts are not designated as cash flow, fair value or net investment in foreign operations' hedges and are entered into for periods consistent with currency transaction and interest rate exposures.

Forward foreign exchange contracts are contractual agreements to either buy or sell a specified currency, at a specific price and date in the future, and are customised contracts transacted in the over-the-counter market.

Swaps are contractual agreements between two parties to exchange interest or foreign currency differentials based on a specific notional amount. For interest rate swaps, counterparties generally exchange fixed and floating rate interest payments based on a notional value in a single currency.

Hedge of net investments in foreign operations

The Bank has designated certain forward foreign exchange contracts to hedge against changes in the value of its investments in foreign operations for an amount of US\$ 167.8 million (KWD 51.6 million) [2022: US\$ 164.1 million (KWD 50.4 million)]. Gains or losses on the retranslation of these forward foreign exchange contracts are transferred to equity through OCI to offset any gains or losses on the translation of the net investments in foreign operations. For the year ended 31 December 2023, there was no ineffective hedge relationship (31 December 2022: same).

27 DERIVATIVES (continued)

Cash flow hedges

The Group is exposed to variability in interest cash flows on liabilities which bear interest at a variable rate. The Group uses interest rate swaps as cash flow hedges of these interest rate risks.

28 RISK MANAGEMENT

a) Introduction

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is considered critical to the Group's continuing profitability. The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Group's strategic planning process.

The major risks to which the Group is exposed while conducting its business and operations, and the means and organisational structure it employs to manage them strategically for building shareholder value, are outlined below.

(i) Risk management structure

Each subsidiary within the Group is responsible for managing its own risks and has its own Board Committees, including Audit and Executive Committees in addition to other management committees such as Credit/Investment Committee and Asset and Liability Committees (ALCO), or equivalent, with responsibilities generally the same as the Bank's committees.

Board of Directors (the "Board")

The Board's role is to approve investment strategies of the Bank. However, it has delegated authority for the day-to-day decision making to the Executive Committee so risks can be effectively managed within the Bank.

The Board of Directors has delegated the executive management of the Bank to the Chief Executive Officer (who is not a Director) and has appointed several Board Committees to work with them and to form and define policies and approve procedures for all of the Bank's activities.

The Executive Management of the Bank is headed by the Chief Executive Officer (CEO) who is broadly responsible for the day to day conduct of the Bank's business in line with the Board's approved policies and procedures and complements and facilitates the Board in meeting its responsibility towards all stakeholders. He is assisted by the six members of the Bank's management team, each of whom is responsible for his or her respective department. Several management committees have been formed which are chaired by the CEO.

Executive Committee

The Executive Committee comprises of four directors including the Chairman, Vice Chairman and two other directors. Board meetings are held through circulation to approve all proposals not within the Investment Committee's risk authority, as well as to act on all matters within the Board's remit.

Investment Committee

The Investment Committee is mainly responsible for approving or recommending approval to the Executive Committee limits for individual exposures, investments and concentrations towards banks, countries, industries, risk rating classes, or other special risk asset categories. In addition, the Investment Committee also monitors the overall risk profile of the Bank and recommends provision levels to the Executive Committee. The Investment Committee is constituted by a majority motion passed in the Executive Committee. Currently, the Investment Committee consists of four members.

Audit Committee

The Audit Committee is appointed by the Board and consists of four members who are Directors, including three independent Directors. The Audit Committee assists the Board in carrying out its responsibilities with respect to assessing (a) the quality and integrity of financial reporting, (b) the audit thereof, (c) the soundness of the internal controls of the Bank, (d) the risk assessment of the Bank's activities, and (e) the methods for monitoring compliance with laws, regulations and supervisory and internal policies.

28 RISK MANAGEMENT (continued)

a) Introduction (continued)

(i) Risk management structure (continued)

Risk and Compliance

The Risk and Compliance Committee is responsible for the monitoring and assessment of risks facing the Group, the review of compliance with internal and external guidelines, the review and recommendation of provisioning requirements, the assessment of the impact on the Bank from new regulatory requirements, and review of Investment Committee decisions. The Risk and Compliance Committee comprises of six senior executives of the Bank including the Chief Executive Officer. Additionally, the Head of Internal Audit and Quality Assurance participates in the Committee meetings in the capacity of observers.

Asset and Liability Committee

The Asset and Liability Committee establishes policies and objectives for the asset and liability management of the Group's statement of financial position in terms of structure, distribution, risk and return and its impact on profitability. It also monitors the cash flow, tenor and cost/yield profiles of assets and liabilities and evaluates the Group's financial position both from interest rate sensitivity and liquidity points of view, making corrective adjustments based upon perceived trends and market conditions, monitoring liquidity, monitoring foreign exchange exposures and positions. The Asset and Liability Committee comprises of six senior executives of the Group, including the Chief Executive Officer.

Management Committee

The Management Committee acts as the steering committee of the Group as well as a management forum to discuss any relevant issues. It meets on a weekly basis and consists of the Chief Executive Officer and all Department Heads as well as Internal Audit. It also serves to follow up on a weekly basis on the daily conduct of the Bank's business activities. The Committee is headed by the Chief Executive Officer.

Key Persons Committee

The Key Persons Committee comprises three members of senior management and is mainly responsible for the supervision of adequacy of compliance with the CBB and Bahrain Bourse guidelines on key persons trading (insider trading).

Monitoring and controlling risks is primarily performed based on limits established by the Group. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected geographies and industry sectors. In addition, the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

Nominating and Remunerations Committee

The Nominating and Remuneration Committee (NRC) assists the Board in assessing the skills set of Board members and is responsible to oversee the preparation of appropriate nomination documents and notifications proposing candidates for directorships. It reviews the independence of directors on an annual basis, supervises the preparation of induction materials and orientation sessions, makes recommendations to the Board regarding the management structure and ensures that there is a succession plan in place. The NRC comprises of three members, all of whom are independent.

The NRC also recommends/reviews the remuneration policies for the Board of Directors and senior management and submits recommendations for shareholders' approval.

(ii) Risk mitigation

As part of its overall risk management, the Group uses derivatives and other instruments to manage exposures resulting from changes in interest rates and foreign currency transactions.

The risk profile is assessed before entering into hedge transactions, which are authorised by the appropriate level of seniority within the Group.

28 RISK MANAGEMENT (continued)

a) Introduction (continued)

(ii) Risk mitigation (continued)

Where warranted, the Group enters into legally enforceable netting arrangements covering its money market and foreign exchange trading activities whereby the only net amounts may be settled at maturity. With regard to the credit risk in the off statement of financial statement exposures, third party guarantees are obtained wherever possible as a risk mitigation measure.

b) Concentration risk

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risk, the Group's policies and procedures include specific guidelines to focus on country and counterparty limits and maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly. Robust limit structures put in place by the Board ensures effective monitoring and control of concentration risk and any limit breaches are immediately rectified and reported to the Board. For classifications by Group's exposure by industry, sector and geographical region, refer note 28 (c).

c) Credit risk

Credit risk arises from the extension of credit facilities in the Group's banking and trading activities as well as in investment activities, where there is a possibility that a counterparty may fail to honour its commitment whenever an investment may fail.

Credit risk is mitigated through:

- (i) Establishing an appropriate credit risk environment;
- (ii) Operating under a sound credit and investment approval process;
- (iii) Maintaining appropriate credit administration, measurement and monitoring processes; and
- (iv) Ensuring adequate controls over the credit risk management process.

The Group has well defined policies approved at the individual board level. These provide carefully documented guidelines for credit risk management. There is a two tier committee structure to approve and review credit and investment risk. The Investment Committee comprises of the Chief Executive Officer, Head of Treasury and the Chief Financial Officer. The Head of Credit and Risk Management acts as a non-voting member to the Committee. Exposures beyond Investment Committee limits are approved by the Board's Executive Committee or by the Board of Directors.

28 RISK MANAGEMENT (continued)

c) Credit risk (continued)

(i) Maximum exposure to credit risk without taking account of any collateral or other credit enhancements

The table below shows the Group's maximum exposure to credit risk for the components of on and off statement of financial position exposure. The maximum exposure shown is gross before the effect of mitigation through the use of collateral arrangements, but after any expected credit losses.

	2023 US\$ 000	2022 US\$ 000
Demand and call deposits with banks	82,467	102,969
Placements with banks	78,625	96,465
Investments carried at FVTPL	11,389	14,830
Investments carried at amortised cost	-	25,036
Loans and receivables	19,679	21,690
Other assets	61,350	61,767
	<hr/>	<hr/>
	253,510	322,757
Letters of guarantee	2,307	2,269
	<hr/>	<hr/>
	255,817	325,026
	<hr/>	<hr/>

(ii) Risk concentrations of the maximum exposure to credit risk

Concentration of risk is managed by client/counterparty, by geographical region and by industry sector. The maximum credit exposure to any single client or counterparty as of 31 December 2023 was US\$ 39.0 million (2022: US\$ 59.8 million) before taking account of collateral or other credit enhancements.

An analysis of the Group's financial assets, subject to credit risk, by geographical region, before taking into account collateral held or other credit enhancements, is as follows:

	G.C.C. * US\$ 000	MENA ** US\$ 000	Europe US\$ 000	Americas US\$ 000	Total US\$ 000
At 31 December 2023					
Demand and call deposits with banks	47,016	2,853	707	31,891	82,467
Placements with banks	75,024	3,601	-	-	78,625
Investments carried at FVTPL	11,389	-	-	-	11,389
Loans and receivables	19,677	2	-	-	19,679
Other assets	27,858	24,429	8,244	819	61,350
Letters of guarantee	2,150	157	-	-	2,307
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	183,114	31,042	8,951	32,710	255,817
At 31 December 2022					
Demand and call deposits with banks	92,241	3,902	517	6,309	102,969
Placements with banks	69,610	26,855	-	-	96,465
Investments carried at FVTPL	14,830	-	-	-	14,830
Investments carried at amortised cost	25,036	-	-	-	25,036
Loans and receivables	18,570	3,120	-	-	21,690
Other assets	32,098	24,150	4,698	821	61,767
Letters of guarantee	2,112	157	-	-	2,269
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	254,497	58,184	5,215	7,130	325,026

*Gulf Cooperation Council (G.C.C.)

**Middle East and North Africa (MENA)

28 RISK MANAGEMENT (continued)

c) Credit risk (continued)

(ii) Risk concentrations of the maximum exposure to credit risk (continued)

An industry sector analysis of the Group's financial assets subject to credit risk, before taking into account collateral held or other credit enhancements, is as follows:

	Banks	Trade	Government	Others	Total
	and other financial institutions	Construction and real estate	and Manufacturing		
At 31 December 2023	US\$ 000	US\$ 000	US\$ 000	US\$ 000	US\$ 000
Demand and call deposits with banks	82,408	-	-	59	82,467
Placements with banks	78,625	-	-	-	78,625
Investments carried at FVTPL	5,739	926	3,781	943	11,389
Loans and receivables	-	-	-	19,679	19,679
Other assets	29,807	591	-	30,952	61,350
Letters of guarantee	2,307	-	-	-	2,307
	198,886	1,517	3,781	943	50,690
	198,886	1,517	3,781	943	255,817
At 31 December 2022					
Demand and call deposits with banks	102,966	-	-	3	102,969
Placements with banks	96,465	-	-	-	96,465
Investments carried at FVTPL	5,769	4,152	1,907	933	2,069
Investments carried at amortised cost	-	-	-	25,036	-
Loans and receivables	2,537	-	-	-	19,153
Other assets	28,933	1,997	27	328	30,482
Letters of guarantee	2,269	-	-	-	2,269
	238,939	6,149	1,934	26,297	51,707
	238,939	6,149	1,934	26,297	325,026

(iii) Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained mainly include charges over trading securities. The Group also obtains guarantees from parent companies for loans to their subsidiaries.

Management monitors the market value of collateral and requests additional collateral in accordance with the underlying agreement, during its review of the adequacy of the allowance for impairment losses. It is the Group's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Group does not occupy repossessed properties for business use.

(iv) Credit risk exposure by rating

	Investment	Non-investment	Unrated*	Total
	grade	grade		
At 31 December 2023	US\$ 000	US\$ 000	US\$ 000	US\$ 000
Demand and call deposits with banks	79,356	318	2,793	82,467
Placements with banks	45,446	-	33,179	78,625
Investments carried at FVTPL	11,064	-	325	11,389
Loans and receivables	-	-	19,679	19,679
Other assets	24,639	177	36,534	61,350
Letters of guarantee	7	-	2,300	2,307
	160,512	495	94,810	255,817

28 RISK MANAGEMENT (continued)

c) Credit risk (continued)

(iv) Credit risk exposure by rating (continued)

At 31 December 2022	Investment	Non-investment	Unrated*	Total
	grade US\$ 000	grade US\$ 000		
Demand and call deposits with banks	102,509	318	142	102,969
Placements with banks	73,210	-	23,255	96,465
Investments carried at FVTPL	14,504	-	326	14,830
Investments carried at amortised cost	25,036	-	-	25,036
Loans and receivables	-	-	21,690	21,690
Other assets	16,591	-	45,176	61,767
Letters of guarantee	7	-	2,262	2,269
	231,857	318	92,851	325,026

* Includes exposures to counterparties not rated by credit rating agencies

It is the Group's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risk and the comparison of credit exposures across all business lines, geographic regions and products. All externally rated credit risk exposures are rated by the relevant External Credit Assessment Institutions ("ECAIs").

Additionally, the internal risk ratings of the Group's externally unrated credit risk exposures which are largely subjective, are tailored to the various categories and are derived in accordance with the internal rating policy and practices. The attributable internal risk ratings are assessed and updated on a regular basis.

The table above reflects the risk ratings of the credit risk exposures rated by the relevant ECAIs. All of the externally unrated credit risk exposures have been classified under "Unrated" category.

(v) Restructured loans

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. The Group has not restructured any loans during 2023 and 2022.

Restructured loans have a minimum cool-off period of 12 months, from the date when the condition(s) that caused an account to move to Stage 2 or Stage 3 ceases to exist, and provided that up to date payments are received with no arrears.

28 RISK MANAGEMENT (continued)**c) Credit risk (continued)****(vi) Offsetting financial assets and financial liabilities**

The consolidated disclosures set out in the table below include financial assets and financial liabilities that are offset in the Group's statement of financial position:

	Loans and receivables US\$ 000	Customer deposits US\$ 000
31 December 2023		
Gross amounts of recognised financial asset / liability	-	-
Gross amounts offset in the consolidated statement of financial position	-	-
Net amount presented in the consolidated statement of financial position	<hr/> <hr/>	<hr/> <hr/>
31 December 2022		
Gross amounts of recognised financial asset / liability	45,500	45,500
Gross amounts offset in the consolidated statement of financial position	<hr/> <hr/>	<hr/> <hr/>
Net amount presented in the consolidated statement of financial position	<hr/> <hr/>	<hr/> <hr/>

The Group had interest bearing receivables from and payables to related parties amounting to US\$ nil million (31 December 2022: US\$ 45.5 million). These receivables and payables were offset in the consolidated financial statements as the criteria for offsetting of financial instruments has been met. Interest income and interest expense on these related party balances for the year ended 31 December 2022 amounting to US\$ 3,229 thousand and US\$ 1,602 thousand respectively had been recorded in these consolidated financial statements.

d) Market risk

Market risk is defined as the risk of losses in the value of on-or-off statement of financial position financial instruments caused by a change in market prices or rates, (including changes in interest rates and foreign exchange rates). The Group's policy guidelines for market risk have been vetted by the Board of Directors in compliance with the rules and guidelines provided by the CBB. The CBB guidelines introduced a risk measurement framework whereby all locally incorporated banks in Bahrain are required to measure and apply capital charges in respect of their market risk in addition to capital requirements for credit risk and operational risk.

(i) Interest rate risk

The market risk subject to capital charge normally arises from changes in value due to market forces in the following exposures:

- Interest rate instruments and securities in the trading book; and
- Foreign exchange throughout the banking book.

The Group has entered into forward foreign exchange contracts for hedging and trading purposes.

a) IBOR transition

The Group manages its IBOR transition through relevant internal Group committees and external vendors. The objectives include evaluating the extent to which loans advanced, loan commitments, cash products, bonds and derivatives have with reference to the IBOR reform. This involves whether contracts need to be amended and how to manage communication with counterparties. Relevant notes on this matter is communicated to Executive Committee and with other business functions as needed. Committees such as ALCO and RCC along with front and middle offices support the management of interest rate risk, and work closely to identify all operational risks arising from the IBOR reform.

28 RISK MANAGEMENT (continued)**d) Market risk (continued)****(i) Interest rate risk (continued)****a) IBOR transition (continued)**

The main risks to which the Group is exposed as a result of the IBOR reform are operational and financial. For example, the renegotiation of loan contracts through bilateral negotiation with customers, updating of contractual terms, updating of internal systems that use IBOR curves and the revision of operational control, policies and procedures related to the reform. Financial risk is predominantly limited to interest rate risk and in particular basis risk. Other areas that could arise are to do with economic shortfalls, accounting treatments, Tax and legal issues if applicable.

By the end of 2023 the Group had successfully completed the transition of its IBOR exposure to Alternative Reference Rates (ARR). In particular, prior to the cessation of some synthetic LIBORs, the Bank had completed the transition of all affected exposures. The Bank is confident that it has the operational capability to process the transitions to ARRs for those interest rate benchmarks that will cease to be available during or after 31 December 2023.

The Group monitors the progress of the transition from IBOR to ARRs by reviewing the total amounts of contracts that have yet to transition and the amounts of such contracts that include the appropriate fallback language and definitions. The Group considers that a contract is not yet transitioned to ARR when interest under the contract is still indexed to a benchmark rate that is still subject to IBOR reform, even if it includes a fallback clause that deals with the cessation of the existing IBOR (referred to as an 'unreformed contract'). The Group also monitors the progress of its system infrastructure by testing the capability of its current systems to handle the transition in terms of its day to day operational entries with the assistance of relevant vendors.

b) Interest rate sensitivity

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within the established limits.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, on the Group's consolidated statement of income based on the consolidated statement of financial position as of 31 December:

	2023		2022	
	Sensitivity of		Sensitivity of	
	Increase in basis points	net interest income US\$ 000	Increase in basis points	net interest income US\$ 000
Kuwaiti Dinar	+ 25	(338)	+ 25	11
United States Dollar	+ 25	(31)	+ 25	24
Euro	+ 25	2	+ 25	-
Pound Sterling	+ 25	4	+ 25	4
Others	+ 25	37	+ 25	60

The decrease of 25 basis points in interest rates will have an equal and opposite impact as shown above.

The sensitivity of the consolidated statement of income is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate financial assets and financial liabilities held at 31 December 2023 and 2022, including the effect of hedging instruments.

28 RISK MANAGEMENT (continued)

d) Market risk (continued)

b) Interest rate sensitivity (continued)

(ii) Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group considers the United States Dollar as its functional currency. Positions are monitored on a daily basis and hedging strategies used to ensure positions are maintained within established limits.

The table below indicates the effect on profit before tax for the positions as at statement of financial position date as a result of change in the currency rate with all other variables held constant.

	2023			2022		
	Effect on		Effect on equity US\$ 000	Effect on		Effect on equity US\$ 000
	Change in currency rate in %	profit before tax US\$ 000		Change in currency rate in %	profit before tax US\$ 000	
Kuwaiti Dinar	+2	(6,076)	868	+2	(6,146)	879
	-2	6,076	(868)	-2	6,146	(879)
Euro	+2	(518)	592	+2	(5)	568
	-2	518	(592)	-2	5	(568)
Pound Sterling	+2	34	-	+2	3	-
	-2	(34)	-	-2	(3)	-

United Gulf Bank B.S.C. (c)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2023

28 RISK MANAGEMENT (continued)

d) Market risk (continued)

iii) Equity price risk

Equity price risk arises from the change in fair values of equity investments. The Group manages this risk through diversification of investments in terms of geographical distribution and industry concentration.

The geographical distribution of the Group's equity investments is as follows:

Geographical distribution

At 31 December 2023	GCC / MENA		North America			Total
	US\$ 000	Europe	US\$ 000	Others	US\$ 000	
<i>Investments carried at FVTPL</i>						
Equities	37,568	-	14,452	30	52,050	
Managed funds	47,763	13,900	3,172	-	64,835	
	85,331	13,900	17,624	30	116,885	
<i>Investments carried at FVOCI</i>						
Equities	85,631	32,180	12,314	-	130,125	
Managed funds	93	-	-	-	93	
	85,724	32,180	12,314	-	130,218	
Total	171,055	46,080	29,938	30	247,103	
At 31 December 2022	GCC / MENA	Europe	North America	Others	Total	
	US\$ 000	US\$ 000	US\$ 000	US\$ 000	US\$ 000	
<i>Investments carried at FVTPL</i>						
Equities	6,071	-	2,027	31	8,129	
Managed funds	49,242	5,687	10,176	-	65,105	
	55,313	5,687	12,203	31	73,234	
<i>Investments carried at FVOCI</i>						
Equities	60,799	28,796	14,386	-	103,981	
Managed funds	40	-	-	-	40	
	60,839	28,796	14,386	-	104,021	
Total	116,152	34,483	26,589	31	177,255	

At the reporting date, the exposure to listed equity securities at fair value was US\$ 54,748 thousand (2022: US\$ 36,932 thousand). An increase/ decrease of 10% on the market indices of Middle East and North Africa ("MENA") stock exchanges could have positive/ impact of approximately US\$ 5,475 thousand (2022: US\$ 3,693 thousand) on the income or equity attributable to the Group. The majority of the Group's investment in equities in the MENA region are quoted on the Boursa Kuwait.

28 RISK MANAGEMENT (continued)

e) Liquidity risk

(i) Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2023 and 2022 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Group expects that most of its customers would not request repayment on the earliest date the Group is required to pay and the table does not reflect the expected cash flows indicated by the Group's deposit retention history.

At 31 December 2023	On demand US\$ 000	1 - 3 months US\$ 000	3 - 12 months US\$ 000	1 - 5 years US\$ 000	Total US\$ 000
Financial liabilities					
Due to banks and other financial institutions	2,131	120,441	-	-	122,572
Deposits from customers	7,903	7,615	414	-	15,932
Term loans	-	-	12,552	237,547	250,099
Other liabilities	-	-	-	89,685	89,685
Total non-derivative undiscounted financial liabilities	10,034	128,056	12,966	327,232	478,288
Derivatives					
Net cash outflows on interest rate swaps	-	233	241	803	1,277
Gross settled foreign currency derivatives	-	-	132	-	132
Total	12,341	128,289	13,339	331,753	485,722

The Group expects that not all of the contingent items or commitments will be drawn before expiry of the commitments.

United Gulf Bank B.S.C. (c)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2023

28 RISK MANAGEMENT (continued)

e) Liquidity risk (continued)

(i) Analysis of financial liabilities by remaining contractual maturities (continued)

At 31 December 2022	On demand US\$ 000	1 - 3 months US\$ 000	3 - 12 months US\$ 000	1 - 5 years US\$ 000	Total US\$ 000
<i>Financial liabilities</i>					
Due to banks and other financial institutions	2,147	82,101	56,373	-	140,621
Deposits from customers	13,372	7,414	-	-	20,786
Term loans	-	-	-	67,232	67,232
Long term bonds	-	-	134,923	-	134,923
Other liabilities	24,120	33,978	22,533	-	80,631
Total non-derivative undiscounted financial liabilities	<u>39,639</u>	<u>123,493</u>	<u>213,829</u>	<u>67,232</u>	<u>444,193</u>
<i>Derivatives</i>					
Net cash outflows on interest rate swaps	-	3	4	18	25
Gross settled foreign currency derivatives	-	96	758	-	854
Total	<u>41,908</u>	<u>123,592</u>	<u>214,591</u>	<u>68,075</u>	<u>448,166</u>

The Group expects that not all of the contingent items or commitments will be drawn before expiry of the commitments.

United Gulf Bank B.S.C. (c)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2023

28 RISK MANAGEMENT (continued)

e) Liquidity risk (continued)

In order to ensure that the Group can meet its financial obligations as they fall due, there is a close monitoring of its assets / liabilities position. Besides other functions, the ALCO evaluates the statement of financial position both from a liquidity and an interest rate sensitivity point of view. The whole process is aimed at ensuring sufficient liquidity to fund its ongoing business activities and to meet its obligations as they fall due. A diversified funding base has evolved in deposits raised from the interbank market, deposits received from customers and medium term funds raised through syndicated and commodity based Murabaha transactions. These, together with the strength of its equity and the asset quality, ensure that funds are made available on competitive rates.

ii) Maturity analysis based on expected recoveries

The maturity analysis of assets and liabilities analyzed according to when they are expected to be recovered or settled are as follows:

	<i>No fixed maturity</i>		<i>Less than 12 months</i>	<i>Over 12 months</i>	<i>Total</i> US\$ 000
	US\$ 000	US\$ 000	US\$ 000	US\$ 000	
At 31 December 2023					
Demand and call deposits with banks	-	82,149	318	82,467	
Placements with banks	-	78,625	-	78,625	
Investments carried at FVTPL	-	128,274	-	128,274	
Investments carried at FVOCI	130,218	-	-	130,218	
Loans and receivables	-	14,281	5,398	19,679	
Other assets	-	70,515	-	70,515	
Investment in associates	60,386	-	-	60,386	
Investment properties	127,388	-	-	127,388	
Property and equipment	15,679	-	-	15,679	
Goodwill and other intangible assets	62,151	-	-	62,151	
Total assets	395,822	373,844	5,716	775,382	
Due to banks and other financial institutions	-	121,510	-	121,510	
Deposits from customers	-	15,915	-	15,915	
Term loans	-	12,202	191,420	203,622	
Other liabilities	-	89,759	-	89,759	
Total liabilities	-	239,386	191,420	430,806	
Net	395,822	134,458	(185,704)	344,576	

United Gulf Bank B.S.C. (c)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2023

28 RISK MANAGEMENT (Continued)

e) Liquidity risk (continued)

ii) Maturity analysis based on expected recoveries (continued)

	No fixed maturity US\$ 000	Less than 12 months US\$ 000	Over 12 months US\$ 000	Total US\$ 000
At 31 December 2022				
Demand and call deposits with banks	-	102,651	318	102,969
Placements with banks	-	96,465	-	96,465
Investments carried at FVTPL	73,234	14,830	-	88,064
Investments carried at FVOCI	104,021	-	-	104,021
Investments carried at amortised cost	-	25,036	-	25,036
Loans and receivables	-	17,007	4,683	21,690
Other assets	-	75,985	-	75,985
Investment in associates	87,050	-	-	87,050
Investment properties	99,962	-	-	99,962
Property and equipment	15,846	-	-	15,846
Goodwill and other intangible assets	63,556	-	-	63,556
Assets held for sale	-	2,306	-	2,306
Total assets	443,669	334,280	5,001	782,950
Due to banks and other financial institutions	-	138,878	-	138,878
Deposits from customers	-	20,772	-	20,772
Term loans	-	-	61,324	61,324
Long term bonds	-	130,595	-	130,595
Other liabilities	-	109,804	-	109,804
Total liabilities	-	400,049	61,324	461,373
Net	443,669	(65,769)	(56,323)	321,577

f) Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. When controls fail to perform operational risk can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group has established a board approved framework for operational risk management which comprehensively outlines operational risk appetite for the Bank and provides operational risk management procedures. The framework is supported by a dedicated operational risk system covering loss data collection, risk and control self assessment and key indicator modules which have been rolled out in the Group. While, the Group cannot expect to eliminate all operational risks, but through dedicated operational risk framework and by monitoring and responding to potential risks, the Group is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

29 FAIR VALUE MEASUREMENT

The Group uses the hierarchy basis/levels for determining and disclosing the fair value of financial instruments as disclosed in note 2.

The following table provides the fair value measurement hierarchy of the Group's assets and liabilities.

Quantitative disclosures fair value measurement hierarchy for assets as at 31 December 2023:

	<i>Fair value measurement using</i>			
	<i>Level 1</i> US\$ 000	<i>Level 2</i> US\$ 000	<i>Level 3</i> US\$ 000	<i>Total</i> US\$ 000
Assets measured at fair value				
<i>Investments carried at FVTPL</i>				
Equities	25,601	-	26,449	52,050
Debt securities	11,063	-	326	11,389
Managed funds	3,991	41,414	19,430	64,835
<i>Investments carried at FVOCI</i>				
Equities	1,809	-	128,316	130,125
Managed funds	-	-	93	93
<i>Investment properties</i>				
Derivatives	-	-	127,388	127,388
Interest rate swaps	-	21,367	-	21,367
Forward foreign exchange contracts	-	2,187	-	2,187
	42,464	64,968	302,002	409,434
Liabilities measured at fair value				
Derivatives				
Interest rate swaps	-	20,917	-	20,917
Forward foreign exchange contracts	-	2,309	-	2,309
	-	23,226	-	23,226

Quantitative disclosures fair value measurement hierarchy for assets as at 31 December 2022:

	<i>Fair value measurement using</i>			
	<i>Level 1</i> US\$ 000	<i>Level 2</i> US\$ 000	<i>Level 3</i> US\$ 000	<i>Total</i> US\$ 000
Assets measured at fair value				
<i>Investments carried at FVTPL</i>				
Equities	6,000	-	2,129	8,129
Debt securities	14,504	-	326	14,830
Managed funds	4,324	43,339	17,442	65,105
<i>Investments carried at FVOCI</i>				
Equities	4,837	-	99,144	103,981
Managed funds	-	-	40	40
<i>Investment properties</i>				
Derivatives	-	-	99,962	99,962
Interest rate swaps	-	29,507	-	29,507
Forward foreign exchange contracts	-	3,272	-	3,272
	29,665	72,846	219,043	321,554
Liabilities measured at fair value				
Derivatives				
Interest rate swaps	-	29,063	-	29,063
Forward foreign exchange contracts	-	4,191	-	4,191
	-	33,254	-	33,254

29 FAIR VALUE MEASUREMENT (continued)

Transfers between Level 1, Level 2 and Level 3

During the years ended 31 December 2023 and 2022, there were no transfers between Level 1 and Level 2 fair value measurements and no transfers into or out of Level 3 fair value measurement.

Reconciliation of fair value measurement of investments in Level 3 of the fair value hierarchy for the year 2023:

	As at 1 January 2023 US\$'000	Net purchases, sales, transfer and settlement US\$'000	Gain recorded in the consolidated statement of income US\$'000	Gain recognised in OCI US\$'000	As at 31 December 2023 US\$'000
<i>Investments carried at FVTPL</i>					
Equities	2,129	23,843	477	-	26,449
Debt securities	326	-	-	-	326
Managed funds	17,442	1,152	836	-	19,430
	19,897	24,995	1,313	-	46,205
<i>Investments carried at FVOCI</i>					
Equities	99,144	27,232	-	1,940	128,316
Managed funds	40	53	-	-	93
	99,184	27,285	-	1,940	128,409
<i>Investment properties</i>	99,962	26,729	697	-	127,388

Reconciliation of fair value measurement of investments in Level 3 of the fair value hierarchy for the year 2022:

	As at 1 January 2022 US\$'000	Net purchases, sales, transfer and settlement US\$'000	(Loss) gain recorded in the consolidated statement of income US\$'000	Loss recognised in OCI US\$'000	As at 31 December 2022 US\$'000
<i>Investments carried at FVTPL</i>					
Equities	156	1,999	(26)	-	2,129
Debt securities	827	(501)	-	-	326
Managed funds	23,264	(6,832)	1,010	-	17,442
	24,247	(5,334)	984	-	19,897
<i>Investments carried at FVOCI</i>					
Equities	99,753	3,460	-	(4,069)	99,144
Managed funds	42	(2)	-	-	40
	99,795	3,458	-	(4,069)	99,184
<i>Investment properties</i>	100,564	-	(602)	-	99,962

30 CAPITAL ADEQUACY

The Group maintains an actively managed capital base to cover inherent risks in its business. The adequacy of the Group's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision ("BIS rules/ratios") as adopted by the CBB.

Capital management

The primary objectives of the Group's capital management are to ensure that the Group complies with capital requirements of the CBB and that the Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders' value. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders, or issue equity securities. No changes were made in the capital management objectives, policies and processes from previous years.

The risk asset ratio calculated in accordance with the capital adequacy guidelines issued by the CBB, for the Group is as follows:

	2023 US\$ 000	2022 US\$ 000
Capital base:		
CET1 capital	129,622	153,393
Additional Tier 1 capital	35,533	35,839
Tier 2 capital	17,350	19,119
Total capital base (a)	182,505	208,351
Risk weighted exposure:		
Credit risk weighted exposure	911,101	982,360
Market risk weighted exposure	13	5,813
Operational risk weighted exposure	128,863	127,100
Total risk weighted exposure (b)	1,039,977	1,115,273
Capital adequacy (a/b * 100)	17.55%	18.68%
Minimum requirement	12.5%	12.5%

Regulatory capital consists of Tier 1 capital, which comprises of the Bank's issued share capital, reserves, retained earnings, non-controlling interests and additional Tier 1 capital less regulatory deductions. The other component of regulatory capital is Tier 2 capital, which includes Tier 2 capital and ECL reserves.

31 BUSINESS COMBINATION

Acquisition of Manafae Holding Company ("Manafae") and N.S. 88 W.L.L. ("NS88")

During December 2023, the Bank acquired 19.7% of the share capital of Manafae (previously an associate), a closed shareholding company incorporated in the State of Kuwait, from Al Futtooh Holding Company K.S.C. (c) (a related party), against settlement of a net amount receivable of US\$ 2,444 thousand (receivable of US\$ 3,868 thousand net of payable of US\$ 1,424 thousand). KAMCO also holds a 34.1% stake in Manafae and the Group has established control over Manafae based on this additional acquisition through a combined ownership of over 50% and a majority representation on the Board of Directors of Manafae.

Manafae owns 47% in NS88, a limited liability company registered in the Kingdom of Bahrain. KAMCO also holds a 30% stake in NS88 and the Group has established control over NS88 through both a combined shareholding of over 50% and ability to control NS88 as set out in IFRS 10. This control was also triggered on the basis of the acquisition of additional stake in Manafae as set out above.

Accordingly, both Manafae and NS88 have been consolidated in these consolidated financial statements. The Group has accounted for this acquisition using provisional fair values of the acquired assets and assumed liabilities as at the acquisition date. Adjustment to the provisional values will be finalised within twelve months of the acquisition. The following table summarises the recognised amounts (provisional fair values) of asset acquired and liabilities assumed at the date of acquisition:

	<i>Manafae</i> US\$ 000	<i>NS88</i> US\$ 000	<i>Total</i> US\$ 000
Assets			
Demand and call deposits with banks	2,644	-	2,644
Investments carried at FVTPL	1,334	-	1,334
Investments carried at FVTOCI	232	24,890	25,122
Investment properties	-	26,729	26,729
Other assets	868	-	868
	5,078	51,619	56,697
Liabilities			
Other liabilities	(75)	(142)	(217)
	(75)	(142)	(217)
Total identifiable net assets at fair value			56,480
Non-controlling interests			(25,316)
			31,164
Purchase consideration:			
Fair value of previously held investment in Manafae and NS88			(25,455)
Non-cash consideration transferred (settlement of net receivables - see above)			(2,444)
Cash consideration transferred			-
Gain on bargain purchase			3,265
Net cash acquired with the subsidiary			2,644
Purchase consideration transferred			-
Net cash inflow			2,644

32 REGULATORY RATIOS

	<i>31 December 2023</i>	<i>31 December 2022</i>
Liquidity Coverage Ratio ("LCR")		
Solo	273%	202%
Consolidated	537%	632%

The Net Stable Funding Ratio ("NSFR")

The NSFR ratio is calculated in accordance with the Liquidity Risk Management Module guidelines, issued by the CBB. The minimum NSFR ratio limit as per CBB is 100%. The Group's consolidated NSFR as of 31 December 2023 is 149.8% (31 December 2022: 124.1%).

70% (2022: 74%) of the total available stable funding is made up of the Group's capital base with 3% (2022: 11%) being less stable deposits and 1% (2022: 1%) comprising of secured and unsecured funding.

The Group's required stable funding comprises of 86% (2022: 85%) assets that have no specified maturity, 11% (2022: 12%) that have contractual maturities of less than 6 months, and 2% (2022: 4%) non-HQLA (the "High Quality Liquid Assets") assets (after application of risk weights).

	<i>2023</i>				
	<i>Unweighted values</i>				
	<i>No specified maturity</i>	<i>Less than 6 months</i>	<i>More than 6 months and less than one year</i>	<i>Over one year</i>	<i>Total weighted value</i>
US\$ 000	US\$ 000	US\$ 000	US\$ 000	US\$ 000	US\$ 000
Available Stable Funding					
Capital	258,441	-	-	221,323	479,764
Stable deposits	-	643	-	-	611
Less stable deposits	-	-	-	19,773	19,773
Secured and unsecured funding	-	8,232	-	-	4,116
Other deposits and funding from financial institutions	-	41,853	-	80,034	80,034
Other liabilities	-	-	-	96,837	96,837
Total available stable funding	258,441	50,728	-	417,967	681,135
Required Stable Funding					
Unencumbered Level 2B HQLA	27,975	-	-	-	13,987
Unencumbered Non-HQLA securities that are not in default and exchange-traded equities in cases where the issuer is not in default	-	-	19,679	-	9,839
Loans	-	82,467	-	-	12,370
Deposits held at other financial institutions for operational purposes	-	75,446	-	3,179	40,902
All other assets including fixed assets, items deducted from regulatory capital, insurance assets and defaulted securities	377,402	-	-	-	377,402
<i>Off-Balance Sheet exposures</i>					
Trade finance-related obligations (including guarantees and letters of credit)	2,307	-	-	-	115
Total required stable funding	407,684	157,913	19,679	3,179	454,615
NET STABLE FUNDING RATIO					
					149.8%

32 REGULATORY RATIOS (continued)

	2022 Unweighted values					
	No specified maturity US\$ 000	Less than 6 months US\$ 000	More than 6 months and less than one year US\$ 000			Total weighted value US\$ 000
			Over one year US\$ 000			
Available Stable Funding						
Capital	286,378	-	-	92,677		379,055
Stable deposits	-	905	-	-		860
Less stable deposits	-	64,150	-	-		57,735
Secured and unsecured funding	-	13,683	-	-		6,841
Other deposits and funding from financial institutions	-	109,478	130,595	-		65,298
Total available stable funding	286,378	188,216	130,595	92,677		509,789
Required Stable Funding						
Unencumbered Non-HQLA securities that are not in default and exchange-traded equities in cases where the issuer is not in default	-	-	21,690	-		10,845
Loans	-	102,970	-	-		15,445
Deposits held at other financial institutions for operational purposes	-	67,065	-	-		33,533
All other assets including fixed assets, items deducted from regulatory capital, insurance assets and defaulted securities	350,937	-	-	-		350,937
<i>Off-Balance Sheet exposures</i>						
Trade finance-related obligations (including guarantees and letters of credit)	2,269	-	-	-		113
Total required stable funding	353,206	170,035	21,690	-		410,873
NET STABLE FUNDING RATIO						124.1%