NATIONAL BANK OF KUWAIT (INTERNATIONAL) PLC
DIRECTORS' REPORT AND FINANCIAL STATEMENTS 2021

2021

Directors

Chairman
Isam Jassim Al Sager

Vice Chairman
Hamish Cameron Galbraith Marr (Independent)

Directors
Shaikha Khaled Ali Al Bahar
Omar Bouhadiba
Lesley Jane Titcomb (Independent)
Matthew Anthony Timms (Independent)
Fawzi Adnan Dajani
Andrew Simon Richardson

Management

Managing Director
Fawzi Dajani

Deputy Managing Director
Bassem Boustany

Executive Management
Gavin Allard
Khaled Al Omar
Nicola Crawford
Sami El Labban
Paul Fuller
Paul Gospage
Andrew Richardson
Nicholas Simmonds
Christos Sozou

Company Secretary
Emma Booth

Auditors
Deloitte LLP
Hill House,
1 Little New Street
London EC4A 3TR

Registered Office
NBK House
13 George Street
London W1U 3QJ

Registered number 02773743
FCA registration number 171532

Strategic Report

31 December 2021

The Directors present their strategic report for the year ended 31 December 2021. This report is to be read in conjunction with the Directors' Report on page 8.

Principal activities and business review

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

The Bank's core lines of business are Retail Banking, Private Banking, Commercial Real Estate and Corporate Banking. NBKI is predominantly a relationship bank focusing on servicing the needs of the Group's core client base, Gulf Co-operation Council (GCC) countries, in the UK market. The client base of the Bank is predominantly GCC-based Institutions and individuals with banking and financing needs in the UK in addition to UK-based Corporates operating in the MENA region.

The main requirements that the Bank's customers have in the UK are transactional services, real estate financing, real estate asset management/servicing, corporate facilities, and UK domiciled asset bookings.

Key financial highlights	2021 $000	2020 $000
Profit or Loss Account:		
Operating income before expected credit losses (ECL)	52,679	32,395
Credit/(charge) on expected credit losses	2,004	(3,805)
Operating expenses	(33,508)	(26,031)
Profit before tax	21,175	2,559
Profit after tax	17,076	2,987
Balance Sheet:		
Loans to customers	1,585,574	1,402,260
Customer deposits	1,524,917	1,100,981
Certificates of deposit	441,222	257,094
Shareholders' equity	447,733	439,881
Key ratios:		
Return on shareholders' equity	3.8%	0.7%
Cost income ratio	63.6%	80.4%
Return on assets	0.51%	0.11%

Financial performance overview

The Bank's overall performance in 2021 was encouraging particularly because of the continued disruption of the COVID-19 pandemic and other market uncertainty. Operating income (before expected credit losses) stands at US$ 52.7 million, an increase of 63% over last year. Included in operating income are foreign exchange gains and losses, which take into account the change in functional currency from USD to GBP. The analysis in each year is outlined in Note **6**. After adjusting for the functional currency impact the underlying increase in operating revenue was 9.6%. Net interest income at US$ 39.6 million was 3.8% higher than 2020 and fees and commissions at US$ 5.8 million were up by 5.5%. Underpinning the increase in net interest income is a general increase in the Bank's total assets and in particular loans and advances to customers which increased by 13.1% to US$ 1.6 billion. The Bank's operating costs increased year on year reflecting the increase in average headcount by 11% and additional operational costs arising from increased focus on central support areas such as Risk, Financial Crime, Information Technology and Operations as well as investment in bank-wide projects.

Strategic Report

31 December 2021

The Bank's total assets grew from US$ 2.6 billion in 2020 to US$ 3.3 billion with the funding coming from an increasingly diversified customer deposit base and additional funding from certificates of deposit. This comfortably funded the Bank's loan growth and boosted the Bank's liquidity position.

The movement in the Bank's expected credit loss provision in the year was favourable by US$ 2.0 million driven by improved economic circumstances, primarily in the Corporate and Private Banking books.

The change in functional currency from USD to GBP has meant that the capital planning process is being reassessed. The Bank's short-term modelling indicates that capital ratios will be comfortably above the regulatory minimum over the next year under several scenarios. The Bank's liquidity ratios remain acceptable.

Principal risks and uncertainties

Details of the financial risk management objectives and policies of the Bank and exposure of the Bank to market risk, interest rate risk, foreign exchange risk, credit risk and liquidity risk are given in Note **28** to the financial statements. The future developments of the Bank are covered within the Directors' report.

Other non-financial risks such as climate change, cyber risk, anti-money laundering ("AML") risk and other operational resilience risks are commented on below.

Section 172 (1) statement

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

Strategic Oversight

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

Employees

The welfare of the Bank's employees continues to be at the forefront of the Bank's agenda. In 2021 the Bank has continued to follow government guidance, ensuring a safe work environment for those coming into the office and facilitating employees working from home. Employees received regular updates on COVID-19 and mental health. 'Town hall' updates with all staff were held and shared via the IT network when employees were working from home. Staff have been consulted via a staff survey and results of that survey shared with them. The Bank kept a hybrid working mode in 2021 and is paying close attention to the approach taken by other financial institutions in the wider market.

Customers

As described further in the Directors' Report, customers are at the heart of everything the Bank does. In particular, during 2021, the Directors have continued to be active in seeking to protect and support our customers from the impact of COVID-19 on their health, financial survival, and sustainability. The Bank has taken COVID-19 stresses into consideration and applied government guidelines not to downgrade both businesses and individuals as the stress in their finances was directly caused by COVID-19. The Bank has granted a total of 27 mortgage waiver requests for 17 clients in the current financial year.

Board Governance

The Bank has two shareholder-appointed representatives on its Board who attend all Board meetings and committees for which they are members. The meetings are at a minimum quarterly and provide a formal forum to ask questions of the other Board and committee members and provide feedback.

Strategic Report
31 December 2021

Regulatory Environment (including operational resilience and climate change)
The Directors understand that the Bank is required to have a transparent and cooperative relationship with the FCA, PRA and other regulators and take reasonable steps to ensure that business is conducted in line with all relevant requirements and standards (including AML). Where information would be expected to be disclosed to the regulator, in addition to anything provided via formal returns, this is communicated openly and freely.

Operational Resilience
The Bank has intensified its focus on its operational resilience agenda and has made significant strides towards achieving industry standard in this area (including cyber risk). The Bank is satisfied that all critical business services are well defined and impact tolerances established and embedded in the risk management framework through clearly set out stress tests and self-assessment. In this regard the Bank is confident that it is well sighted to impacts on customer outcomes from its business processes.

Climate Change
The Bank has made progress in addressing climate change as part of its short-term and long-term strategic planning. The primary risks are transition risk as the economy moves towards a lower emissions economy, and physical risk arising from the increased severity of adverse weather phenomena. In addition to monitoring the Bank's own impact on greenhouse gas (GHG") consumption (see disclosure below) additional efforts have been made on the wider agenda. The Bank continues to explore reflecting elements of physical and transition risks in its risk appetite and underwriting standards. The Bank has also improved its capabilities in respect of modelling the key drivers of climate change and how it impacts the various risks.

Suppliers
For suppliers, it is the Bank's policy in every case to comply with the terms of payment expected by suppliers. In this respect, the Bank's creditor payment practice is to pay within the agreed period from the date of the invoice.

Streamlined Energy and Carbon Reporting (SECR) Framework
The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 ("the 2018 Regulations"), which implemented the UK government's policy on Streamlined Energy and Carbon Reporting (SECR), came into force on 1 April 2019 and applies to financial years starting on or after 1 April 2019. The regulations require the following information to be published. In the financial year ending 31 December 202. NBKI has not exceeded the turnover threshold and are therefore not mandated to comply with SECR requirements in 2021. Despite this, the Bank has opted to report in line with SECR on a voluntary basis to demonstrate its commitment to transparency and best practice within the banking industry.

Strategic Report

31 December 2021

Summary of total energy consumption (kWh) year ending

Energy	2021	2020
Total fuel consumption (kWh)	375,222	279,850
Total electricity consumption (kWh)	559,353	532,214
Total transport fuel (kWh)	5,141	0.00
Total transport mileage (kWh)	14,168	0.00
Totals	**953,885**	**812,064**

Summary of total GHG emissions (tCO_2e)

GHG emissions		2021	2020
Scope 1	Emissions from combustion of gas (**tCO_2e**)	68.73	51.73
	Emissions from combustion of fuel for transport purposes (**tCO_2e**)	1.22	0.00
Scope 2	Emissions from purchased electricity, location based (**tCO_2e**)	118.77	124.08
Scope 3	Emissions from business travel in rental cars or employee-owned vehicles where company is responsible for purchasing the fuel (**tCO_2e**)	3.49	0.00
Totals		**192.20**	**175.81**

Summary of carbon intensity ratios

Scope of Carbon	GHG emissions	2021	2020
All Consumptions	**tCO2e**/£ million	5.54	4.62
Building-related only	**tCO2e**/sq metre	0.0504	0.0472

Energy efficiency measures

Overall energy consumption has increased year on year which is a reflection of an increase in the number of employees returning to the office. In November 2021, the Bank ended its operations at the Portman Square premises with the view of combining all its operations in the George Street premises to maximise efficiency. This has not impacted the organisation's consumption in 2021, due to the move occurring late in the reporting period. However, it is expected that this will result in a significant decrease in the Bank's overall energy consumption and resulting GHG emissions for the year ended 31 December 2022.

During 2021, the Bank has implemented smart metering on the gas supply for the George Street premises. This will enable more accurate monitoring of natural gas consumption in the future, thus contributing to the identification of additional energy efficiency measure in the future.

Strategic Report
31 December 2021

Quantification and reporting methodology

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

Approved by the Board of Directors

Emma Booth (for and on behalf of the Board)
Company Secretary
27 June 2022

Directors' Report

31 December 2021

The Directors have pleasure in submitting their twenty-seventh annual report together with the audited financial statements for the year ended 31 December 2021. This should be read in conjunction with the Strategic Report including the SECR Framework and with reference to the financial risk management objectives and exposure to price, credit, liquidity, and cash flow risks set out in Note **28** to the annual financial statements.

Directors and Company Secretaries

The names of the present directors are listed on page two.

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

- Dagmar Moravkova resigned as Company Secretary on 13 May 2022
- Emma Booth was appointed as Company Secretary on 13 May 2022

According to the register of Directors' interests, no Director holding office as at 31 December 2021 had any beneficial interest in the shares of the Bank during the year.

Results and dividends

The Bank has made a profit after tax of US$ 17.1 million (2020: profit of US$ 3.0 million). The Bank's financial performance for 2021 was creditable considering the continued uncertainty arising from the pandemic and other market factors. Total comprehensive income was US$ 7.9 million (2020: expense US$ 4.2 million) impacted by the decrease in the estimated fair value of investment in subsidiary and currency translation differences. Trading conditions were tight for the most part of 2021 with interest rates continuing at historic low levels. The fourth quarter witnessed a pick-up in lending and business generally. This combined with increases in the BOE base rate means that the outlook for 2022 is more upbeat. Having said this the Bank continues to remain cautious in its overall outlook. The Directors propose no dividend for the year ending 31 December 2021 (2020: nil).

Future developments

The Directors' aim is for the bank to further advance its business model by tapping into its niche opportunities and building on the strong franchise it has from Group customers and wider GCC linkages. Despite the recent challenging environment, the Bank's staff have gone the extra mile and will continue to ensure that client service and business sourcing is maximised, and that the Bank's risks, processes and operations are managed efficiently taking advantage where appropriate of technology and digitization.

The Bank will continue to maintain strong compliance over the management policies which have resulted in a successful performance to date, despite the challenges presented in the last two years from the COVID-19 impact.

The Directors can confirm that the Bank has successfully migrated away from GBP LIBOR in line with regulatory requirements and continues to have in place a programme to track other IBORs to completion.

Subsequent to the balance sheet date, there continues to be uncertainty in the economic outlook in the UK and around the world as a consequence of the COVID-19 pandemic, disruption to trade flows following the UK exit from the EU and the Ukraine/Russia conflict. Recent economic data indicates growing inflation in not only the UK but other parts of the world. This has led to further recessionary pressures on the UK economy. At the current time it is not possible to estimate the impact on the Bank of these post balance sheet events.

Going concern

During the first five months of 2022, the Bank has traded at a profitable level (profit before tax and after provisions) of US$ 8.1 million. As mentioned in the strategic report the Bank's management are comfortable with their capital planning process, after factoring in functional currency change, and have acceptable levels of liquidity. In addition, the Bank has demonstrated operational resilience despite the challenges provided by the current COVID-19 situation and additional stresses arising from the Ukraine/Russia crisis. The Directors recognise that the Bank has gone through an unprecedented period of disruption and is still cautious about the outlook for business. The Bank has continued to protect staff, customers, and business generally. The Bank is operating safely, and due regard is being paid to its operating model and the preservation of liquidity and solvency. This will continue until more certainty returns and prospects for the future can be ascertained.

Directors' Report
31 December 2021

At this time, it is not possible to guide with any accuracy what the impact will be, however, appropriate financial modelling has been undertaken to support the view that the Bank will continue as a going concern even with the significant uncertainty of the COVID-19 pandemic and broader economic impacts arising from the Ukraine/Russia crisis. This is further detailed in Notes **2.2**.

Subsequent events
There are no post balance sheet date events that are significant to the Bank's financial performance for the year ended 31 December 2021.

Charitable donations and political donations
The Bank did not make any charitable or political donations during the year (2020: nil).

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

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

As part of the Bank's strategy, the intention is to increase communication with staff and engage more pro-actively on diversity and inclusion. Recently the Bank undertook a staff engagement survey and the outcomes of this are under discussion with all of the Bank's staff.

Supplier's payment policy
It is the Bank's policy in every case to comply with the terms of payment expected by suppliers. In this respect, the Bank's creditor payment practice is to pay within the agreed period from the date of the invoice.

Customer policy
Customers are at the heart of everything the Bank does. Since inception, it has established professional and behavioural rules, and provides qualified staff who can optimally serve customers. We create value by providing the products and services that our customers need and aim to do so in a way that fits seamlessly into their lives. This helps us to build long-lasting relationships with our customers. We maintain trust by protecting our customers' data and information and delivering fair outcomes for them. Operating with high standards of conduct is central to our long-term success and underpins our ability to serve our customers. During the year the Board also received updates and regular business reviews.

In 2021 the Bank, like the rest of the world, has continued to face challenges caused by the COVID-19 pandemic. We have continued to serve our customers and limit disruption to their day-to-day banking activities by maintaining the operation of our branch with limited working hours, and with fewer staff members on the premises. Due to the largely non-UK resident client base, the impacts of the pandemic were less onerous compared with most UK retail banks serving the UK market. Nevertheless, the Bank has remained committed to treating its customers fairly, responded promptly to any customers who have been economically impacted by the COVID-19 pandemic, for example with mortgage payment holidays and other signposting to available debt management advice and support. A particular focus this year has been on vulnerable customers. COVID-19 related support remains an evolving matter and will continue to be assessed in line with any relevant published material by the PRA, FCA or any other respective overseeing authorities. During the past 12 months NBKI has provided comprehensive training to all their business lines dealing with consumers; this training provided relationship managers with the skills to recognise customers who are displaying signs of being potentially vulnerable. There is information available on NBKI's website for customers in vulnerable circumstances, outlining support available to them.

Directors' Report

31 December 2021

A process is underway to maintain a watch list for customers who are potentially vulnerable, and where further support is being provided by NBKI or a professional third party. This is managed in accordance with the general data protection regulation ('GDPR').

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

NBKI has a comprehensive policy on vulnerable customers. This is available to all staff and is reviewed at least annually.

Disclosure of information to the auditors

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

Auditors

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

Approved by the Board

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

27 June 2022

Statement of Directors' Responsibilities

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

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

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

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

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

Independent Auditor's Report

To the members of National Bank of Kuwait (International) PLC

Report on the audit of the financial statements

Opinion

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

- give a true and fair view of the state of the Company's affairs as at 31 December 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 'Reduced Disclosure Framework', and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the income statement;
- the statement of comprehensive income;
- the statement of financial position;
- the statement of changes in equity, and
- the related Notes **1** to **31**.

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

Basis for opinion

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

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

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

Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • Valuation of Expected Credit Loss ("ECL") provision • Valuation of investment in NBK France S.A. • The correction of the Company's functional currency
Materiality	The materiality that we used in the current year was US$ 1.56 million which was determined on the basis of 10% of forecast profit before tax.
Scoping	The audit scoping was performed based on an assessment of the account balances and disclosures that are either quantitatively or qualitatively material.

Independent Auditor's Report

To the members of National Bank of Kuwait (International) PLC

First year audit transition	This is the first year we have been appointed as auditors to the Company. From the date of our appointment we undertook a number of procedures to prepare for the audit. This included meeting regularly with management and non-executive directors to understand the business, its issues and the environment in which it operates. Additionally, we reviewed the working papers of the former auditor to gain an understanding of the Group's processes, their audit risk assessment, audit conclusions, identified misstatements and reporting to the Board Audit Committee of the Company for the purposes of issuing their audit opinion. The key audit matters relating to valuation of ECL provision and investment in NBK France S.A. are consistent with the key audit matters identified in the prior year. Additionally, we identified the correction of the company's functional currency as a key audit matter in the current year.

Conclusions relating to going concern

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

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

- performing a walkthrough of management's going concern process;
- engaging our regulatory specialists to challenge the liquidity and capital stress testing assumptions used by management, including consideration of management actions and whether applied stresses were reasonable;
- assessing the assumptions supporting the Company's latest budget forecasts;
- assessing the historical accuracy of forecasts prepared by management, and
- considering the adequacy of the disclosures made in the financial statements.

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

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

Key audit matters

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

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Independent Auditor's Report

To the members of National Bank of Kuwait (International) PLC

Valuation of expected credit loss provision

Refer to the summary of significant accounting policies on page 27 and Note **28.1** on page 52.

Key audit matter description	The value of the Company's expected credit loss provision has decreased by US$ 1.9 million in the current year to US$ 5.6 million as at 31 December 2021 (31 December 2020: US$ 7.5 million). IFRS 9 requires loan provisions to be based on an expected credit loss ("ECL") model. The estimation of ECLs in the Company's loan portfolios is inherently uncertain and requires management to make significant judgements and estimates. Significant judgements include the identification of significant increase in credit risk, the determination of significant model inputs, such as Loss Given Default ("LGD") and Probability of Default ("PD") and the application of management overlays over the staging of loans and individually assessed loans. These judgements are most material for the Corporate and Commercial Real Estate loans. We note that the sensitivity to certain key judgements has been disclosed on Note **28** on page 51.
How the scope of our audit responded to the key audit matter	We performed the following procedures in order to address the risk relating to the significant increase in credit risk with respect to the Corporate and Commercial Real Estate loans: • Performed walkthroughs of the business processes involved in the ECL calculation, including the assessment of significant increase in credit risk with respect to the Corporate and Real Estate loans; • Obtained an understanding of the staging criteria used and assessed compliance with the requirements of the applicable financial reporting framework; • Performed detailed credit reviews for a sample of loans across all stages to assess the application of staging criteria to the loan population, and • Evaluated management overlay of staging criteria for individual loans. We performed the following procedures to address the risks relating to the determination of ECL provision, including the key model inputs: • Performed walkthroughs of the business processes involved in the ECL calculation, including the elements of the ECL model and the sourcing of key data elements; • Obtained an understanding of the relevant controls over the ECL process including credit risk processes; • Held detailed discussions with the Company's external credit modelling provider to understand the model and to replicate key elements of the ECL calculation; • Recalculated PD and LGD elements for a sample of loans; • Evaluated the application of collateral haircuts used by management to reduce the expected realisable value of collateral, especially where there is limited data to support haircuts used, and • Challenged the forward-looking scenarios used by the Company with reference to our expert knowledge and available market information.
Key observations	Based on the procedures performed and evidence obtained, we found the Company's assumptions, judgements and approach to estimating loan impairment provision to be reasonable and therefore we consider the level of provision to be appropriate.

Independent Auditor's Report

To the members of National Bank of Kuwait (International) PLC

Valuation of investment in NBK France S.A.

Refer to the summary of significant accounting policies on page 37 and Note **16** on page 43.

Key audit matter description	At 31 December 2021 the value of the investment in NBK France S.A. was recorded at US$ 45.8 million (2020: US$ 49.2 million). The investment is held at fair value with changes in fair value recorded in Other Comprehensive Income. The fair valuation of the investment in NBK France S.A involves the application of judgements around the assumptions in the dividend discount model used to value the investment. The key assumptions used are the discount rate and terminal growth rate. There is a risk that these judgements are not balanced and are not consistently applied.
How the scope of our audit responded to the key audit matter	We performed the following procedures in order to address the risk relating to the valuation of the investment in NBK France S.A.: • Performed walkthroughs of the business processes involved in the valuation of the investment in NBKI France S.A.; • Engaged our valuation specialists to perform an independent assessment of the valuation model, and challenge whether the future cashflows are appropriately classified and whether they should be presented as part of the Company's underlying results; • Held discussions with Deloitte France, the auditor of NBK France S.A., to challenge the underlying growth assumptions and forecasts; • Assessed the accuracy of historical forecasts since 2019, in the context of NBK France being a relatively newly formed entity and the impact of the COVID-19 pandemic, and • Compared the budget versus actual figures for Q1 2022 to evaluate the accuracy of forecast periods.
Key observations	Based on the procedures performed and evidence obtained, we found the Company's assumptions, judgements and methodology to be reasonable and therefore we consider the valuation of the investment in NBK France S.A to be appropriate.

Independent Auditor's Report

To the members of National Bank of Kuwait (International) PLC

The correction of the Company's functional currency

Refer to the summary of significant accounting policies on page 27 and Note **31** on page 71.

Key audit matter description	Functional currency is defined as the currency of the primary economic environment in which the entity operates. In practice, when indicators are mixed and the functional currency is not obvious, management should use judgement to determine the functional currency that most faithfully represents the economic effects of transactions, events and conditions. The financial statements have historically been prepared with a United States Dollar (USD) functional currency. As disclosed in Note 2 on page 27, during 2021 and after reconsidering the requirements of IAS 21 The Effects of Changes in Foreign Exchange Rates, the Company determined that the appropriate functional currency is British Pound Sterling (GBP). This change has been accounted for retrospectively as an error as required by IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. The process to determine the change in functional currency is operationally complex and the Company used a specialist external provider to assist with determining the required accounting and tax adjustments. The presentation currency remains as USD as noted in the accounting policies Note **2** on page 27.
How the scope of our audit responded to the key audit matter	We completed the following procedures in response to the change in functional currency: • Performed a walkthrough of the process to determine the impact of a change in functional currency from USD to GBP; • Obtained an understanding of the relevant control over the process to correct the functional currency of the Company; • Agreed key financial information to previous signed financial statements and agreed foreign | exchange rates to market data; • Assessed the tax computations for the relevant periods; • Recomputed the functional currency opening adjustments; • Recomputed the translation of all income statement and balance sheet lines including monetary and non-monetary items; • Tested the assumptions used by management in the retranslation, and • Assessed the appropriateness of the financial statement disclosures relating to the correction of the functional currency.
Key observations	Based on the procedures performed and evidence obtained, we found the methodology used to be reasonable and therefore we consider that the GBP functional currency has been correctly applied both in the current period and retrospectively.

Independent Auditor's Report

To the members of National Bank of Kuwait (International) PLC

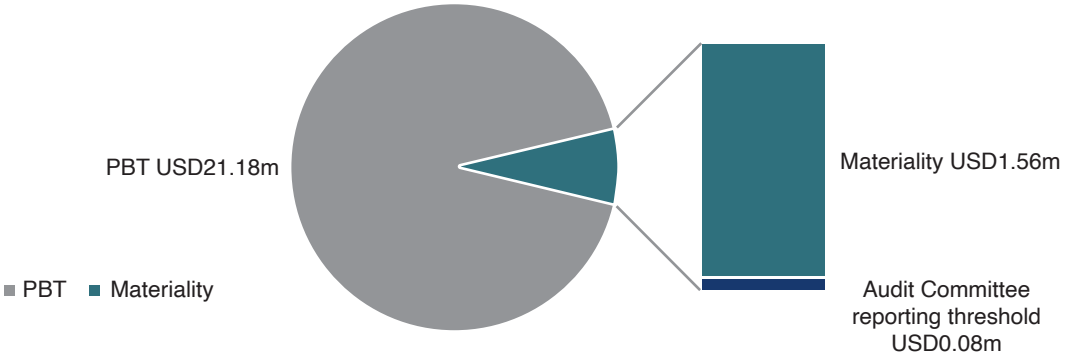
Our application of materiality

Materiality

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

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

Materiality	US$ 1.56 million (predecessor auditor 2020: US$ 1.2 million)
Basis for determining materiality	We have used 10% of forecast profit before tax as a basis for determining materiality as we considered this to be the most appropriate given the Company is a profit orientated entity. This amount represents 7.4% of actual profit before tax.
Rationale for the benchmark applied	We consider profit before tax to be the most relevant benchmark for users of the financial statements given the Company is a profit orientated entity.



Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Performance materiality was set at 65% of materiality for the 2021 audit (predecessor auditor 2020: 50%). In determining performance materiality, we considered the following factors: our understanding of the control environment; our understanding of the business, and the quantum of uncorrected misstatements identified in the prior year.

Error reporting threshold

We agreed with the Board Audit Committee that we would report to the Committee all audit differences in excess of US$ 79 thousand (predecessor auditor 2020: US$ 60 thousand), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

Independent Auditor's Report

To the members of National Bank of Kuwait (International) PLC

An overview of the scope of our audit

Scoping

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

Our consideration of the control environment

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

A controls reliance approach has been taken for the audit of the gross loans and advances balance and customer deposits.

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

Our consideration of climate-related risks

In planning our audit, we have considered the potential impact of climate change on the Group's business and its financial statements in order to design appropriate audit procedures.

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

Climate-related risks affecting the Company have been included within the strategic report on page 5. We read the climate-related disclosures in the strategic report to consider whether they are materially consistent with the financial statements and our knowledge obtained in the audit.

Other information

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

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

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

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

We have nothing to report in respect of these matters.

Independent Auditor's Report

To the members of National Bank of Kuwait (International) PLC

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

Identifying and assessing potential risks related to irregularities

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

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

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

Independent Auditor's Report

To the members of National Bank of Kuwait (International) PLC

We also obtained an understanding of the legal and regulatory framework that the Company operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context including the UK Companies Act and Tax legislation.

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

Audit response to risks identified

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

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

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the audit committee and in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with the FCA and PRA, and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias, and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

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

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

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

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

Opinions on other matters prescribed by the Capital Requirements (Country-by-Country Reporting) Regulations 2013

In our opinion the information given in Note **30** to the financial statements for the financial year ended 31 December 2021 has been properly prepared, in all material respects, in accordance with the Capital Requirements (Country-by Country Reporting) Regulations 2013.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

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

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

We have nothing to report in respect of these matters.

Directors' remuneration

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

We have nothing to report in respect of these matters.

Other matters which we are required to address

Auditor tenure

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

Consistency of the audit report with the additional report to the audit committee

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

Report on other legal and regulatory requirements

Use of our report

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

Giles Lang, FCA (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
27 June 2022

Statement of Income

For the year ended 31 December 2021

	Notes	2021 $000	2020 $000 Restated
Interest and similar income	3	52,080	52,969
Interest and similar expense	4	(12,443)	(14,774)
Net interest and similar income		39,637	38,195
Net fees and commissions income	5	5,539	4,474
Net gains from dealing in foreign currencies and derivative income	6	6,047	(10,626)
Net investment income		1,069	11
Other operating income		387	341
Net operating income before ECL		52,679	32,395
Release/(Charge) on expected credit losses	28.1.3	2,004	(3,805)
Net operating income after ECL		54,683	28,590
Administrative expenses	7	(31,911)	(24,383)
Depreciation	17	(1,597)	(1,648)
Operating expenses		(33,508)	(26,031)
Profit for the year before taxation	8	21,175	2,559
Taxation	9	(4,099)	428
Profit for the year		17,076	2,987

Notes **1** to **32** are an integral part of the financial statement.

Statement of Comprehensive Income

For the year ended 31 December 2021

	2021 $000	2020 $000 Restated
Profit for the year	17,076	2,987
Other comprehensive income:		
Change in fair value of debt securities measured at FVOCI (net of tax)	(124)	(384)
Items that will be reclassified subsequently to profit or loss when specific conditions are met	(124)	(384)
Change in fair value of equity instruments measured at FVOCI (net of tax)	(45)	206
Change in fair value of investment in subsidiary measured at FVOCI (net of tax)	(2,759)	(1,704)
Net foreign currency translation effect	(6,296)	(5,349)
Items that will not be reclassified subsequently to profit or loss	(9100)	(6,847)
Other comprehensive (expense) for the year	(9,224)	(7,231)
Total comprehensive income/(expense) for the year	7,852	(4,244)

Notes **1** to **32** are an integral part of the financial statement.

Statement of Financial Position

31 December 2021

	Notes	2021 $000	2020 $000
Assets			
Cash and cash equivalents	11	732,863	343,251
Deposits with banks	12	644,300	523,000
Loans and advances to banks	13	26,012	26,809
Loans and advances to customers	14	1,585,574	1,402,260
Investment securities	15	213,944	186,090
Investment in group entity	16	45,792	49,209
Derivative assets	25	6,401	11,550
Fixed assets	17	55,230	55,588
Other assets	18	10,231	9,891
Total assets		3,320,347	2,607,648
Liabilities			
Due to banks and other financial institutions		863,405	738,937
Customer deposits	19	1,524,917	1,100,981
Certificates of deposit issued		441,222	257,094
Derivative liabilities	25	32,857	59,224
Other liabilities	20	10,213	11,531
Total liabilities		2,872,614	2,167,767
Equity			
Share capital	21	235,883	235,883
Retained earnings		225,681	208,605
Cumulative changes in fair values		(2,186)	742
Exchange reserve		(11,645)	(5,349)
Total equity		447,733	439,881
Total equity and liabilities		3,320,347	2,607,648

The financial statements were approved by the Board of Directors and authorised for issue on **23 June 2022**.

Fawzi Adnan Dajani
Director
27 June 2022

Notes **1** to **32** are an integral part of the financial statement.

Statement of Changes in Equity

31 December 2021

	Share capital $000	Retained earnings $000	Cumulative changes in fair values $000	Exchange reserve US$000	Total $000
Balances as at 31 December 2019 (Restated)	235,883	185,650	2,624		424,157
Adjustment for change in functional currency (Note **31**)	-	19,968	-		19,968
Profit for the year	-	2,987	-		2,987
Other comprehensive income for the year	-	-	(1,882)	(5,349)	(7,231)
Balances as at 31 December 2020 (Restated)	235,883	208,605	742	(5,349)	439,881
Profit for the year	-	17,076	-	-	17,076
Other comprehensive income for the year	-	-	(2,928)	(6,296)	(9,224)
Balances as at 31 December 2021	235,883	225,681	(2,186)	(11,645)	447,733

Notes **1** to **32** are an integral part of the financial statement.

Notes to the Financial Statements

31 December 2021

1. INCORPORATION AND REGISTRATION

The financial statements of National Bank of Kuwait (International) PLC (the "Bank") were approved by the Board of Directors on 23 June 2022. The Bank is incorporated in United Kingdom and is principally engaged in banking activities, primarily in United Kingdom. The address of the registered office is NBK House, 13 George Street, London W1U 3QJ.

The Bank is a wholly owned subsidiary of National Bank of Kuwait S.A.K.P., Kuwait. NBK S.A.K.P is the ultimate parent company and NBKI is in the largest Group. Copies of the Group financial statements of National Bank of Kuwait S.A.K.P. may be obtained from: NBK House, 13 George Street, London, W1U 3QJ. National Bank of Kuwait S.A.K.P. is the ultimate parent company.

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

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2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

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

a) IAS 1 Presentation of Financial Statements, paragraph 38, to present comparative information in respect of IAS 16 Property, Plant and Equipment, paragraph 73(e).
b) IAS 1, paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D and 111.
c) IAS 1. Paragraphs 40A, to present a third statement of financial position as at the beginning of the preceding period in addition to the minimum comparative financial statements following the restatement of comparative period (see note 31)
d) The requirements of IAS 7 Statement of Cash Flows.
e) IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, paragraphs 30 and 31.
f) IAS 24 Related Party Disclosures, paragraph 17.
g) The requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member.

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

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

The functional currency that is used in preparing the financial statements has been re-evaluated during the year and has been determined as GBP because this is the currency in which the majority of the loan assets have been issued and of the primary economic environment in which the bank operates. This is a change from prior accounting periods for which USD was originally used as the functional currency. Consequently the cumulative effect of the functional currency change is an adjustment to retained earnings as a 1 January 2020. The results and statement of financial position and the notes to the financial statements for the comparative period have been restated in accordance with the requirements of IAS 8.

For further information see Note **31** – prior period disclosure.

The financial statements presentational currency is, USD, which is consistent with prior periods. USD is used as the presentation currency because of its relevance to the users of the financial statements.

Notes to the Financial Statements

31 December 2021

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Going concern

IAS 1 (Presentation of Financial Statements) requires Directors to make an assessment of a company's ability to continue as a going concern, and whether it remains appropriate to adopt the going concern basis of accounting in preparing the entity's financial statements. IAS 1 states that the information should cover at least 12 months from the end of the reporting period but not be limited to that period, and Financial Reporting Council ("FRC") guidelines state that the information should consider a period of at least 12 months from the date the financial statements are authorised for issue. This assessment has considered information for the period to 30 June 2023 (the 'assessment' period).

The Directors have performed a detailed assessment of the uncertainties prevailing as a result of the COVID-19 pandemic and other market uncertainties as they relate to the adoption of the going concern principle. This includes increasing expected credit losses on its loans and advances to customers, pressures on customer deposits and the impact on these factors and reduced lending activity on the financial performance of the Bank and the Bank's surplus to regulatory requirements.
As disclosed in Note 32, the Bank has a robust regulatory capital position and holds healthy surpluses above regulatory minima. While the uncertainties and stresses in the market may erode regulatory capital, the stress testing performed by management has shown that only in remote possibility scenarios are the requirements breached. As such the uncertainty relating to capital management is not considered to be material.

The Bank carefully monitors its liquidity position and management has performed a detailed forecast and stress test to consider the uncertainties arising out of the COVID-19 pandemic and other market uncertainties and the potential impact on the ability of the Bank to meet its liabilities as they fall due. In all reasonable scenarios the Bank maintains surpluses to these requirements and as such the uncertainty relating to liquidity management is not considered to be material.

Based on the assessment performed, as stated within the Directors' Report, the Directors have a reasonable expectation that the Bank is well placed to manage its business risks and continue in operational existence from the date of approval of financial statements to 30 June 2023. Accordingly, the Directors continue to consider it appropriate to adopt the going concern basis in the preparation of the financial statements.

2.3 Changes in accounting policy

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

Future accounting developments

The IASB has not published any amendments effective from 1 January 2021 that are applicable to NBKI. If any further development takes place, the Bank will review and implement in the following year.

2.4 Leases

The Bank applies the requirements of IFRS 16 using modified retrospective approach. This standard significantly changed the lessee accounting by removing the distinction between operating and finance lease and requiring the recognition of a right-of-use ('ROU') asset and a lease liability at commencement of all leases, except for short-term leases and leases of low value assets when such recognition exemptions are adopted.

The ROU asset in 'land and premises' and lease liabilities in 'other liabilities' in the Statement of Financial Position represents the building lease which ended during 2021 after fully depreciating and charged to the profit or loss account.

Depreciation charge for the ROU asset for the year amounted to US$ 282,000 (2020: US$ 272,000) and is included in 'depreciation of premises and equipment' in the statement of income.

Notes to the Financial Statements

31 December 2021

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 IFRS 9 Financial Instruments

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

a) Classification and measurement of financial assets and liabilities

Financial assets

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

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

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

Debt instruments

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

Classification and subsequent measurement of debt instruments depend on:

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

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

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

Notes to the Financial Statements

31 December 2021

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

Equity instruments

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

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

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

Investment in debt securities designated at FVOCI

The Bank holds investments in a portfolio of debt securities which has been classified as investment at FVOCI. The changes in fair value of these securities will be reclassified to profit or loss when they are disposed of.

Hedged loans at amortised cost

The Bank has a portfolio of loans which is hedged using interest rate swaps which hedge interest rate risk.

Designation of equity instruments at FVOCI

The Bank has elected to irrevocably designate strategic investments of equity securities at FVOCI under IFRS 9. The changes in fair value of this security will not be reclassified to profit or loss when they are disposed of.

Notes to the Financial Statements

31 December 2021

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Financial liabilities

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

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

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

c) Financial guarantee contracts and loan commitments

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

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

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

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

d) Impairment of financial assets

The impairment requirements apply to financial assets measured at amortised cost, fair value through other comprehensive income, lease receivables and certain loan commitments and financial guarantee contracts.
The ECL model contains a three-stage approach which is based on the change in credit quality of financial assets since initial recognition. Under Stage 1, where there has not been a significant increase in credit risk since initial recognition, an amount equal to 12 months ECL will be recorded. Under Stage 2, where there has been a significant increase in credit risk since initial recognition, but the financial instruments are not considered credit impaired, an amount equal to the default probability weighted lifetime ECL will be recorded. Under Stage 3, where there is objective evidence of impairment at the reporting date these financial instruments will be classified as credit impaired and an amount equal to the lifetime ECL will be recorded for the financial assets.

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

Notes to the Financial Statements

31 December 2021

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

e) Hedge accounting

The general hedge accounting requirements link with risk management strategy and permit hedge accounting to be applied to a variety of hedging instruments and risks. The Bank continues using the hedge accounting as per IAS 39 as this option is permissible under IFRS 9.

2.6 Foreign currencies

a) Share Capital

The Bank has a multi-currency share capital comprising two classes of ordinary shares: GB pounds ("GBP") sterling and US dollars ("USD"). As described in the basis of preparation, the functional currency has been changed from USD to GBP. The presentation currency continues to be USD. Any exchange difference upon translation from functional currency (GBP) to presentation currency (USD) is included under exchange reserve as part of total equity. All assets and liabilities are translated using closing rate as of reporting date. All income and expenses are translated at the average rate during the year.

For further information, refer to Notes **28.3.2** – Foreign exchange risk and **31** – Prior period adjustment.

b) Translation of foreign currency transactions

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

2.7 Interest income and expenses

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

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

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

Notes to the Financial Statements

31 December 2021

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Fees and commissions income

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

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

2.9 Dividend income

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

2.10 Assets held for sale and discontinued operations

Non-current assets (or disposal group) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and the sale is considered to be highly probable.
A sale is considered to be highly probable if the appropriate level of management is committed to a plan to sell the asset (or disposal group), and the sale is expected to qualify for recognition as a completed sale within one year from the date that it is classified as held for sale.

A non-current asset (or disposal group) and discontinued operations held for sale are measured at the lower of carrying amount and fair value less cost to sell. Assets and liabilities of a disposal group classified as held for sale and non-current assets classified as held for sale are shown separately on the face of the balance sheet.
The results of discontinued operations comprising the post-tax profit or loss account of discontinued operations and the post-tax gains, or loss recognised either on measurement to fair value less costs to sell or on the disposal of the discontinued operations are shown as a single amount on the face of the income statement.

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

2.11 Pensions

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

2.12 Taxation

Current income tax assets and liabilities for the current year are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amounts are those that are enacted or substantively enacted, at the reporting date in the countries where the Bank operates and generates taxable income. Deferred tax assets are recognised for deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent it is probable that taxable profit will be available to utilise these.

Deferred tax liabilities are recognised for taxable temporary differences. Deferred tax assets and liabilities are measured using tax rates and applicable legislation enacted at the reporting date.

Notes to the Financial Statements
31 December 2021

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.13 Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, in the most advantageous market to which the Bank has access at that date.

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

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

If an asset or liability measured at fair value has a bid price and an ask price, then the Bank measures assets at a bid price and liabilities at an ask price. The Bank determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

2.14 Offsetting of financial assets and liabilities

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

2.15 Derecognition of financial assets and financial liabilities

a) Financial assets

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

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

When the Bank has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

b) Financial liabilities

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

Notes to the Financial Statements

31 December 2021

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.16 Derivative financial instruments

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

The Bank deals in interest rate swaps to manage interest rate risk on interest bearing assets and liabilities. Similarly, the Bank deals in forward foreign exchange contracts for customers and to manage its foreign currency positions and cash flows. All derivative financial instruments of the Bank are recorded in the Statement of Financial Position at fair value. The fair value of a derivative is the equivalent of the unrealised gain or loss from marking to market the derivative using prevailing market rates or internal pricing models.

Positive and negative fair values are reported as assets and liabilities respectively and are offset when there is both an intention to settle net and a legal right to offset exists.

For the purposes of hedge accounting, hedges are classified into two categories: (a) fair value hedges which hedge the exposure to changes in the fair value of a recognised asset or liability, and (b) cash flow hedges which hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised financial asset or liability or a highly probable forecast transaction. In relation to fair value hedges which meet the conditions for hedge accounting, any gain or loss from re-measuring the hedging instrument is recognised immediately in the statement of income. The hedged items are adjusted for fair value changes relating to the risk being hedged and the difference is recognised in the statement of income. Any inefficient hedging amounts are recognized in the statement of income.

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

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

In the prior year, the Bank adopted the Phase 1 amendments Interest Rate Benchmark Reform—Amendments to IFRS 9 / IAS 39 and IFRS 7. These amendments modify specific hedge accounting requirements to allow hedge accounting to continue for affected hedges during the period of uncertainty before the hedged items or hedging instruments are amended as a result of the interest rate benchmark reform.

In the current year, the Bank adopted the Phase 2 amendments Interest Rate Benchmark Reform—Amendments to IFRS 9 / IAS 39 and IFRS 7. Adopting these amendments enables the Bank to reflect the effects of transitioning from interbank offered rates ("IBOR") to alternative benchmark interest rates (also referred to as "risk free rates" or" RFR"s) without giving rise to accounting impacts that would not provide useful information to users of financial statements. The Bank has not restated the prior period. Instead, the amendments have been applied retrospectively with any adjustments recognised in the appropriate components of hedging instruments on their roll-over date during the year.

Notes to the Financial Statements

31 December 2021

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Both the Phase 1 and Phase 2 amendments are relevant to the Bank because it applies hedge accounting to its interest rate benchmark exposures, and in the current period modifications in response to the reform have been made to some (but not all) of the Bank's derivative financial instruments that mature post 2021 (the date by which the reform is expected to be implemented).

The amendments are relevant for Fair Value Hedges where LIBOR-linked derivatives are designated as a fair value hedge of fixed rate debt and loan in respect of the GBP LIBOR risk component, all of which extend beyond 2021.

The Bank will not discontinue hedge accounting should the retrospective assessment of hedge effectiveness fall outside the 80-125 per cent range and the hedging relationship is subject to interest rate benchmark reforms. For those hedging relationships that are not subject to the interest rate benchmark reforms the entity continues to cease hedge accounting if retrospective effectiveness is outside the 80-125 per cent range.

The Bank will continue to apply the Phase 1 amendments to IFRS 9 / IAS 39 until the uncertainty arising from the interest rate benchmark reform with respect to the timing and the amount of the underlying cash flows to which the Bank is exposed ends. The Bank expects this uncertainty will continue until the Bank's contracts that reference IBORs are amended to specify the date on which the interest rate benchmark will be replaced and the basis for the cash flows of the alternative benchmark rate are determined including any fixed spread.

As a result of the Phase 2 amendments:
When the contractual terms of the Bank's borrowings are amended as a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the basis immediately preceding the change, the Bank changes the basis for determining the contractual cash flows prospectively by revising the effective interest rate. If additional changes are made, which are not directly related to the reform, the applicable requirements of IFRS 9 are applied to the other changes.

When changes are made to the hedging instruments, hedged item and hedged risk as a result of the interest rate benchmark reform, the Bank updates the hedge documentation without discontinuing the hedging relationship.

2.17 Trade and settlement date accounting

All "regular way" purchases and sales of financial assets are recognised on the trade date, i.e. the date that the Bank commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the marketplace.

2.18 Investment in group undertaking

The Bank has an investment in entity NBK France S.A. initially set up in 2018. NBK France S.A. is a subsidiary predominantly owned by the Bank's parent, National Bank of Kuwait S.A.K.P. The Bank has a 19.68% holding. At the time of set up the Bank has used one-time irrevocable option to designate the investment at "fair value through OCI" ("FVOCI") with any gain/loss recognised in OCI.

2.19 Fixed assets

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

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

Notes to the Financial Statements

31 December 2021

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Depreciation is provided on the depreciable amount of other items of premises and equipment on a straight line basis over their estimated useful life. The depreciable amount is the gross carrying value, less the estimated residual value at the end of its useful life. The estimated useful life of fixed assets is as follows:

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

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

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

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

2.21 Significant accounting judgements and estimates

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

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

a) Measurement of investment in NBK France S.A. (estimation uncertainty)

The Bank also uses the discounted dividend model to calculate estimated cost of equity of NBK France S.A. using various parameters such as relevant discount rate, long-term growth rate. A sensitivity analysis is also performed to reflect the value of the investment being appropriate. The management business plan is extended for the next three years which is further extended by projected results for four years. See Note 16 for further detail.

b) Measurement of the expected credit loss ("ECL") allowance (judgements and estimation uncertainty)

The measurement of the ECL allowance for financial assets measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in Note **28.1.2**, which also sets out key sensitivities of the ECL to changes in these elements.

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- determining criteria for significant increase in credit risk;
- choosing appropriate models and assumptions for the measurement of ECL;
- establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL, and
- establishing groups of similar financial assets for the purposes of measuring ECL.

Detailed information about the judgements and estimates made by the Bank in the above area is set out in Note **28.1.2**.

Notes to the Financial Statements

31 December 2021

3. INTEREST AND SIMILAR INCOME

	2021 $000	2020 $000
Deposits with banks	4,255	6,902
Loans and advances	43,660	41,796
Debt investment securities	4,165	4,271
	52,080	52,969

All of the interest is recorded on effective interest rate method. Income from investments held short-term of US$ 1,055,000 was included in interest income from 'Deposit with banks' in 2020. In 2021 this is now included in net investment income, US$ 1,041,000.

4. INTEREST AND SIMILAR EXPENSES

	2021 $000	2020 $000
Due to banks and other financial institutions	6,745	8,393
Customer deposits	760	2,481
Other	4,938	3,900
	12,443	14,774

Other includes a non-significant balance relating to interest expense on lease liabilities.

5. NET FEES AND COMMISSIONS INCOME

	2021 $000	2020 $000
Fees and commission income:		
Card fees and commissions	36	64
Retail banking customer fees	4,121	3,724
Financial guarantee contract and letter of credit fees	989	1,125
Real estate consulting fees	609	518
Other	5	31
	5,760	5,462
Fees and commission related expenses	(221)	(988)
Net fees and commissions income	5,539	4,474

Recharges to group of US$ 782,000 were shown as a fee and commission expense in 2020, these are now included within other administrative expenses in 2021 (see Note **7**).

Notes to the Financial Statements

31 December 2021

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

Net gains from dealing in foreign currencies and derivative income mainly consist of dealing profits generated from foreign currency related transactions and hedge ineffectiveness on bond and loan portfolio. During the year change in functional currency from USD to GBP has resulted in significant foreign exchange income /loss. The impact on 2021 profit and loss was a gain of US$ 4,773,000 compared to a loss of US$ 11,310,000 in 2020.

7. ADMINISTRATIVE EXPENSES

	2021 $000	2020 $000 Restated
Staff costs:		
Wages and salaries	16,876	12,884
Social security costs	1,950	1,497
Pension costs	1,736	1,541
	20,562	15,922
Other administrative expenses	11,349	8,461
	31,911	24,383

The average number of employees, all engaged in banking activities during the year, was 176 (2020: 159). Other administrative expenses include occupancy, computer expenses, professional fees and various other overheads. All employees are engaged in Commercial Banking activity.

Recharges to the Group of US$ 782,000 were previously shown as a fee and commission expense in 2020, these are now included within other administrative expenses in 2021 (see Note **5**).

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

8. PROFIT FOR THE YEAR BEFORE TAX

	2021 $000	2020 $000 Restated
This is stated after charging:		
Fees payable to the Company's auditor for the audit of annual accounts	609	362
Audit related services	13	20
Fees payable to the Company's auditor for the services provided in relation to the audit of the Company's ultimate parent	71	277
Total auditor's remuneration	693	659

9. TAXATION

(a) The tax charge is made up as follows:	2021 $000	2020 $000 Restated
Current tax:		
UK corporation tax on the profit for the year	4,018	(282)
Adjustment in respect of prior years	-	(40)
Foreign tax	-	-
UK double tax relief	-	-
Total current tax	4,018	(322)

Notes to the Financial Statements

31 December 2021

9. TAXATION (continued)

(a) The tax charge is made up as follows:	2021 $000	2020 $000 Restated
Deferred tax charge/(income) (Note c):		
Related to the current year	130	106
Adjustment in respect of prior years	-	-
Effect of changes in tax rates	(49)	(54)
Total deferred tax	81	103
Foreign exchange	-	(157)
Tax per income statement (Note **b**)	4,099	(428)
Other comprehensive income – deferred tax (credit)	222	289

(b) Factors affecting tax charge for the year	2021 $000	2020 $000 Restated
Profit on ordinary activities before tax	21,181	2,559
Profit taxed at UK corporation tax Average standard rate of 19% (2020: 19%)	4,024	486
Effect of:		
Disallowed expenses	125	87
Disallowed income	(1)	(2)
Adjustment in respect of prior years	-	(40)
Tax rate changes	(49)	(54)
Others – provision written off	-	(747)
Foreign exchange	-	(157)
Total tax charge	4,099	(428)

(c) Disclosed in statement of financial position	2021 $000	2020 $000 Restated
Current tax (assets)/liabilities:		
Corporation tax payable/(receivable)	188	(1,074)
Other tax provision	-	-
Total current tax (assets)/liabilities	188	(1,074)

Notes to the Financial Statements

31 December 2021

Deferred tax liabilities/(assets)	2021 $000	2020 $000 Restated
Provision at the start of the period	173	(154)
Adjustment in respect of prior years	-	-
Deferred tax charge to income statement for the period	81	52
Deferred tax charge in OCI for the period	217	275
Total deferred tax liabilities/(assets)	471	173

Net temporary differences	2021 $000	2020 $000
Fixed assets	294	201
Provisions	-	-
Fair value change in debt securities	2,233	2,731
Fair value in hedging instruments	(1,644)	(2,310)
Fair value movement on equity instruments	227	161
Change in basis adjustment trading	(212)	(228)
Change in basis adjustment trading – 2018	(427)	(382)
Total net temporary differences	471	173

The last Finance Bill enacted that the main rate of UK corporation tax would increase to 25% effective from 1 April 2023. For the purposes of deferred tax to be recognised, we modelled the utilisation of FRS 101 and IFRS 9 transition adjustments by year to apply the appropriate rate (19% in financial year 2022, 23.5% in financial year 2023 and 25% thereafter). For other balances, we have recognised the deferred tax at 25%.

As discussed in Note **31**, a tax adjustment of US$ 1,624,000 has been made to retained earnings at 1 January 2020 to recognise the adjustment to tax balances arising from the change in functional currency. The tax creditor and deferred tax balances have changed. There is some uncertainty around the impact of the accounting changes for tax purposes. The amounts recognised represent an assessment of additional tax that would have arisen had the financial statements been prepared using GBP as the functional currency in 2018 and 2019. The 2020 financial statements are being restated and the same approach has been used to arrive at the tax balances based on the 2020 restated GBP functional currency result.

10. EMOLUMENTS OF DIRECTORS

	2021 $000	2020 $000 Restated
Fees and other emoluments	895	884
Pension contributions in respect of defined contribution schemes	78	78
Highest paid director	408	456

Notes to the Financial Statements

31 December 2021

11. CASH AND CASH EQUIVALENTS MEASURED AT AMORTISED COST

	2021 $000	2020 $000 Restated
Cash on hand	1,176	375
Required term deposit with central bank	4,419	3,897
Balances with central banks	727,268	338,979
	732,863	343,251

12. DEPOSIT WITH BANKS MEASURED AT AMORTISED COST

	2021 $000	2020 $000 Restated
On demand and short notice	95,331	97,925
Less: ECL	-	-
Credit institutions	549,159	425,330
Less: ECL	(190)	(255)
	644,300	523,000

13. LOANS AND ADVANCES TO BANKS MEASURED AT AMORTISED COST

	2021 $000	2020 $000 Restated
Loans and advances to banks measured at amortised cost	26,061	26,911
Less: ECL	(49)	(102)
	26,012	26,809

14. LOANS AND ADVANCES TO CUSTOMERS

	2021 $000	2020 $000 Restated
Loans and advances to customers measured at amortised cost	1,449,649	1,316,404
Less: ECL	(5,025)	(6,390)
Loans and advances to customers measured at amortised cost (hedged)	141,103	92,357
Less: ECL	(153)	(111)
	1,585,574	1,402,260

Loans and advances to customers at amortised cost for 2020 has been adjusted for US$ 5,666,000 to reflect fee amortisation previously disclosed under deferred income (see Note **20**).

During the year, the Bank did not repossess collateral from any customer (2020: nil).

Notes to the Financial Statements

31 December 2021

15. INVESTMENT SECURITIES

	2021 $000	2020 $000 Restated
Investments:		
Equities measured at FVOCI	1,018	1,259
Equities measured at FVPL	252	-
Debt securities measured at FVPL	41,872	70,879
Debt securities measured at FVOCI	170,839	113,967
Less: ECL	(37)	(15)
	213,944	186,090

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

Debt securities are held on a yield-to-maturity basis, for portfolio management purposes. See Note **27** for details on valuation of investment securities. During the year US$ 252,000 of equities previously held at FVOCI were re-classified to FVPL.

16. INVESTMENT IN GROUP UNDERTAKING

	2021 $000	2020 $000 Restated
Investment in NBK France S.A.	45,792	49,209

NBKI holds 19.68% investments in a group company, NBK France S.A. registered at 90 Avenue des Champs-Elysees, 75008 Paris, France which is directly owned by National Bank of Kuwait S.A.K.P. This company was originally established on 31 December 2018. The dividend discount model is used to derive a fair value of the investment. The projected cashflows up to 2028, based on forecasted profits and required capital growth of 11% (average) were then discounted by the estimated cost of capital 8.5%. The range of valuation was between US$ 49.0 million and US$ 43.0 million. These ranges were arrived after applying sensitivity analysis on the growth factors and discount rate in the range of +/- 10%. Consequently, the fair value applied is a downward adjustment on last year.

17. FIXED ASSETS

Total fixed assets levels are broadly in line with last year. There has been a small reduction reflecting the termination of the finance lease arrangement for the Bank's branch premises which have been moved to the main building. These arrangements ended during 2021 and the Bank did not have any new lease arrangement during the year. On the main building the Bank has a finance lease arrangement as a lessor for a small portion of the property with external company and generates rental income.

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31 December 2021

	Freehold premises and improvements $000	Building (ROU) $000	Furniture, fixtures and equipment $000	Motor vehicle $000	Computer equipment $000	Work in progress $000	Total $000
Cost							
Balance at 1 January 2021 - Restated	54,410	1,161	4,822	76	2,780	-	63,249
Additions	918	-	283	-	178	623	2,002
Disposal	(1,222)	(1,168)	(314)	-	(55)		(2,759)
Reclassification	2,128	-	(2,128)	-	-	-	-
FX movement	(686)	7	(112)	-	(40)	(12)	(843)
Balance at 31 December 2021	55,548	-	2,551	76	2,863	611	61,649
Accumulated depreciation							
Balance at 1 January 2021- Restated	1,686	879	2,630	76	2,390	-	7,661
Charge for the year	654	282	397	-	264	-	1,597
Disposal	(1,222)	(1,168)	(314)	-	(55)	-	(2,759)
Reclassification	588	-	(588)	-	-	-	-
FX movement	2	7	(51)	-	(37)	-	(80)
Balance at 31 December 2021	1,708	-	2,073	76	2,562	-	6,419
Net book value:							
At 31 December 2020	52,724	282	2,192	-	390	-	55,588
At 31 December 2021	53,840	-	478	-	301	611	55,230

Included in depreciation there is a charge of **US$ 282,000** (2020: US$ 408,234) relating to finance lease asset (ROU).

Notes to the Financial Statements

31 December 2021

18. OTHER ASSETS

	2021 $000	2020 $000 Restated
Accrued interest receivable	8,238	7,121
Sundry debtors and prepayments	1,238	1,152
Deferred tax assets (Note **9**)	-	-
Corporation tax receivable (Note **9**)	-	1,074
Others	755	544
	10,231	9,891

19. CUSTOMER DEPOSITS

	2021 $000	2020 $000 Restated
Instant access current and saving accounts	766,844	675,271
Notice account	102,746	126,829
Time deposit	655,327	298,881
	1,524,917	1,100,981

20. OTHER LIABILITIES

	2021 $000	2020 $000 Restated
Interest payable	2,803	7,034
Deferred income	23	80
Deferred tax liabilities (Note **9**)	471	173
Lease liabilities	-	228
Others	6,632	3,374
ECL on guarantees and letters of credit (Note **25**)	96	642
Tax payable	188	-
	10,213	11,531

Deferred income relating to loan fees for 2020 is now incorporated into loans and advances to customers at amortised cost (US$ 5,666,000 see Note **14**).

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21. SHARE CAPITAL

There are two classes of ordinary share capital issued, being in GBP and USD:

	Ordinary Share Capital	
	2021	2020
Authorised:	No.'000	No.'000
Number of shares with nominal value of £1 each	50	50
Number of shares with nominal value of US$1 each	240,000	240,000
	240,050	240,050

	2021	2020
Allotted, called up and fully paid:	$000	$000
Shares denominated in GBP	83	83
Shares denominated in USD	235,800	235,800
	235,883	235,883

22. EXCHANGE RESERVE

A foreign currency translation reserve of (US$ 11,645,000) arises as a result of changing functional currency from USD to GBP, while continuing to apply USD as the presentation currency. The restated prior year balance is (US$ 5,349,000).

23. ORDINARY DIVIDENDS

The directors proposed no dividend for the year ending 31 December 2021 (2020: nil).

24. RELATED PARTY TRANSACTIONS

Related parties comprise Board members and senior officers of the Bank, their close family members and companies controlled by them or close family members, National Bank of Kuwait S.A.K.P. and its subsidiaries, and Board members of National Bank of Kuwait S.A.K.P. Certain related parties were customers of the Bank in the ordinary course of business. Transactions with related parties were made on substantially the same terms, including interest rates and collateral, as those prevailing at the same time for comparable transactions with unrelated parties and did not involve more than a normal amount of risk. The balances related to gross exposures (excluding ECL).

	2021	2020
	$000	$000
		Restated
Board members and senior officers of the Bank		
Customer deposits	-	-
Interest expense	1	4
Loans and advances to customers	4,146	4,250
Deposits with banks	3,697	12,710
Interest income	227	98

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	2021 $000	2020 $000 Restated
Parent Company		
Deposits with banks	97,467	27,134
Derivative assets	108	-
Other assets	128	30
Due to banks and other financial institutions	7,620	90,238
Derivative liabilities	8,915	16,870
Other liabilities	-	21
Contingent liabilities	19,258	19,291
Fully owned subsidiaries of the Parent Company		
Due to banks and other financial institutions	36,375	5,075
Customer deposits	4,417	4,492
Contingent liabilities	176	183
Partly owned subsidiaries of the Parent Company		
Due to banks and other financial institutions	913	937
Deposit with banks	1,809	24,461
Contingent liabilities	-	-
Fee income	72	152

25. DERIVATIVE FINANCIAL INSTRUMENTS

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

Derivative financial instruments are carried at fair value in the Statement of Financial Position. Positive fair value represents the cost of replacing all transactions with a fair value in the Bank's favour had the rights and obligations arising from that instrument been closed in an orderly market transaction at the reporting date. Credit risk in respect of derivative financial instruments is limited to the positive fair value of the instruments. Negative fair value represents the cost to the Bank arising from replacing contracts with its counterparties.

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

Interest rate swaps used to hedge the change in fair value of the Bank's financial assets and liabilities and which qualifying as effective hedging instruments are disclosed as 'held as fair value hedges'. As at 31 December 2021, the total hedge ineffectiveness is not significant.

Forward foreign exchange contracts are carried out for customers or used for hedging purpose but do not meet the qualifying criteria for hedge accounting. The foreign currency risk exposures on account of derivative financial instruments for customers are covered by entering into opposite transactions (back-to-back) with counterparties or by other risk mitigating transactions.

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Interest rate swaps

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

Forward foreign exchange

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

Summary of derivative financial instruments

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

	2021			2020 Restated		
	Positive fair value $000	Negative fair value $000	Notional $000	Positive fair value $000	Negative fair value $000	Notional $000
Interest rate swaps (held as fair value hedges)	1,520	13,143	246,301	-	16,177	189,136
Forward foreign exchange contracts	4,881	19,714	1,650,824	11,550	43,047	1,517,234
	6,401	32,857	1,897,125	11,550	59,224	1,706,370

Interest rate swaps are net of interest in 2021. In 2020 the negative fair value is excluding US$ 1,414,000 which is in other liabilities US$ 1,533,000 and other assets US$ 119,000.

Net gains relating to hedged fixed income financial assets (loans and bonds) amounted to US$ 7,246,000 (2020: US$ 18,149,000). The US$ 7,246,000 is made up of gains of US$ 8,969,000 for fixed income bonds and negative fair value of US$ 1,723,000 relating to loans. In relation to the interest rate swap contracts on the loans all interest rate swap contracts exchanging fixed rate interest amounts for floating rate interest amounts are designated and effective as fair value hedges in respect of interest rates. During the year, the hedge was 100.57 % effective in hedging the fair value exposure to interest rate movements and as a result the carrying amount of the loan was adjusted by (US$ 1.72 million) which was included in profit or loss at the same time that US$ 1.45 million profit on the interest rate swap was included in profit or loss.

At 31 December 2021, the Bank has GBP and USD three month LIBOR interest rate swaps of notional values of US$ 90,492,000 and US$ 106,000; and has GBP SONIA interest rate swaps of US$ 49,809,000 outstanding. The weighted average maturities are 3.64 and 3.99 years on LIBOR interest rate swaps and 4.62 years on SONIA interest rate swaps. The remaining GBP LIBOR swaps will transition to SONIA on their next roll over date in Q1 2022.

26. COMMITMENTS AND CONTINGENT LIABILITIES

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

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Contingent liabilities:	2021 $000	2020 $000
Acceptances and endorsements	211	-
Financial guarantees	134,263	219,164
Irrevocable letters of credit	6,759	10,492
ECL on guarantees and letter of credit	(96)	(642)
	141,138	229,014
Commitments:		
Undrawn, formal standby facilities, credit lines and other commitments to lend	146,666	151,409

27. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using quoted prices for identical or similar instruments in markets that are considered less than active or other valuation techniques in which all significant inputs are observable from market data.

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

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

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27. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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

2021	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
Equities at FVOCI	-	1,018	-	1,018
Equities at FVPL	-	-	252	252
Investment in group undertaking at FVOCI	-	-	45,792	45,792
Debt securities at FVPL	-	-	41,872	41,872
Debt securities at FVOCI	170,839	-	-	170,839
Less: ECL (debt securities)	(37)	-	-	(37)
	170,802	1,018	87,916	259,736
Derivative financial instruments (Note **25**)	-	(26,456)	-	(26,456)

2020 Restated	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
Equities at FVOCI	-	-	1,259	1,259
Investment in group undertaking at FVOCI	-	-	49,209	49,209
Debt securities at FVPL	-	-	70,879	70,879
Debt securities at FVOCI	113,967	-	-	113,967
Less: ECL (debt securities)	(15)	-	-	(15)
	113,952	-	121,347	235,299
Derivative financial instruments (Note **25**)	-	(47,674)	-	(47,674)

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

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

	At 1 January 2021 $000	Additions $000	Change in fair value $000	Sale /transfer $000	At 31 December 2021 $000	Net gains in the statement of income $000
Equities at FVOCI	1,259	-		(1,259)	-	-
Equities at FVPL				252	252	
Investment in group undertaking	49,209	-	(3,417)	-	45,792	
Debt securities at FVPL	70,879	41,872	-	(70,879)	41,872	-
	121,347	41,872	(3,417)	(71,886)	87,916	-

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	At 1 January 2020 $000	Additions $000	Change in fair value $000	Sale $000	At 31 December 2020 $000	Net gains in the statement of income $000
Equities at FVOCI	883	-	376	-	1,259	-
Investment in group undertaking	49,209	-	-	-	49,209	-
Debt securities at FVPL	33,106	70,879	-	(33,106)	70,879	-
	83,198	70,879	376	(33,106)	121,347	-

The investment in group undertaking is not traded in an active market. The fair value of this equity investment is estimated using an internal valuation technique, which includes taking observable market information and applying an appropriate discount rate. Sensitivity analysis for fair value estimations on equity investments, by varying input assumptions in the range from 5% to 10% (2020: range from 5% to 10%), did not indicate any material impacts. Debt securities included in this category for year ended 31 December 2021 consists of unquoted corporate bonds issued by banks and financial institutions.

Other financial assets and liabilities are carried at amortised cost and the carrying values are not materially different from their fair values as most of these assets and liabilities are of short-term maturities or are re-priced immediately based on market movement in interest rates. Fair values of remaining financial assets and liabilities carried at amortised cost are estimated mainly using discounted cash flow models (Level 3) incorporating certain assumptions such as credit spreads that are appropriate in the circumstances. Sensitivity analysis on fair value estimations, by varying input assumptions by a reasonable margin, did not indicate any material impacts on statement of financial position or statement of income.

28. RISK MANAGEMENT

Risk is inherent in the Bank's activities but is managed in a structured, systematic manner through policies and processes that embed risk management into business operations. Risk management direction and oversight are provided by the Board of Directors, with the support of the Board Audit Committee and Board Risk Committee.

The Bank's risk management and internal audit functions assist executive management in controlling and actively managing the Bank's overall risk profile.

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

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

Financial transactions and outstanding exposures are quantified and compared against authorised risk limits, whereas non-financial risks are monitored against policy guidelines and key risk and control indicators. Any discrepancies, excesses or deviation are escalated to management for appropriate action. Any breach of a risk tolerance that is defined in the NBKI Risk Appetite Statement is reported to Board.

The Bank uses interest rate swaps, forward foreign exchange contracts and other instruments to manage the financial risks resulting from changes in interest rates and foreign exchange rates.

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

Notes to the Financial Statements

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28.1 Credit risk

Credit risk is the risk of suffering loss because scheduled payments associated with a debt, or with a collection of debts, are not received in full and on time in line with agreed contractual obligations. Credit risk arises mainly from interbank placements, commercial and consumer loans and advances, and loan commitments arising from such lending activities, but can also arise from credit enhancement provided, such as credit derivatives ("CDS"), financial guarantees, letters of credit, endorsements, and acceptances.

The Bank is also exposed to other credit risks arising from investments in debt securities and other exposures arising from its trading activities including non-equity trading portfolio assets and derivatives as well as settlement balances with market counterparties and reverse repurchase agreements.

Credit risk is the single largest risk for the Bank's business. All policies relating to credit risk are reviewed by the Board of Directors. The Board Risk Committee and the Board oversees credit risk on a quarterly basis.

Credit limits are established for all customers after a careful assessment of their creditworthiness. Procedures outlined in the Bank's credit policies require that all credit proposals be subjected to detailed screening by the Credit Risk Department before submission to the Credit Approval Committee. Whenever necessary, loans are secured by acceptable forms of collateral to mitigate the related credit risks.

The Bank has an internal Credit Risk Committee ("CRC") that monitors credit exposure at a portfolio level, where CRC may take early preventative actions including further tightening of acceptable credit standards. CRC is informed by a dedicated Provisions Committee that reviews and approves the Bank's provisions for credit losses, both collective and on individually impaired facilities, in line with accounting treatments. CRC and Provisions Committee meet regularly throughout the year.

The Bank further limits credit risk through diversification of its assets by geography and industry sector. In addition, all credit facilities are continually monitored, and credit performance and ratings periodically reviewed.

28.1. 1 Credit risk measurement

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

Credit risk grading

The Bank uses internal credit risk grades that reflect its assessment of the probability of default of individual counterparties. The Bank uses calibrated rating models tailored to the various categories of counterparty. Borrower and loan specific information collected at the time of application (such as disposable income, and level of collateral for retail exposures; and turnover and industry type for wholesale exposures) is fed into these models. This is supplemented with external data such as credit bureau scoring information on individual borrowers. In addition, the models enable expert judgement from the credit risk officer to be fed into the final internal credit rating for each exposure. This allows for considerations which may not be captured as part of the other data inputs into the model. The performance of the analytic models used in this process are periodically reviewed and validated in line with the Bank's model governance policy.

Notes to the Financial Statements

31 December 2021

28.1 Credit risk (continued)

28.1. 2 Expected credit loss measurement

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

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

Further explanation is also provided of how the Bank determines appropriate groupings when ECL is measured on a collective basis in Note **28.1**. The following diagram summarises the impairment requirements under IFRS 9 (other than purchased or originated credit-impaired financial assets):

Change in credit quality since initial recognition

<--->

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

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

28.1.2.1 Significant increase in credit risk "(SICR)"

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

Quantitative criteria:

a) SICR – externally-rated portfolio

To determine if the risk of default of a financial instrument has increased significantly since initial recognition, the current risk of default at the reporting date would be compared with the risk of default at initial recognition. This assessment of whether there has been a significant increase in credit risk is required to be carried out at each reporting date. An asset can move into and out of the lifetime expected credit losses category (Stage 2 and 3) based on a predefined pattern obtained from the historical default rates or delinquency status of accounts across various internal rating grades, products or sectors.

This portfolio includes, but is not limited to, bonds, investments, sovereign and corporate obligors that are externally rated.

There are certain portfolios for the Bank (e.g. Bonds) where external ratings are applicable and used to assist in credit decisions. Final external rating is derived using the Median logic as stipulated in the Basel guidelines.

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28.1 Credit risk (continued)

The staging criterion for the same would require 2-Grade downgrade (without considering modifiers in the rating) for any facility that was within "investment grade" at inception. Any facility which was below "investment grade" at inception would be tagged as Stage 2 if there was a downgrade of one or more Grade in its rating.

Downgrade matrix for externally-rated portfolio

Additionally, as per IFRS 9, "a financial instrument with an external rating grade within 'investment grade' (BBB- or higher by S&P/Fitch) is an example of an instrument that may be considered to have low credit risk". Any facility without external rating at inception would be considered for staging based on the following:

Instrument with rating in "investment grade" (BBB- or better) at the reporting date would be considered in Stage 1. Instrument with rating in non-investment grade at reporting date would be considered in Stage 2.

If an instrument/exposure is 'Unrated', then the rating is considered to be the lower of the "country ceiling" (which is the sovereign rating of the country) of the exposure and Ba1 (effectively non-investment grade, thereby Stage 2).

With particular reference to cash and short-term deposits to banks, given the very short maturity of seven days, this portfolio is considered to be in Stage 1.

b) Significant increase in credit risk (SICR) – internally-rated portfolio

Post the consideration of externally-rated portfolio, internally-rated (based on MRA ratings) is evaluated.

Based on the rating migration data and historical default rates across the Bank's corporate portfolio, following criteria are fixed for determining SICR:

Downgrade matrix for internally-rated portfolio for Stage 1 and Stage 2

Based on Grade movements (internally-rated portfolio)

Inception	Current Grade												Down Grade
	1	2	3	4	5	6	7	8	9	10	11	12	
1	S-1	S-1	S-1	S-1	S-2	S-2	S-2	S-2	S-2	S-2	S-2	S-2	
2	S-1	S-1	S-1	S-1	S-2	S-2	S-2	S-2	S-2	S-2	S-2	S-2	4
3	S-1	S-1	S-1	S-1	S-2	S-2	S-2	S-2	S-2	S-2	S-2	S-2	3
4	S-1	S-1	S-1	S-1	S-1	S-2	S-2	S-2	S-2	S-2	S-2	S-2	2
5	S-1	S-1	S-1	S-1	S-1	S-1	S-2	S-2	S-2	S-2	S-2	S-2	2
6	S-1	S-1	S-1	S-1	S-1	S-1	S-1	S-2	S-2	S-2	S-2	S-2	2
7	S-1	S-1	S-1	S-1	S-1	S-1	S-1	S-2	S-2	S-2	S-2	S-2	2
8	S-1	S-1	S-1	S-1	S-1	S-1	S-1	S-1	S-2	S-2	S-2	S-2	1
9	S-1	S-1	S-1	S-1	S-1	S-1	S-1	S-1	S-1	S-2	S-2	S-2	1
10*	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	1
11*	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
12*	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Key: S-1: Stage 1; S-2: Stage 2

*The Bank as per Risk Appetite Statement does not normally underwrite any exposures ratings 7 & below at inception. Only in exceptional cases with approval from relevant credit committees would the Bank underwrite for ratings 8 to 9 at inception

c) Stage sssessment based on Grade downgrade matrix:

In case a rating is present both at inception and current, then the above downgrade matrix would be applicable to that set of borrowers considering the rating at inception and current rating levels. Note that the renewed facilities are currently assessed based on new dates in line with their renewal. The credit committee revisits each case of the renewal request.

28.1 Credit risk (continued)

d) Stage assessment based on absolute rating:

In case the inception rating is not available to perform stage assessment based on the Grade downgrade matrix, stage assessment will be done based on the current rating as follows. Instruments with rating of 1 to 9 (grades) at reporting date would be Stage 1, instruments with rating 10 at reporting date would be considered as Stage 2. Ratings at 11 to 13 at reporting date would be considered as Stage 3. No instruments with an inception rating 10 to 13 would be considered for underwriting

e) Stage assessment for unrated portfolio based on assumptions:

If an instrument/exposure is 'Unrated', then the rating applied is Moody's equivalent grade for the PD, which is the lower of the TTC PD (central tendency PD of internally-rated portfolio for country of risk) and the country's PD (based on sovereign rating of the country of risk), and if this rating is of non-investment grade (less than BBB) at the reporting date then it would be considered as Stage 2. If the TTC for the country of risk is not available, the TTC for the booking location will be applied, based on which (investment/non-investment grade) the final stage will be allocated.

f) Significant increase in credit risk ("SICR") – DPD

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

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

Qualitative criteria:

a) Use of early warning indicators for SICR

Apart from the above-mentioned staging criteria based upon rating grades and DPD buckets, the following qualitative criteria are evaluated by the management to categorise a particular borrower into Stage 2 by providing appropriate reasoning for the same. Early warning signals (EWS) are broken into two parts.

Financial warning signals:

- Decrease in Revenue/Sales by 30% or more
- Decrease in net profit by 30% or more
- Increase in Accounts Receivables Days on hand by 30% or more
- Increase in Inventory Days on hand by 30% or more
- Decrease in Financial Payments Coverage Ratio using EBITDA by 30% or more
- Increase in balances due from/due to related parties by 30% or more
- Decrease in Cash Flow from operating activities by 30% or more

Non-financial warning signals:

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

Governance and frequency for monitoring EWS is performed regularly as per the procedures.

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28.1 Credit risk (continued)

b) Management of stage override mechanism

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

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

26.1.2.2 Definition of default and credit-impaired assets

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

Quantitative criteria:

The default definition used is consistent with the one used for regulatory purposes and is defined as 90 days DPD for any facility or tagging the facility as "impaired" for internal credit management purposes. Any facility that would be tagged as default under this definition as of the reporting date would be tagged in the Stage 3 population. Additionally, the Bank will assess 'significant decrease in risk' from time to time before moving these facilities from Stage 3 (default) to Stage 2/Stage 1.

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

Qualitative criteria:

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

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

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

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

28.1 Credit risk (continued)

The Bank has not changed or amended its credit risk policies due to COVID-19. However, it has taken COVID-19 stresses into consideration and applied government guidelines not to downgrade both businesses and individuals as the stress in their finances was caused by COVID-19. The Bank has granted a total of 27 waiver requests over the period ending 31 December 2021.

This period has been determined based on an analysis which considers the likelihood of a financial instrument returning to default status after cure using different possible cure definitions.

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

The ECL is measured on either a 12-month ("12M") or lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. Expected credit losses are the discounted product of the PD, EAD and LGD, defined as follows:

- The PD represents the likelihood of a borrower defaulting on its financial obligation (as per "Definition of default and credit-impaired" above), either over the next 12 months ("12M PD") or over the remaining lifetime ("Lifetime PD") of the obligation.
- EAD is based on the amounts the Bank expects to be owed at the time of default, over the next 12 months ("12M EAD") or over the remaining lifetime (Lifetime EAD). For example, for a revolving commitment, the Bank includes the current drawn balance plus any further amount that is expected to be drawn up to the current contractual limit by the time of default, should it occur.
- Loss Given Default (LGD) represents the Bank's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD). LGD is calculated on a 12-month or lifetime basis where 12-month LGD is the percentage of loss expected to be made if the default occurs in the next 12 months and Lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

The ECL is determined by projecting the PD, LGD and EAD for each future month and for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in an earlier month). This effectively calculates an ECL for each future month, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

The Lifetime PD is developed by applying a maturity profile to the current 12M PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the loans. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band. This is supported by historical analysis.

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

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

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31 December 2021

28.1 Credit risk (continued)

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

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

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

There have been no significant changes in estimation techniques or significant assumptions made during the reporting period.

28.1.2.4 Forward looking information incorporated in the ECL models

The assessment of SICR and the calculation of ECL both incorporated forward looking information. The Bank has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each portfolio. These are mainly the GDP and Equity indices for UK, Eurozone and other countries with exposures including Kuwait. The Brent Oil price is also included.

Forward looking information up to five years is incorporated by NBKI in the form of macroeconomic factors. Macroeconomic factors operate based on the country of risk of the obligor.

Currently, the Bank is using three scenarios; base line scenario (scenario 1) weighted at 40%, stronger near-term growth (scenario 2), weighted at 30% and moderate recession (scenario 3) also weighted at 30%. The Bank's sensitivity analysis indicates that the range of values were on the low side US$ 4 .2 million through to US$ 6.8 million on the high side.

The Bank (through its Moody's ECL solution) applies a floor of 10% for LGD on exposures collateralised by real estate. If the floor was lowered to 5%, the ECL provision (in respect of Stage 1 and Stage 2 loans, for which the LDG floor applies) would be reduced by US$ 0.77 million and if increased to 15%, the ECL provision would be increased by US$ 1.01 million.

Individually assessed loans – the Bank performed an individual assessment of ECL on all significant (greater than US$ 1 million) Stage 3 loans for which a haircut of 30% had already been applied to the real estate collateral. Varying of those haircuts by +/- 5% (to 25% or 35%) would result in an increase or decrease of US$ 1.09 million or 21% of the total ECL provision.

28.1.3 Loss allowance

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

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

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28.1 Credit risk (continued)

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

On Balance Sheet	Stage 1 $000	Stage 2 $000	Stage 3 $000	Total $000
Debt securities measured at FVOCI (Note **15**)				
At 1 January 2021 Restated	15	-	-	15
Origination and acquisition	31	-	-	31
Derecognition, repayments and disposals	(10)	-	-	(10)
Changes due to change in credit risk (net)	1	-	-	1
At 31 December 2021	37	-	-	37
Credit institutions (Note **12** & **13**)				
At 1 January 2021 Restated	357	-	-	357
Origination and acquisition	51	-	-	51
Derecognition, repayments and disposals	(143)	-	-	(143)
Changes due to change in credit risk (net)	(26)	-	-	(26)
At 31 December 2021	239	-	-	239
Loans and advances to customers (Note **14**)				
At 1 January 2021 Restated	1,874	2,812	1,815	6,501
Origination and acquisition	629	-	5	634
Derecognition, repayments and disposals	(225)	(224)	(186)	(635)
Transfer from Stage 1 to 2	(168)	168	-	-
Transfer from Stage 2 to 1	112	(112)	-	-
Transfer from Stage 1 to 3	(1)	-	1	-
Transfer from Stage 2 to 3	293	-	(293)	-
Changes due to change in credit risk (net)	(1,053)	(1,171)	902	(1,322)
At 31 December 2021	1,461	1,473	2,244	5,178
TOTAL on Balance Sheet	1,737	1,473	2,244	5,454

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31 December 2021

28.1 Credit risk (continued)

Off Balance Sheet	Stage 1 $000	Stage 2 $000	Stage 3 $000	Total $000
Commitments and contingent liabilities (Note **26**)				
At 1 January 2021	642	-	-	642
Origination and acquisition	3	-	-	3
Derecognition, repayments and disposals	(345)	-	-	(345)
Changes due to change in credit risk (net)	(204)	-	-	(204)
At 31 December 2021	96	-	-	96
GRAND TOTAL	1,844	1,462	2,244	5,550

The net movement of **US$ 2,004,000** release (2020: US$ 3,805,000 charge) is accounted for through the profit or loss account.

28.1.4 Maximum exposure to credit risk

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

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

2021	Carrying amount $000	Gross carrying amount $000			Accumulated impairment $000		
		Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
		All risks	Significant increase in credit risk	Credit-impaired			
General government	120,399	120,433	-	-	(34)	-	-
Financial corporations	50,403	50,406	-	-	(3)	-	-
Financial assets at FVOCI	170,802	170,839	-	-	(37)	-	-

Notes to the Financial Statements

31 December 2021

28.1 Credit risk (continued)

2020 Restated	Carrying amount $000	Gross carrying amount $000			Accumulated impairment $000		
		Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
		All risks	Significant increase in credit risk	Credit-impaired			
General government	66,183	66,188	-	-	(5)	-	-
Financial corporations	47,769	47,779	-	-	(10)	-	-
Financial assets at FVOCI (Note **15**)	113,952	113,967	-	-	(15)	-	-

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

2021	Carrying amount $000	Gross carrying amount $000			Accumulated impairment $000		
		Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
		All risks	Significant increase in credit risk	Credit-impaired			
Cash and cash equivalents (Note **11**)	732,863	732,863	-	-	-	-	-
On demand and short notice (Note **12**)	95,331	95,331	-	-	-	-	-
Credit institutions (Note **12** & **13**)	574,981	575,220	-	-	(239)	-	-
Loans and advances – including hedged loans (Note **14**)	1,585,574	1,305,812	266,914	18,025	(1,472)	(1,462)	(2,243)
Financial assets at amortised cost	2,988,749	2,709,266	266,914	18,025	(1,711)	(1,462)	(2,243)

Information on how the Expected Credit Loss (ECL) is measured and how the three stages above are determined is included in Note **28.1.2** 'Expected credit loss measurement'.

Notes to the Financial Statements

31 December 2021

28.1 Credit risk (continued)

2020 Restated	Carrying amount $000	Gross carrying amount $000			Accumulated impairment $000		
		Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
		All risks	Significant increase in credit risk	Credit-impaired			
Cash and cash equivalents (Note **11**)	343,251	343,251	-	-	-	-	-
On demand and short notice (Note **12**)	97,925	97,925	-	-	-	-	-
Credit institutions (Note **12** & **13**)	451,884	452,241	-	-	(357)	-	-
Loans and advances – including hedged loans (Note **14**)	1,402,260	1,163,430	223,054	22,277	(2,064)	(2,626)	(1,811)
Financial assets at amortised cost	2,295,320	2,056,847	223,054	22,277	(2,421)	(2,626)	(1,811)

Information on how the Expected Credit Loss (ECL) is measured and how the three stages above are determined is included in Note **28.1.2** 'Expected credit loss measurement'.

Financial assets subject to impairment that are past due

2021	Carrying amount									
	Stage 1 Assets with no significant increase in credit risk $000				Stage 2 Assets with significant increase in credit risk but not impaired $000			Stage 3 Credit-impaired assets $000		
DAYS	Not past due	≤ 30	> 30 ≤ 90	> 90	≤ 30	> 30 ≤ 90	> 90	≤ 30	> 30 ≤ 90	> 90
Debt securities (Note **15**)	170,802	-	-	-	-	-	-	-	-	-
On demand and short notice (Note **12**)	95,331	-	-	-	-	-	-	-	-	-
Credit institutions	574,981	-	-	-	-	-	-	-	-	-
Loans and advances	1,277,771	26,569	-	-	265,241	211	-	15,782	-	-
TOTAL	2,118,885	26,569	-	-	265,241	211	-	15,782	-	-

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

Notes to the Financial Statements

31 December 2021

28.1 Credit risk (continued)

2020	Carrying amount									
	Stage 1 Assets with no significant increase in credit risk $000				Stage 2 Assets with significant increase in credit risk but not impaired $000			Stage 3 Credit-impaired assets $000		
DAYS	Not past due	≤ 30	> 30 ≤ 90	> 90	≤ 30	> 30 ≤ 90	> 90	≤ 30	> 30 ≤ 90	> 90
Debt securities	113,952	-	-	-	-	-	-	-	-	-
On demand and short notice	97,925	-	-	-	-	-	-	-	-	-
Credit institutions	451,884	-	-	-	-	-	-	-	-	-
Loans and advances	1,153,290	8,076	-	-	195,879	24,549	-	20,466	-	-
TOTAL	1,817,051	8,076	-	-	195,879	24,549	-	20,466	-	-

The balances in < 30 days within Stage 2 includes balances with no past due of US$ 132,920 and within Stage 3 includes balances with no past due of US$ 20,549.

The following disclosures highlight the diversity of exposures.

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

	2021		2020	
	Carrying amount US$000	Net exposure US$000	Carrying amount US$000	Net exposure US$000
Deposit with banks	644,300	644,300	523,000	523,000
Other assets	10,231	10,231	9,891	9,891
Loans and advances to banks	26,012	26,012	26,809	26,809
Loans and advances to customers	1,585,574	137,894	1,402,260	29,503
Contingent liabilities	287,900	287,694	380,423	379,354

Collateral and other credit enhancements

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

Notes to the Financial Statements

31 December 2021

28.1 Credit risk (continued)

28.1.5 Risk concentration of the maximum exposure to credit risk

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

Credit risk can also arise due to a significant concentration of Bank's assets to any single counterparty. This risk is managed by diversification of the portfolio. The Bank's internal limit is 22.5% of capital to any single obligor group. The ten largest loans and advances to customers outstanding as a percentage of gross loans and advances to customers as at 31 December 2021 is 41% (2020: 36%).

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

2021 Geographic region	MENA $000	North America $000	Europe $000	Asia $000	Others $000	Total $000
Balances with central banks	-	-	731,687	-	-	731,687
Deposits with banks	372,725	1,872	216,789	4,330	48,774	644,490
Loans and advances to banks	-	-	26,061	-	-	26,061
Loans and advances to customers	302,024	8,278	1,057,436	-	223,013	1,590,751
Investments securities	59,042	61,391	50,406	-	-	170,839
Investment in group entity	-	-	45,792	-	-	45,792
Derivatives assets	130	-	6,271			6,401
Other assets	-	-	8,993	-	-	8,993
	733,921	71,541	2,143,435	4,330	271,787	3,225,014
Commitments and contingent liabilities (Note **24**)	31,391	-	256,509	-	-	287,900
	765,312	71,541	2,399,944	4,330	271,787	3,512,914

Notes to the Financial Statements

31 December 2021

28.1 Credit risk (continued)

2020 Geographic region Restated	MENA $000	North America $000	Europe $000	Asia $000	Others $000	Total $000
Balances with central banks	-	-	342,876	-	-	342,876
Deposits with banks	330,489	4,497	183,008	4,387	874	523,255
Loans and advances to banks	-	-	26,911	-	-	26,911
Loans and advances to customers	292,604	8,397	868,094	-	239,666	1,408,761
Investments available-for-sale	47,779	66,188	-	-	-	113,967
Investment in group entity	-	-	49,209	-	-	49,209
Derivatives assets	-	-	11,550			11,550
Other assets	-	-	8,739	-	-	8,739
	670,872	79,082	1,490,387	4,387	240,540	2,485,268
Commitments and contingent liabilities (Note **26**)	27,748	3,886	349,431	-	-	381,065
	698,620	82,968	1,839,818	4,387	240,540	2,866,333

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

Industry sector	2021 $000	2020 $000
Manufacturing	78,593	117,418
Banks and other financial institutions	1,512,724	1,092,510
Construction	110,560	90,576
Real estate	1,447,324	1,249,321
Retail	34,452	4,972
Government	120,433	68,426
Others	208,828	243,110
	3,512,914	2,866,333

28.1.6 Write-off policy

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

The Bank may write off financial assets that are still subject to enforcement activity. The outstanding contractual amounts of such assets written off during the year 31 December 2021 was US$ nil (2020: US$ nil).

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28.2 Liquidity risk

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

2021	Up to 3 months $000	3 to 12 months $000	Over 1 year $000	Total $000
Assets				
Cash and cash equivalents	632,367	100,496	-	732,863
Deposits with banks	644,300	-	-	644,300
Loans and advances to banks	-	-	26,012	26,012
Loans and advances to customers	174,600	268,305	1,142,669	1,585,574
Investment securities	-	41,872	172,072	213,944
Investment in group entity	-	-	45,792	45,792
Fixed assets	-	-	55,230	55,230
Derivatives assets	6,401	-	-	6,401
Other assets	8,520	-	1,711	10,231
	1,466,188	410,673	1,443,486	3,320,347
Liabilities and equity				
Due to banks and other financial institutions	548,663	314,742	-	863,405
Customer deposits	1,331,009	192,232	1,676	1,524,917
Certificates of deposit issued	365,279	75,943	-	441,222
Derivative liabilities	32,857	-	-	32,857
Other liabilities	4,643	3,967	1,603	10,213
Share capital and reserves	1,680	-	446,053	447,733
	2,284,131	586,884	449,332	3,320,347

Notes to the Financial Statements

31 December 2021

28.2 Liquidity risk (continued)

2020 Restated	Up to 3 months $000	3 to 12 months $000	Over 1 year $000	Total $000
Assets				
Cash and cash equivalents	339,354	3,897	-	343,251
Deposits with banks	522,957	-	43	523,000
Loans and advances to banks	-	-	26,809	26,809
Loans and advances to customers	141,014	182,583	1,078,663	1,402,260
Investment securities	-	118,658	67,432	186,090
Investment in group entity	-	-	49,209	49,209
Fixed assets	-	272	55,316	55,588
Derivative assets	11,550	-	-	11,550
Other assets	9,231	529	131	9,891
	1,024,106	305,939	1,277,603	2,607,648
Liabilities and equity				
Due to banks and other financial institutions	386,744	350,693	1,500	738,937
Customer deposits	998,451	102,530	-	1,100,981
Certificate of deposits issued	257,094	-	-	257,094
Derivative liabilities	59,224	-	-	59,224
Other liabilities	10,911	58	562	11,531
Share capital and reserves	-	-	439,881	439,881
	1,712,424	453,281	441,943	2,607,648

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

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28.2 Liquidity risk (continued)

2021	Up to 3 months $000	3 to 12 months $000	Over 1 year $000	Total $000
Financial liabilities				
Due to banks and other financial institutions	592,297	271,719	-	864,016
Customer deposits	1,333,706	191,772	-	1,525,478
Certificates of deposits	365,273	75,775	-	441,048
	2,291,276	539,266	-	2,830,542
Contingent liabilities and commitments				
Contingent liabilities	41,784	35,525	63,925	141,234
Irrevocable commitments	-	8,105	138,561	146,666
	41,784	43,630	202,486	287,900
Derivatives				
Interest rate swaps (net interest)	545	4,869	14,182	19,596
	545	4,869	14,182	19,596

2020	Up to 3 months $000	3 to 12 months $000	Over 1 year $000	Total $000
Financial liabilities				
Due to banks and other financial institutions	386,906	256,524	1,507	644,937
Customer deposits	992,723	102,650	-	1,095,373
Certificates of deposits	257,096	-	-	257,096
	1,636,725	359,174	1,507	1,997,406
Contingent liabilities and commitments				
Contingent liabilities	47,071	34,646	147,939	229,656
Irrevocable commitments	3,886	37,500	110,023	151,409
	50,957	72,146	257,962	381,065
Derivatives				
Interest rate swaps (net interest)	617	3,915	12,208	16,740
	617	3,915	12,208	16,740

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28.3 Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market prices. Market risks arise from open positions in interest rate, currency, and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, foreign exchange rates and equity prices. Also see Note **25** for the Bank's exposure to IBOR reform.

28.3.1 Interest rate risk

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

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

Interest rate sensitivity

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

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

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

		2021	2020
Currency	Movement in basis points	Effect on profit $000	Effect on profit $000
GBP	+25	2,440	1,990
USD	+25	(1,751)	(1,622)
EUR	+25	(298)	111

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28.3.2 Foreign exchange risk

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

The Bank does not have significant net open positions in any foreign currencies. However due to retrospective change in the functional currency from USD to GBP (Note 2.1) this has resulted in a net open position in USD (mainly due to non-monetary items held in USD). Accordingly a change in the USD/GBP rate by +/- 5% will result in an impact on the income statement amounting to US$ 17.2 million (2020 US$ 16.6 million) respectively.

The Bank actively monitors its net open positions in non-USD currencies. At all times it seeks to keep its exposure at a de minimis level. Changing the functional currency to GBP, has resulted in a net material open position against USD. This position will be actively monitored while the change programme to move the underlying core systems from USD to GBP is completed. During this period both the non-USD and non-GBP position will be monitored to ensure all regulatory requirements are met. See Note 31 for more detail on the financial impacts.

Once the change programme has been completed the Bank will seek to keep its net open positions to non-GBP currencies at a de-minimis level.

28.4 Operational risk

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

29. POST BALANCE SHEET EVENT

On 26 January 2022, the authorised and allotted GBP share capital was increased by £40,000,000 to £40,050,000 by the creation and issue of 40,000,000 GBP shares to the Bank's parent.

30. COUNTRY BY COUNTRY REPORTING

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

Geographical location – UK

Number of employees and secondees – 176

Turnover - US$ 52,679,000

Pre-tax profit - US$ 21,175,000

Corporation tax paid during the year period US $3,191,000

Country by country reporting basis of preparation.

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

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

The bank received no public subsidies during the period.

Notes to the Financial Statements

31 December 2021

31. PRIOR PERIOD ADJUSTMENT

As described in the basis of preparation, the functional currency has been re-evaluated. Consequently, the functional currency has changed from USD to GBP for the current and prior periods as it was deemed to have been incorrect. This has been accounted for in line with the requirements of IAS 8.

This has resulted in a material opening adjustment to equity at 1 January 2020 of US$ 19,968,000. This adjustment to retained earnings is composed of two parts: Increase in retained earnings due to the change in functional currency of US$ 21,592,000, this arises from the net open position in USD, and partially offset due to the consequential impact to (current and deferred) tax on prior years of US$ 1,624,000. The uncertainty related to the tax adjustment is discussed in Note **9**.

Further, the reported 2020 statement of income and the statement of financial position at 31 December 2020 have also been adjusted and therefore these financial statements include restated comparative amounts. An exchange reserve has been created in 2020 which reflects the exchange differences recognised on translation to presentation currency from the start of that period. This reserve has not been restated to reflect exchange differences since the company's first reporting period as it was considered impracticable to do so.

In addition, US$ 5,666,000 of fees charged on loan origination that are integral to the effective interest rate have been reclassified from deferred income under other liabilities (Note **20**) into loans and advances to customer at amortized cost (Note **14**).

A summary of the material prior period adjustments is given below.

Statement of financial position at 31 December 2020 (in US$000)	As previously reported	Adjustment functional currency	Adjustment deferred income	As restated
Loans and advances to customers	1,407,926	-	(5,666)	1,402,260
Fixed assets	52,270	3,318	-	55,588
Other assets	9,241	650	-	9,891
Total Assets	**2,609,346**	**3,968**	**(5,666)**	**2,607,648**
Other liabilities	17,179	18	(5,666)	11,531
Total liabilities	**2,173,415**	**18**	**(5,666)**	**2,167,767**
Retained earnings	197,602	11,003	-	208,605
Foreign exchange reserve	-	(5,349)	-	(5,349)
Cumulative changes in fair values	2,446	(1,704)	-	742
Total Equity	**435,931**	**3,950**	-	**439,881**

Statement of income (for the period ended 31 December 2020) (in US$000)	As previously reported	Adjustment	As restated
Net gains from dealing in foreign currencies and derivative income	667	(11,293)	(10,626)
Taxation	(1,664)	2,092	428
Profit after taxation	11,952	(8,965)	2,987

Notes to the Financial Statements

31 December 2021

31. PRIOR PERIOD ADJUSTMENT (continued)

Statement of comprehensive income (for the period ended 31 December 2020) (in US$000)	As previously reported	Adjustment	As restated
Change in fair value of investment in subsidiary measured at FVOCI (net of tax)	-	(1,704)	(1,704)
Net foreign currency translation effect	-	(5,349)	(5,349)
Total comprehensive income/(expense) for the year	11,774	(16,018)	(4,244)

32. CAPITAL MANAGEMENT (unaudited)

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

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

	2021 $000	2020 $000
Risk weighted assets	2,034,858	1,826,103
Capital available		
Common Equity Tier 1 capital	432,220	420,436
Tier 1 capital	432,220	420,436
Tier 2 capital	-	-
Total capital	432,220	420,436
Common Equity Tier 1 capital adequacy ratio	21.24%	23.02%
Tier 1 capital adequacy ratio	21.24%	23.02%
Total capital adequacy ratio	21.24%	23.02%

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