National Bank of Kuwait (International) PLC

Annual Reports and Financial Statements

31 December 2022

Company registration:	02773743
FCA registration	171532

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
Bassem Boustany

Company Secretary
Emma Booth

Auditors
Deloitte LLP
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London, EC4A 3BZ
United Kingdom

Registered Office
NBK House
13 George Street
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Company registration	02773743
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Strategic report

31 December 2022

The Directors present their strategic report for the year ended 31 December 2022. This report is to read in conjunction with the Directors' Report on page 9.

Principal activities and business review

National Bank of Kuwait (International) PLC, ('NBKI' or 'the Bank'), is an authorised bank carrying out international commercial banking, financial and related services mainly for 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 positions itself as a premier Arab bank in the UK, with a niche focus on Private Banking and Real Estate. Its core lines of business are Commercial Real Estate, Private and Retail Banking, and Corporate Banking.

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

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

Key performance indicators (KPI's)

	2022	2021
	US$000	US$000
Income Statement:		
Net interest income	**54,216**	39,637
Net operating income before expected credit losses ('ECL')	**87,552**	52,679
Net operating income before ECL excluding impact of functional currency	**64,055**	47,906
Release on expected credit losses	**665**	2,004
Operating expenses	**(39,850)**	(33,508)
Profit before tax	**48,367**	21,175
Profit after tax	**22,423**	17,076
Balance Sheet:		
Loans and advances to customers	**1,610,422**	1,585,574
Customer deposits	**1,611,651**	1,524,917
Shareholders' equity	**473,823**	447,733
Key ratios:		
Common Equity Tier 1 ratio	**21.26%**	21.24%
Return on shareholders' equity	**4.7%**	3.8%
Cost income ratio	**45.5%**	63.6%

All KPIs are derived from the financial statements except for the Common Equity Tier 1 ratio.

Financial performance overview

The Bank's overall performance in 2022 was a significant improvement over 2021, reflecting positive impacts from a rising interest rate environment as well as increased momentum in the origination of loans. Operating income (before expected credit losses) stands at $87.6 m, an increase of 66% versus the prior year. Included in operating income are foreign exchange gains and losses for $24.4m (2021: $6m), following the retrospective change in functional currency from USD to GBP during 2022. After adjusting for the impact of functional currency, underlying operating revenue increased by 33.8% to $64.1m (2021: $47.9m). Net interest income increased by 36.9% to $54.2m (2021: $39.6m) and fees and commissions at $5.9m (2021: $5.5m) were up by 7.3%. The increase in net interest income is primarily the result of both the increase in reference rates and a 6.7% increase in average loans to customers to $1.6bn from $1.5bn.

The Bank's total assets grew to $3.4bn in 2022 from $3.3bn with the funding coming from an increasingly diversified customer deposit base and $53.5m (£40m) of additional share capital in January 2022. The Bank has been successful through originating $0.3bn loans in 2022 setting up a strong platform for income generation for 2023. The growth in loans has been partially offset by the depreciation in the GBP against the USD during the year.

The movement in the Bank's expected credit loss provision in the year was favourable by $0.6m driven by the relative improvement in economic circumstances after the pandemic primarily in the Corporate Real Estate and Private Banking books and changes to the underlying ECL model and its assumptions.

The Bank's operating costs increased by $6.3m to $39.9m reflecting the Bank's continued focus to digitise and automate its processes resulting in increased infrastructure spend in both IT and Operations.

The Bank does not have appetite to, nor look to, generate any income from FX trading positions or leave any material unhedged positions arising out of the normal course of business. To eliminate FX volatility arising from the functional currency change, management of the Bank took action to address its exposure to USD by redenominating its 235,800,000 USD shares into GBP shares at 81.967p per share on 26 July 2022.

The Bank's liquidity and capital ratios continue to remain healthy with significant headroom compared to required regulatory levels. The Bank's short-term modelling indicates that capital and liquidity ratios will be comfortably remain above the regulatory minimum over the forthcoming year under its Board-approved Individual Capital Adequacy Assessment Process ('ICAAP') stress scenarios.

Future Developments

The Directors' aim is for the Bank to further advance its business model by tapping into its niche opportunities and building on the strong franchise it has from Group customers and wider GCC linkages. The Bank continues to focus on its core activities and accordingly has initiated the process to sell its investment in NBK France SA to its parent, NBK S.A.K.P for $44m.

Despite the recent challenging environment, the Bank's staff will continue to ensure that client service and business sourcing is maximised, and that the Bank's risks, processes and operations are managed efficiently and effectively taking advantage where appropriate of technology and digitisation.

The Bank will continue to maintain strong compliance with the management policies which have resulted in a successful performance to date. The Bank 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 during 2023.

Subsequent to the balance sheet date, there continues to be uncertainty in the economic outlook in the UK and around the world. Rising interest rates, the war in Ukraine, and the current volatility in the Banking sector weigh heavily on overall economic activity. This has led to further recessionary pressures on the UK economy. Despite the economic headwinds, the Bank will continue to grow its banking portfolio in a sustainable way whilst continuing to support our customers.

Principal risks and uncertainties

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

Risk Type	Definition	Mitigating Actions
Credit Risk	The risk that scheduled payments associated with a credit exposure, or with a portfolio of exposures, will not be received by the Bank in full and on time in line with the agreed contractual obligations.	Given the nature of the business, the Bank views its primary financial risk to be credit related. Credit risk appetite is set by the Board and the risk is overseen by the Board Risk Committee. All credit proposals are subject to detailed screening by the Credit Risk Department in line with the Bank's credit policies before submission to the Credit Approval Committee for review. The Credit Risk Committee ('CRC') monitors credit exposure at a portfolio level. Where needed, the CRC may take early preventative actions including further tightening of acceptable credit standards. The Bank further mitigates risk concentrations by setting limits in terms of individual counterparty, industry, and geographical exposures.
Liquidity & Funding Risk	The risk that NBKI could fail to meet its obligations as they fall due, by not having the right type and quantity of funds, in the right place, at the right time and in the correct currency.	The Bank mitigates these risks by holding an adequate portion of its assets in the form of High-Quality Liquid Assets to cover the Bank's liquidity requirements. The Treasury function manages the daily liquidity and cash flows to ensures the Bank has sufficient liquidity even during stress scenarios. The Bank has a diverse funding profile comprising both retail deposits and wholesale borrowings. It is the role of the Treasury function to provide stable funding and liquidity for the Bank's core lending businesses which includes the active management of the maturity of the Bank's funding profile. Full assessment of the Bank's liquidity risks is covered by the Bank's liquidity risk policies and its Individual Liquidity Adequacy Assessment Process ('ILAAP'). The Bank's risks are monitored and managed through the Asset & Liability Committee ('ALCO') within the remit set out by the Board Risk Committee.
Capital & Solvency Risk	The risk that NBKI has insufficient capital to cover regulatory requirements and/or the growth plans of the business.	Capital adequacy is monitored on a regular basis against both regulatory and internal capital requirements. The Bank ensures that it has adequate capital even in stress scenarios through the ICAAP. These risks are monitored and managed through the ALCO within the remit set out by the Board Risk Committee.
Operational Risk	The risk of loss, whether direct or indirect, to which NBKI is exposed due to inadequate or failed internal processes or systems, human error or external events.	The Bank like all other similar organisations is exposed to a variety of operational risks. The Bank identifies, assesses, monitors, and mitigates these risks through a comprehensive system of internal controls and operational practices as set out in its Operational Risk Management Framework and Policy ('ORMFP'). The Bank has a low tolerance for operating losses and operates in such a way that these losses are mitigated.

		It is the role of the Operational Risk Committee to monitor and facilitate the effective implementation of operational risk policies and controls.
Market Risk	The risk to capital or earnings from the adverse movement of market variables such as interest rates and foreign exchange rates.	The Bank does not operate a trading book. However, the Bank is exposed to market risk arising from its banking activities which include interest rate and foreign exchange risk. The Bank has limits pre-established by the Board of Directors for both these risks which are ultimately monitored by ALCO. The Bank has very low risk appetite and in practice, would undertake foreign exchange forwards and interest rate swaps to mitigate its long-term exposure.

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

Climate Change Risk

In terms of climate change, the primary risks impacting the Bank include transition risk as the economy move towards a lower emissions economy, and physical risk which arises from the increased severity of adverse weather phenomena. The Bank continues to explore elements of physical and transition risks in its risk appetite and underwriting standards.

In 2022, the Bank has also made progress in addressing risks and embedding it as part of is short-term and long-term strategic planning. In particular, the Bank has reviewed the Task Force on Climate Related Financial Disclosures ('TCFD'). Based on the requirements of the TCFD, the Bank has integrated the management of financial risks related to climate change into its governance, risk and management framework. This includes the development of the climate change policy framework.

Cyber Security Risk

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

Operational Resilience

The Bank continues to focus on its operational resilience agenda as a high priority. In 2022 the Bank embedded the foundations of its operational resilience framework and continues to develop this further in 2023. The Bank has established a record of important business services and impact tolerances and embedded these in the operational risk management framework through clearly set out stress tests and self-assessment. In this regard the Bank is well sighted to the impact on customer outcomes from its business processes.

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.

The Board reviews the Strategy execution on at least an annual basis, and progress on all strategic initiatives and financial highlights is tracked at Executive Management and Board level on at least a quarterly basis.

Employees

The Board regarded employee welfare and retention as being a key priority for 2022. A key focus for the Board has been putting initiatives in place to address the continuous development, retention and welfare of its employees. These initiatives include a fully benchmarked pay review for all staff against peer institutions and a revamping of its performance award policy, increasing focus on social interactions post-COVID, and availing of several types of training and career progression programs. The Bank has also stepped up its initiatives informed by a general engagement employee survey, and another focussed on the Bank's Diversity and Inclusion.

In addition, the Bank's management has been cognisant of the rising cost of living and as such put in place a scheme to compensate staff accordingly. The Bank has continued its communication with its employees through 'Town Hall' meetings and return of social events following the transition back to work after COVID-19. The introduction of the 'I am NBK' award which recognises outstanding performance has also had a positive impact. The Bank has continued its flexible working model in line with the wider UK banking sector. It is the Bank's policy to attract, retain and develop the best qualified employees to enable it to achieve its overall business objectives. Accordingly, all vacant positions are filled with the best available qualified people, either from internal candidates where that is appropriate or from external recruitment. Equal treatment is offered to all applicants internally and externally with no discrimination on the grounds of ethnicity, colour, gender, nationality, marital status, disability, age, sexual orientation or religion, the criteria for selection being suitability and competence to do the job.

The Bank 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, and associated actions are under discussion with all of the Bank's staff.

Customers

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

Continuing to support the Bank's customers has been a critical focus for the Board this year. In particular the Bank has stepped up its focus on customers with particular attention to conduct requirements arising from Consumer Duty rules and the assessment of vulnerable customers. NBKI maintains watch lists of vulnerable customers and this information is updated constantly, as changes in customers' circumstances occur. These are managed in accordance with the General Data Protection Regulation ('GDPR') and we ensure all vulnerable customers are managed fairly. Management information will be provided to NBKI's governing body in line with the implementation of the Consumer Duty, to evidence we are providing fair outcomes for consumers.

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

Shareholders

The Bank has two shareholder-appointed representatives on its Board who attend all Board meetings and committees for which they are members. Their presence on the Board ensures that the shareholders are kept abreast of key strategic initiatives for the Bank. This includes an update of the Bank's performance against its 5 year strategy as well as the implementation of various project initiatives. 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.

Regulators and the regulatory environment (including ESG)

The Directors understand that the Bank is required to have a transparent and cooperative relationship with the Financial Conduct Authority ('FCA'), Prudential Regulatory Authority ('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 for example impact of the functional currency change and update on relevant projects.

ESG

A materiality assessment has been performed to identify the Bank's top 10 ESG priorities, from which a strategic roadmap has been formulated. This process is aligned to the NBK Group ESG framework. The NBKI approach focuses on four pillars. Firstly, responsible banking; by supporting the transition to a sustainable economy and becoming a role model in its own transition. Secondly, capitalizing on its own capabilities; by driving sustainable business growth and achieving it through organisational resilience. Finally, in terms of governance an ESG sub-committee of the Executive Management has been launched to consolidate and monitor the execution of the ESG strategy. The Board has also adopted a standing item on all its periodic meetings, in order to track and discuss the progress on ESG Strategy.

Suppliers

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

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 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 prior years, the Bank did not exceed the turnover threshold and was therefore not mandated to comply with SECR requirements; however, 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. The review has been conducted by an independent third-party industry expert, reviewing primary data such as meter readings, supplier invoices etc.

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

Energy	2022	2021
Total fuel consumption (kWh)	261,191	375,222
Total electricity consumption (kWh)	567,635	559,353
Total transport fuel (kWh)	9,184	5,141
Total transport mileage (kWh)	3,467	14,168
Totals	841,477	953,884

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

GHG emissions		2022	2021
Scope 1	Emissions from combustion of gas (tCO2e)	47.68	68.73
	Emissions from combustion of fuel for transport purposes (tCO2e)	2.20	1.22
Scope 2	Emissions from purchased electricity, location based (tCO2e)	109.77	118.77
Scope 3	Emissions from business travel in rental cars or employee-owned vehicles where company is responsible for purchasing the fuel (tCO2e)	0.86	3.49
Totals		160.51	192.21

Summary of carbon intensity ratios (year ended)

Scope of Carbon	GHG emissions	2022	2021
All Consumptions	tCO2e/£ million	2.17	5.54
Building-related only	tCO2e/sq metre	0.0544	0.0504

Energy efficiency measures

Overall energy consumption has fallen year on year. During 2022 and 2021 NBKI implemented a number of energy efficiency measures across the premises which led to a reduced level of fuel consumption. There has been an overall decrease in GHG emissions due primarily to a decrease in fossil fuel consumption and changes to the GHG conversion factors caused by changes to the UK energy mix.

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

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

6 April 2023

Directors' Report

31 December 2022

The Directors have pleasure in submitting their twenty-seventh annual report together with the audited financial statements for the year ended 31 December 2022. This should be read in conjunction with the Strategic Report including the SECR Framework and with reference to the financial risk management objectives and exposure to price, credit, liquidity, and cash flow risks set out in Note 28 to the annual financial statements.

Directors and Company Secretaries

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

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

- Andrew Simon Richardson resigned as Director on 27 January 2023

- Bassem Boustany appointed as Director on 7 February 2023

According to the register of Directors' interests, no Director holding office as at 31 December 2022 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 $22.4 million (2021: profit of $17.1 million). The Bank's financial performance for 2022 was creditable considering the continued uncertainty arising from the pandemic and other market factors. The momentum from increased lending in Q4 2021 carried through into 2022 and interest reference rates rose throughout the year and continue to do so in 2023 increasing overall interest margins. The Directors propose no dividend for the year ending 31 December 2022 (2021: nil).

Future developments

Future developments are discussed in detail in the Strategic report.

Going concern

The Directors understand their responsibility to assess the Bank's ability to continue as a going concern for a period of at least 12 months from the date the financial statements are approved. The assessment is based on the Bank's strategy having sufficient liquidity and capital which includes consideration of the ICAAP stress scenarios approved by the Board for the forecast period up to 30 June 2024.

During the first few months of 2023, the Bank has continued to trade profitability whilst holding appropriate levels of both capital and liquidity. Operational resilience continues to be a major priority. Having successfully navigated the challenges of COVID-19, the Bank continues to deal with the additional stresses arising from the Ukraine/Russia crisis as well as the current volatility in the banking sector. The Bank has continued to protect staff, customers, and business generally. The Bank is operating safely, and due regard is being paid to its operating model and the preservation of liquidity and solvency.

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

As disclosed in Note 31, the Bank has a robust regulatory capital position and holds healthy surpluses above regulatory minima. While the uncertainties and stresses in the market may erode regulatory capital, the ICAAP stress testing performed by management has shown that the Bank continues to hold capital above its regulatory threshold.

The Bank carefully monitors its liquidity position and management has performed a detailed forecast and ICAAP stress tests to consider market uncertainties and the potential impact on its ability to meet its liabilities as they fall due. In all reasonable scenarios the Bank maintains surpluses when compared to the regulatory requirements.

Based on the assessment performed, the Directors have a reasonable expectation that the Bank is well placed to manage its business risks and continue in operational existence for at least 12 months from the date of approval of financial statements to 30 June 2024. Accordingly, the Directors consider it appropriate to adopt the going concern basis in the preparation of the financial statements.

Subsequent events

The Bank has agreed a sale price of US$44m sale of its investment in NBK France SA to its parent, NBK S.A.K.P, for an agreed price of US$44m which is subject to regulatory approval from Central Bank of Kuwait and Autorité de Contrôle Prudentiel et de Résolution for NBK France.

Charitable donations and political donations

The Bank made charitable donations of US$3,400 (2021: nil) during the year. The Bank did not make any political donations during the year (2021: nil).

Employees

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

Customers

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

Supplier payment policy

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

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. 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 will be proposed at the forthcoming Annual General Meeting of the Company.

Approved by the Board

DocuSigned by:

Emma Booth

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

6 April 2023

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

1. Opinion

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

- give a true and fair view of the state of the Company's affairs as at 31 December 2022 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 30.

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

2. Basis for opinion

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

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

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

3. Summary of our audit approach

Key audit matter

The key audit matter that we identified in the current year was:

- Valuation of Expected Credit Loss ("ECL") provision

Within this report, key audit matters are identified as follows:

- Newly identified
- Increased level of risk
- Similar level of risk
- Decreased level of risk

Materiality

The materiality that we used in the current year was US$2.45m which was determined on the basis of 0.5% of adjusted net assets (net assets excluding the impact of foreign exchange gains).

Scoping

The audit scoping was performed based on an assessment of the account balances and disclosures that are either quantitatively or qualitatively material.

Significant changes in our approach

Changes to Key Audit Matters

Two Key Audit Matters which we reported in the prior year, were no longer considered as such in the current year audit, for the following reasons:

- *Valuation of investment in NBK France SA:* Significant judgement and estimation uncertainty no longer exists in the valuation of the investment, given an agreement exists with its parent, NBKI S.A.K.P, to purchase the shareholding at a stated price of US$44m.
- *Correction of the Company's functional currency:* The risks associated with first-year transition to the corrected functional currency are no longer present. Functional currency translation has evolved into a business-as-usual process for the Company.

Change in the basis of materiality

Our basis of materiality has changed from 10% of Profit Before Tax in the prior year, to 0.5% of adjusted net assets (net assets excluding the impact of foreign exchange gains) in the current year, equating to 5.1% of PBT. This selection serves to remove the impact of volatility observed in recent profitability, including the impact of foreign exchange gains and losses.

4. Conclusions relating to going concern

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

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

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

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

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

5. Key audit matters

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

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

5.1. Valuation of Expected Credit Loss ("ECL") provision

Refer to the summary of significant accounting policies on pages 36-37, and note 28.1.

Key audit matter description	The value of the Company's expected credit loss ("ECL") provision on loans and advances has decreased by US$0.57m in the current year to US$4.61m as at 31 December 2022 (31 December 2021: US$5.18m). *International Financial Reporting Standard 9: Financial Instruments ("IFRS 9")* requires loan provisions to be based on ECL models. A new model suite was developed and introduced by the Company in the current year, with the involvement of an external modelling expert. The models incorporate new macroeconomic variables and scenarios used in the development of a probability-weighted forward-looking ECL estimate. The estimation of ECL 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 inputs for both Probability of Default ("PD") and Loss Given Default ("LGD") models; the application of

	management overrides in the staging of loans and individually-assessed loans. We identified the selection of macroeconomic variables within the Bank's ECL model as an area of focus due to the inherent subjectivity and potential for management bias. These judgements are material for Corporate and Commercial Real Estate loans. We note that the sensitivity to certain key judgements has been disclosed in note 28.1.
How the scope of our audit responded to the key audit matter	We performed the following procedures over the selection of forward-looking macroeconomic variables: • Obtained an understanding of the business process and relevant controls involved in the calculation of ECL, including the development of the new ECL models and the sourcing of key data elements, including governance over credit risk management; • With the involvement of our internal economic specialists challenged the forward-looking macroeconomic scenarios used in the model by obtaining the scenario data and comparing to our internal information and other market data; • With the involvement of our modelling experts tested the implementation of the methodology for the macroeconomic model and how the forward-looking information is applied in the PD and LGD models; and • We held discussions with the expert used by management to develop the economic model and select the appropriate variables; and challenged the completeness of the variables selected and the application of the methodology. We have considered the competence, capability and objectivity of the expert used by management. In response to other risks relating to the determination of ECL provision, including the key model inputs, we performed the following procedures: • Obtained an understanding of the business process and relevant controls involved in the calculation of ECL, including the assessment of significant increase in credit risk with respect to the Corporate and Commercial Real Estate loans; • Obtained an understanding of the staging criteria applied, and assessed compliance with the requirements of the applicable financial reporting framework; • Performed detailed credit reviews for a sample of loans across all stages to assess the application of staging criteria to the loan population; • Evaluated any management overrides of staging criteria for individual loans; • Held detailed discussions with management and the external credit specialist to understand the methodology behind the new models; • With the involvement of our credit modelling specialists, performed a detailed methodology and implementation review over the new models, including a review of the model code; and

	• Evaluated the accuracy of the key inputs to the ECL model by reference to supporting audit evidence.
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 valuation of the ECL provision to be appropriate.

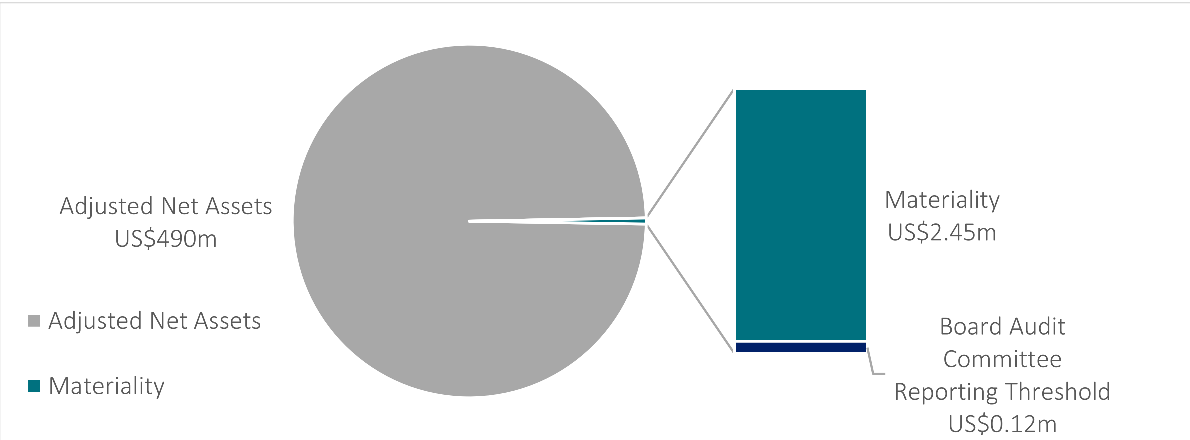
6. Our application of materiality

6.1. Materiality

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

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

Materiality	US$2.45m (2021: US$1.56m)
Basis for determining materiality	We have determined 0.5% of adjusted net assets (net assets excluding the impact of foreign exchange gains) as the basis for determining materiality. This amount represents 5.1% of actual 2022 Profit Before Tax of £48.4m. In 2021, materiality was determined as US$1.56m, equating to 10% of forecast 2021 Profit Before Tax of US$15.57m.
Rationale for the benchmark applied	We consider adjusted net assets to be the most relevant benchmark going forward for users of the financial statements given the Company is a wholly-owned, UK-regulated subsidiary. This selection serves to remove the impact of volatility observed in recent profitability, including the impact of foreign exchange gains and losses.



6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Performance materiality was set at 65% of materiality for the 2022 audit (2021: 65%). In determining performance materiality, we considered the following factors: our understanding of the control environment; our understanding of the business; significant control deficiencies identified in the prior year, and the quantum of corrected and uncorrected misstatements identified in the prior year.

6.3. Error reporting threshold

We agreed with the Board Audit Committee that we would report to the Committee all audit differences in excess of US$122k (2021: US$79k), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Board Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

7.1. Scoping

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

7.2. Our consideration of the control environment

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

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.

7.3. Our consideration of climate-related risks

In planning our audit, we have considered the potential impact of climate change on the Company and the wider group of which it is a part, 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 Company'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.

8. Other information

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

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

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

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

We have nothing to report in this regard.

9. Responsibilities of directors

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

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

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

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

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

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

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

11.1. Identifying and assessing potential risks related to irregularities

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

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

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

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

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

11.2. Audit response to risks identified

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

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

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

- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with the FCA, PRA and HMRC; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

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

Report on other legal and regulatory requirements

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

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

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

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

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

In our opinion the information given in note 30 to the financial statements for the financial year ended 31 December 2022 has been properly prepared, in all material respects, in accordance with the Capital Requirements (Country-by Country Reporting) Regulations 2013.

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

14.1. Adequacy of explanations received and accounting records

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

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

We have nothing to report in respect of these matters.

14.2. Directors' remuneration

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

We have nothing to report in respect of this matter.

15. Other matters which we are required to address

15.1. Auditor tenure

Following the recommendation of the Board Audit Committee, we were appointed by the Board Audit Committee on 10 May 2021 to audit the financial statements for the year ending 31 December 2021 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is two years, covering two years to the 31 December 2022.

15.2. 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).

16. Use of our report

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

DocuSigned by:

Giles Lang

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Giles Lang, FCA (Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

London, United Kingdom

6 April 2023

Statement of Income

For the year ended 31 December 2022

	Notes	**2022** **US$000**	2021 US$000
Interest income	3	**88,876**	52,080
Interest expense	4	**(34,660)**	(12,443)
Net interest		**54,216**	**39,637**
Net fees and commissions income	5	**5,916**	5,539
Net gains from dealing in foreign currencies and derivative income	6	**24,428**	6,047
Net investment income		**2,627**	1,069
Other operating income		**366**	387
Net operating income before ECL		**87,553**	52,679
Release on expected credit losses	28.1.3	**665**	2,004
Net operating income after ECL		**88,218**	54,683
Administrative expenses	7	**(38,714)**	(31,911)
Depreciation	17	**(1,136)**	(1,597)
Operating expenses		**(39,850)**	(33,508)
Profit for the year before taxation	8	**48,368**	21,175
Taxation	9	**(25,945)**	(4,099)
Profit for the year		**22,423**	17,076

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

Statement of Comprehensive Income

For the year ended 31 December 2022

	2022	2021
	US$000	US$000
Profit for the year	**22,423**	17,076
Other comprehensive income:		
Change in fair value of debt securities measured at FVOCI (net of tax)	(358)	(124)
Items that will be reclassified subsequently to profit or loss when specific conditions are met	**(358)**	(124)
Change in fair value of equity instruments measured at FVOCI (net of tax)	(52)	(45)
Change in fair value of investment in group entity measured at FVOCI (net of tax)	3,612	(2,759)
Net foreign currency translation effect	(53,055)	(6,296)
Items that will not be reclassified subsequently to profit or loss	**(49,495)**	(9,100)
Other comprehensive (expense) for the year	**(49,853)**	(9,224)
Total comprehensive (expense)/income for the year	**(27,430)**	7,852

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

Statement of Financial Position

31 December 2022

	Notes	**2022 US$000**	2021 US$000
Assets			
Cash and cash equivalents	11	**528,440**	732,863
Deposits with banks	12	**832,185**	644,300
Loans and advances to banks	13	**78,750**	26,012
Loans and advances to customers	14	**1,610,422**	1,585,574
Investment securities	15	**264,917**	213,944
Investment in group entity – held for sale	16	**44,000**	45,792
Derivative assets	25	**15,296**	6,401
Fixed assets	17	**49,253**	55,230
Other assets	18	**2,423**	10,231
Total assets		**3,425,686**	3,320,347
Liabilities			
Due to banks and other financial institutions		**1,078,891**	863,405
Customer deposits	19	**1,611,651**	1,524,917
Certificates of deposit issued		**213,478**	441,222
Derivative liabilities	25	**18,207**	32,857
Other liabilities	20	**29,636**	10,213
Total liabilities		**2,951,863**	2,872,614
Equity			
Share capital	21	**289,403**	235,883
Retained earnings		**211,714**	225,681
Cumulative changes in fair values		**1,017**	(2,186)
Translation reserve	22	**(28,311)**	(11,645)
Total equity		**473,823**	447,733
Total equity and liabilities		**3,425,686**	3,320,347

The financial statements were approved by the Board of Directors and authorised for issue on **6 April 2023**.

DocuSigned by:
Fawzi Dajani
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Fawzi Adnan Dajani (Director)
6 April 2023

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

Statement of Changes in Equity

31 December 2022

	Share capital US$000	Retained earnings US$000	Cumulative changes in fair values US$000	Translation Reserve US$000	Total US$000
Balances as at 31 December 2020	**235,883**	**208,605**	**742**	**(5,349)**	**439,881**
Profit for the year	-	17,076	-	-	**17,076**
Other comprehensive expense 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**
New Capital Issuance	53,520	**-**	**-**	**-**	**53,520**
Transfer from Translation Reserve upon Redenomination	-	(36,389)	-	36,389	**-**
Profit for the year	-	22,423	-	**-**	**22,423**
Other comprehensive expense for the year	-	**-**	3,202	(53,055)	**(49,853)**
Balances as at 31 December 2022	**289,403**	**211,715**	**1,016**	**(28,311)**	**473,823**

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

Notes to the financial statements
31 December 2022

1. INCORPORATION AND REGISTRATION

The financial statements of National Bank of Kuwait (International) PLC (the "Bank") were approved by the Board of Directors on 6 April 2023. The Bank is incorporated in United Kingdom and is principally engaged in banking activities, primarily in United Kingdom. The address of 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.

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 73I.

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

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

The requirements of IAS 7 Statement of Cash Flows.

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

IAS 24 Related Party Disclosures, paragraph 17.

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

2.2 Going concern

IAS 1 (Presentation of Financial Statements) requires Directors to make an assessment of a company's ability to continue as a going concern, and whether it remains appropriate to adopt the going concern basis of accounting in preparing the entity's financial statements. IAS 1 states that the information should cover at least 12 months from the end of the reporting period but not be limited to that period, and 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. The assessment is based on the Bank's strategy having sufficient liquidity and capital which includes consideration of the ICAAP stress scenarios approved by the Board for the forecast period up to 30 June 2024.

During the first few months of 2023, the Bank has continued to trade profitability whilst holding appropriate levels of both capital and liquidity. Operational resilience continues to be a major priority. Having successfully navigated the challenges of COVID-19, the Bank continues to deal with the additional stresses arising from the Ukraine/Russia crisis as well as the current volatility in the Banking sector. The Bank has continued to protect staff, customers, and business generally. The Bank is operating safely, and due regard is being paid to its operating model and the preservation of liquidity and solvency.

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

As disclosed in Note 31, the Bank has a robust regulatory capital position and holds healthy surpluses above regulatory minima. While the uncertainties and stresses in the market may erode regulatory capital, the ICAAP stress testing performed by management has shown that the Bank continues to hold capital above its regulatory threshold.

The Bank carefully monitors its liquidity position and management has performed a detailed forecast and ICAAP stress tests to consider market uncertainties and the potential impact on its ability to meet its liabilities as they fall due. In all reasonable scenarios the Bank maintains surpluses when compared to the regulatory requirements.

Based on the assessment performed, the Directors have a reasonable expectation that the Bank is well placed to manage its business risks and continue in operational existence for at least 12 months from the date of approval of financial statements. Accordingly, the Directors consider it appropriate to adopt the going concern basis in the preparation of the financial statements.

2.3 Changes in Accounting Policy

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 2022 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 applied 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 Bank only has leases for which the asset is considered to be of low value and accounts for their costs on a straight-line basis. In 2021, the lease for a ROU asset expired and the assets and liability were fully extinguished. The depreciation charge for ROU assets was £nil in 2022 (2021: US$282,000) included in depreciation of premises and equipment in the statement of income.

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

2.5 Impairment of Non-financial Assets

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

2.6 Provisions & contingencies

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

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

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

2.7 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 recognizsed in profit or loss. When the financial asset are derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognized in 'Net investment income'. Interest income from these financial assets is included in 'Interest and similar income' using the effective interest rate method.
- **Fair value through profit or loss:** Financial assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss and presented in the profit or loss statement within "Net trading income" in the period in which it arises, unless it arises from debt instruments that were designated at fair value or which are not held for trading, in which case they are presented separately in "Net investment income". Interest income from these financial assets is included in "Interest and similar income" using the effective interest rate method.

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

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

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

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.

Derecognition

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

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

Assets held for sale

Assets and non-current assets are classified as held for sale ('HFS') when their carry amounts will be recovered principally through sale rather than through continuing use. HFS assets are generally measures at the lower of their carrying amount and fair value less cost to sell. Immediately before the initial classification as HFS, the carrying amounts are measured in accordance with applicable accounting standards as above.

Financial liabilities

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

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

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

Financial guarantee contracts and loan commitments

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

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

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

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.

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 (where 12 months ECL refers to ECL in relation to default events within 12 months of the reporting date). Under Stage 2, where there has been a significant increase in credit risk since initial recognition, but the financial instruments are not considered credit impaired, an amount equal to the lifetime ECL will be recorded (where lifetime ECL refers to ECL in relation to default events over the entire lifetime of the instrument. Under Stage 3, where there is objective evidence of impairment at the reporting date these financial instruments will be classified as credit impaired and an amount equal to the lifetime ECL will be recorded for the financial assets.

The assessment of credit risk and the estimation of ECL are required to be unbiased and probability-weighted and 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.

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**.

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

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.

2.8 Foreign currencies

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

For further information, refer to Notes **28.3.2 –** Foreign exchange risk.

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

2.9 Interest income and expenses

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

The effective interest rate ("EIR") is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the gross carrying amount of the financial asset or financial liability. Fees which are considered an integral part of the effective yield of a financial asset are recognised using the effective interest method.

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

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

2.10 Fees and commissions income

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

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

2.11 Dividend income

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

2.12 Assets held for sale and discontinued operations

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

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

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

The Bank is in process of finalising the sale of its investment in NBK France SA to its parent, NBK S.A.K.P. This asset is separately disclosed on the face of the balance sheet and is already held at fair value as an Equity held at fair value though other comprehensive income.

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

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

2.13 Derecognition

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

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

2.14 Pensions

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

2.15 Taxation

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

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

2.16 Fair value measurement

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

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

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

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

2.17 Offsetting of financial assets and liabilities

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

2.18 Derecognition of financial assets and financial liabilities

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

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

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

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

2.19 Derivative financial instruments

The Bank 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 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

The Bank 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.

2.20 Trade and settlement date accounting

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

2.21 Investment in group undertaking

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

2.22 Fixed assets

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

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

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

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

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

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

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

2.24 Significant accounting judgements and estimates

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

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

Measurement of investment in NBK France SA

The Bank is in process of finalising the sale of its investment in NBK France SA to its parent, NBK S.A.K.P, for an agreed price of US$44m which is subject to regulatory approval from Central Bank of Kuwait and Autorité de Contrôle Prudentiel et de Résolution for NBK France. For the valuation, the Bank engaged a third-party valuer to provide management with support with regards to determining the sale consideration for NBK France. The valuation was based upon a price book ratio multiple which was benchmarked to other comparable companies resulting in NBK France being valued at $44m as at 31 December 2022 (see note 16).

HMRC Tax Investigation (judgement)

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

In line with IFRIC 23, the tax liability established represents the full amount payable to the HMRC on the basis that the Bank was unsuccessful in challenging HMRC's assessment. Due to the uncertainty associated with this tax item, it is possible that at a future date, on conclusion of the matter, the final outcome may vary significantly and could be substantially lower if the Bank were to be successful in challenging the HMRC.

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 demonstrates the sensitivity of the ECL to the five macro-economic scenarios.

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:
- application qualitative criteria for significant increase in credit risk; and
- choosing appropriate models and assumptions for the measurement of ECL.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

During the year the Bank decided to enhance its measure of ECL by introducing a new ECL platform with a smaller and more focused set of macroeconomic variables that are more relevant to the Bank's portfolios of assets. The analysis was also expanded to reflect five scenarios. Detailed information about the judgements and estimates made by the Bank in the above area is set out in Note **28.1.2**.

3. INTEREST INCOME CALCULATED USING THE EFFECTIVE INTEREST METHOD

	2022	2021
	US$000	US$000
Deposits with banks	**26,957**	4,255
Loans and advances	**57,394**	43,660
Debt investment securities	**4,525**	4,165
	88,876	52,080

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

4. INTEREST AND SIMILAR EXPENSES

	2022	2021
	US$000	US$000
Due to banks and other financial institutions	**15,037**	6,745
Customer deposits	**14,580**	760
Interest on certificates of deposit	**1,580**	15
Other	**3,463**	4,938
	34,660	12,443

5. NET FEES AND COMMISSIONS INCOME

	2022	2021
	US$000	US$000
Fees and commission income:		
Card fees and commissions	**66**	36
Retail banking customer fees	**4,686**	4,121
Financial guarantee contract and letter of credit fees	**728**	989
Real estate consulting fees	**645**	609
Other	**29**	5
	6,154	5,760
Fees and commission related expenses	**(238)**	(221)
Net fees and commissions income	**5,916**	5,539

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

Net gains from dealing in foreign currencies and derivative income mainly consist of dealing profits generated from foreign currency related transactions and hedge ineffectiveness on bond, loan portfolio and deposits. In 2021 the functional currency was retrospectively changed from USD to GBP which resulted in significant foreign exchange movements. The impact on 2022 profit and loss was a gain of US$23,497,000 compared to a gain of US$4,773,000 in 2021

7. ADMINISTRATIVE EXPENSES

	2022 US$000	2021 US$000
Staff costs:		
Wages and salaries	**16,916**	16,876
Social security costs	**1,973**	1,950
Pension costs	**1,650**	1,736
	20,539	20,562
Other administrative expenses	**18,175**	11,349
	38,714	31,911

The average number of employees, all engaged in banking activities during the year, was 174 (2021: 176). Other administrative expenses include occupancy, computer expenses, professional fees and various other overheads. All employees are engaged in Commercial Banking activity.

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

	2022 US$000	2021 US$000
This is stated after charging:		
Fees payable to the Company's auditor for the audit of annual accounts	**1,119**	609
Audit related services (CASS fee)	**15**	13
Fees payable to the Company's auditor for the services provided in relation to the audit of the Company's ultimate parent	**113**	71
Total auditor's remuneration	**1,247**	693

9. TAXATION

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

	2022 US$000	2021 US$000
Current tax:		
UK corporation tax on the profit for the year	**11,244**	4,018
Adjustment in respect of prior years	**14,859**	-
Total current tax	**26,108**	4,018
Deferred tax (credit)/charge (Note 9(c)):		
Related to the current year	**19**	130
Adjustment in respect of prior years	**(221)**	-
Effect of changes in tax rates	**-**	(49)
Foreign Exchange	**45**	-
Total deferred tax	**(158)**	81
Foreign exchange	**-**	-
Tax per income statement (Note **9(b)**)	**25,945**	4,099
Other comprehensive income – deferred tax (credit)	**(52)**	222

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

(b) Factors affecting tax charge for the year	**2022 US$000**	2021 US$000
Profit on ordinary activities before tax	**48,368**	21,175
Profit taxed at UK corporation tax Average standard rate of 19% (2021: 19%)	**9,181**	4,024
Effect of:		
Disallowed expenses	**13**	125
Disallowed income	**(4)**	(1)
Super deduction	**(18)**	-
Adjustment in respect of prior years-	**14,638**	-
Tax rate changes	**(21)**	(49)
Banking surcharge	**2,616**	-
Foreign exchange	**(460)**	-
Total tax charge	**25,945**	4,099

(c) Disclosed in statement of financial position	**2022 US$000**	2021 *US$000*
Current tax (assets) / liabilities:		
Corporation tax payable/payable	**14,517**	188
Total current tax (assets) / liabilities	**14,517**	188

Deferred tax liabilities/(assets)	**2022 US$000**	2021 *US$000*
Provision at the start of the period	**471**	173
Adjustment in respect of prior years	**(221)**	-
Deferred tax charge to income statement for the period	**19**	81
Deferred tax charge in OCI for the period	**(52)**	217
Foreign exchange	**(45)**	-
Total deferred tax (assets) / liabilities	**172**	471

Net temporary differences	**2022 US$000**	2021 *US$000*
Fixed assets	**(40)**	294
Provisions	**-**	-
Fair value change in debt securities	**(1,767)**	2,233
Fair value in hedging instruments	**2,237**	(1,644)
Fair value movement on equity instruments	**209**	227
Change in basis adjustment trading	**(136)**	(212)
Change in basis adjustment trading – 2018	**(331)**	(427)
Total net temporary differences	**172**	471

The last Finance Bill enacted that the main rate of UK corporation tax would increase to 25% effective from 1 April 2023. For the purposes of deferred tax to be recognised, we modelled the utilisation of FRS 101 and IFRS9 transition adjustments by year to apply the appropriate rate (23.5% in financial year 2023 and 25% thereafter). For other balances, we have recognised the deferred tax at 25%.

The Bank's current tax position of $25.9m includes management's judgement of the amount of tax payable on historical tax computations where liabilities remain to be agreed with HMRC. The Bank evaluates uncertain tax items, where a tax item subject to interpretation and remains to be agreed. Principally the uncertain tax item for which a tax liability has been recognised, relates to the potential tax arising from the retrospective change to the Bank's functional currency from USD to GBP.

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

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

10. EMOLUMENTS OF DIRECTORS

	2022	2021
	US$000	US$000
Fees and other emoluments	**851**	895
Pension contributions in respect of defined contribution schemes	**104**	78
Total remuneration and compensation of the highest paid director:		
Fees and other emoluments	**420**	330
Short-term employee benefits	**7**	8
Pension contributions in respect of defined contribution schemes	**53**	43
	480	381

11. CASH AND CASH EQUIVALENTS MEASURED AT AMORTISED COST

	2022	2021
	US$000	US$000
Cash on hand	**1,073**	1,176
Required term deposit with central bank	**-**	4,419
Balances with central banks	**526,671**	727,268
Interest receivables	**699**	-
Less: ECL	**(3)**	-
	528,440	732,863

12. DEPOSIT WITH BANKS MEASURED AT AMORTISED COST

	2022	2021
	US$000	US$000
On demand and short notice	**66,221**	95,331
Required term deposit with central bank	**4,176**	-
Interest receivables	**4,618**	-
Credit institutions	**757,215**	549,159
Less: ECL	**(45)**	(190)
	832,185	644,300

13. LOANS AND ADVANCES TO BANKS MEASURED AT AMORTISED COST

	2022	2021
	US$000	US$000
Loans and advances to banks measured at amortised cost	**77,887**	26,061
Interest receivables	**873**	-
Less: ECL	**(10)**	(49)
	78,750	26,012

14. LOANS AND ADVANCES TO CUSTOMERS

	2022	2021
	US$000	US$000
Loans and advances to customers measured at amortised cost	**1,489,359**	1,449,649
Less: ECL	**(4,598)**	(5,025)
Loans and advances to customers at amortised cost (hedged)	**127,437**	141,103
Less: ECL	**(13)**	(153)
Fair value hedge adjustment on loans and advances to customers	**(9,768)**	-
Interest receivables	**8,005**	-
	1,610,422	1,585,574

During the year, the Bank did not repossess collateral from any customer (2021: nil).

15. INVESTMENT SECURITIES

	2022	2021
	US$000	US$000
Investments:		
Equities measured at FVOCI	**1,407**	1,018
Equities measured at FVPL	**11,361**	42,124
Debt securities measured at FVOCI	**249,601**	170,839
Less: ECL	**(29)**	(37)
Interest receivables	**2,577**	-
	264,917	213,944

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

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

16. INVESTMENT IN GROUP UNDERTAKING

	2022 US$000	2021 US$000
Investment in NBK France S.A.	**44,000**	45,792
	44,000	45,792

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.

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 rental arrangement as a lessor for a small portion of the property with external company and generates rental income.

	Freehold premises and improvements US$000	Furniture, fixtures and equipment US$000	Motor vehicle US$000	Computer equipment US$000	Work in Progress US$000	Total US$000
Cost						
Balance at 1 Jan 2022	**55,548**	**2,551**	**76**	**2,863**	**611**	**61,649**
Additions	-	765	-	172	-	937
Disposal	-	(32)	-	(4)	-	(36)
Reclassification			-	-	-	-
FX movement	(5,748)	(276)	-	(310)	-	(6,334)
WIP Capitalised	-	611	-	-	(611)	-
Balance at 31 Dec 2022	**49,800**	**3,619**	**76**	**2,721**	**-**	**56,216**

	Freehold premises and improvements US$000	Furniture, fixtures and equipment US$000	Motor vehicle US$000	Computer equipment US$000	Work in Progress US$000	Total US$000
Accumulated depreciation						
Balance at 1 Jan 2022	**1,708**	**2,073**	**76**	**2,562**	**-**	**6,419**
Charge for the year	485	424	-	227	-	1,136
Disposal	-	(33)	-	(3)	-	(36)
Reclassification			-	-	-	-
FX movement	(97)	(234)	-	(225)	-	(556)
Balance at 31 Dec 2022	**2,096**	**2,230**	**76**	**2,561**	**-**	**6,963**
Net book value:						
At 31 December 2021	**53,840**	**478**	**-**	**301**	**611**	**55,230**
At 31 December 2022	**47,704**	**1,389**	**-**	**160**	**-**	**49,253**

18. OTHER ASSETS

	2022	2021
	US$000	US$000
Accrued interest receivable	**-**	8,238
Sundry debtors and prepayments	**1,691**	1,238
Others	**732**	755
	2,423	10,231

19. CUSTOMER DEPOSITS

	2022	2021
	US$000	US$000
Instant access current and saving accounts	**614,919**	766,844
Notice account	**67,420**	102,746
Time deposit	**906,452**	655,327
Time deposit (hedged)	**15,969**	-
FV Hedge adjustment on customer deposits	**(1,157)**	-
Interest payables	**8,048**	
	1,611,651	1,524,917

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

20. OTHER LIABILITIES

	2022	2021
	US$000	US$000
Interest payable	**-**	2,803
Deferred income	**1**	23
Deferred tax liabilities (Note **9**)	**169**	471
Others	**14,661**	6,632
Provision for guarantees and letters of credit as determined by ECL (Note **25**)	**288**	96
Tax payable	**14,517**	188
	29,636	10,213

21. SHARE CAPITAL

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

On the 26 July 2022, the Bank further redenominated the 235,800,000 US$1 shares at the prevailing rate into 235,800,000 shares with a nominal value of GBP 81.967p which is an issue value of £193,278,186.

As the USD shares had originally been recorded at issue price of £163,451,346 the difference of £29,827,342 was funded by a transfer from retained earnings. In the presentational currency view this transfer from retained earnings was credited to the Translation reserve.

The Bank contemporaneously delivered USD$235.8m in exchange for payment £193.3m from its parent.

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

	Ordinary Share Capital	
	2022	2021
Authorised:	**No.**	No.
Number of Class "A" shares with nominal value of £1 each	**40,000,050**	50
Number of shares with nominal value of US$1 each	**-**	235,800,000
Number of Class "B" shares with nominal value of 81.967p each	**235,800,000**	-

	2022	2021
Allotted, called up and fully paid:	**US$000**	US$000
Shares denominated in GBP	**289,403**	83
Shares denominated in USD	**-**	235,800
	289,403	235,883

22. TRANSLATION RESERVE

A foreign currency translation reserve of US$28,311,000 arises as a result of changing functional currency from USD to GBP, while continuing to apply USD as the presentation currency and the impact of the transfer from retained earnings of US$36,389,000 during the year to reflect the redenomination of the USD share capital. (2021: US$11,645,000)

23. ORDINARY DIVIDENDS

The Directors proposed no dividend for the year ending 31 December 2022 (2021: nil).

24. RELATED PARTY TRANSACTIONS

Related parties comprise Board members and senior officers of the Bank, their close family members and companies controlled by them or close family members, National Bank of Kuwait S.A.K.P. and its subsidiaries, and Board members of National Bank of Kuwait SAKP. Certain related parties were customers of the Bank in the ordinary course of business. Transactions with related parties 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).

	2022	2021
	US$000	US$000
Board members of the Bank and Parent company		
Interest expense	**80**	1
Loans and advances to customers	**65,743**	4,146
Customer deposits	**13,298**	3,697
Interest income	**1,931**	227

Parent Company		
Deposits with banks	**71,319**	97,467
Derivative assets	**604**	108
Other assets	**1,115**	128
Due to banks and other financial institutions	**11,884**	7,620
Derivative (liabilities)/assets	**(720)**	8,915
Contingent liabilities	**30,285**	19,258

Fully owned subsidiaries of the Parent Company		
Other assets	**1**	-
Due to banks and other financial institutions	**4,979**	36,375
Customer deposits	**3,935**	4,417
Contingent liabilities	**175**	176

Partly owned subsidiaries of the Parent Company		
Due to banks and other financial institutions	**56,170**	913
Deposit with banks	**36**	1,809
Other liabilities	**61**	-
Fee income	**-**	72

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 2022, 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.

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:

	2022			2021		
	Positive fair value US$000	**Negative fair value US$000**	**Notional US$000**	Positive fair value US$000	Negative fair value US$000	Notional US$000
Interest rate swaps (held at fair value hedges)	**13,672**	**3,311**	**284,392**	1,520	13,143	246,301
Forward foreign exchange contracts	**1,624**	**14,896**	**661,212**	4,881	19,714	1,650,824
	15,296	**18,207**	**945,604**	6,401	32,857	1,897,125

Net losses relating to hedged fixed income financial assets (loans and bonds) and fixed rate financial liabilities (deposits) amounted to US$ 14,895,000 (2021: Net gain US$ 7,246,000). The $14,895,000 is made up of losses of US$5,127,000 for fixed income bonds, negative fair value of US$9,768,000 relating to loans and gains of US$1,157,000 for fixed rate deposits. 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 100.24% 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$9.77 million which was included in profit or loss at the same time that US$ 9.82 million profit on the interest rate swap was included in profit or loss.

At 31 December 2022, the Bank has USD three month LIBOR interest rate swaps of notional value of US$ 141,000,000; and has GBP SONIA interest rate swaps of US$ 143,393,000 outstanding. The weighted average maturities are 4.14 years on LIBOR interest rate swaps and 3.05 years on SONIA interest rate swaps.

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.

	2022	2021
	US$000	US$000
Contingent liabilities:		
Acceptances and Endorsements	915	211
Financial guarantees	139,404	134,263
Irrevocable letters of credit	3,713	6,759
At 31 December	**144,032**	141,234
ECL on guarantees and letter of credit	(288)	(96)
Net Exposure at 31 December	**143,744**	141,138

	2022	2021
	US$000	US$000
Commitments:		
Undrawn, formal standby facilities, credit lines and other commitments to lend	**138,584**	146,666
	138,584	146,666

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.

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

2022	**Level 1**	**Level 2**	**Level 3**	**Total**
	US$000	**US$000**	**US$000**	**US$000**
Equities at FVOCI	**-**	**1,407**	**-**	**1,407**
Equities at FVPL	**-**	**-**	**11,361**	**11,361**
Investment in Group Undertaking at FVOCI	**-**	**44,000**	**-**	**44,000**
Debt securities at FVOCI	**249,601**	**-**	**-**	**249,601**
Less: ECL (debt securities)	**(29)**	**-**	**-**	**(29)**
	249,572	**45,407**	**11,361**	**306,340**
Derivative financial instruments (Note **25**)	**-**	**(2,911)**	**-**	**(2,911)**

2021	Level 1 US$000	Level 2 US$000	Level 3 US$000	Total US$000
Equities at FVOCI	-	1,018	-	1,018
Equities at FVPL	-	-	42,124	42,124
Investment in Group Undertaking at FVOCI	-	-	45,792	45,792
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)

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 2022 US$000	**Additions US$000**	**Change in fair value US$000**	**Sale /transfer US$000**	**At 31 December 2022 US$000**	**Net gains in the statement of income US$000**
Equities at FVOCI	**-**	**-**	**-**	**-**	**-**	**-**
Equities at FVPL	**42,124**	**122,150**	**(141)**	**(152,772)**	**11,361**	**315**
Investment in Group undertaking	**45,792**	**-**	**(1,792)**	**(44,000)**	**-**	**-**
	87,916	**122,150**	**(1,933)**	**(196,772)**	**11,361**	**315**

	At 1 January 2021 US$000	Additions US$000	Change in fair value US$000	Sale /transfer US$000	At 31 December 2021 US$000	Net gains in the statement of income US$000
Equities at FVOCI	1,259	-	-	(1,259)	-	-
Equities at FVPL	70,879	41,872	-	70,627	42,124	-
Investment in Group undertaking	49,209	-	(3,417)	-	45,792	-
	121,347	41,872	(3,417)	(71,886)	87,916	-

Equity securities included in this category for year ended 31 December 2022 consists of unquoted investments 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.

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

28.1. 2 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.

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

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

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

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

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

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

c) <u>SICR – DPD</u>

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

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

Qualitative criteria:

a) Use of early warning indicators for SICR

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

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

Non-financial warning signals:

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

These are reviewed annually.

b) Management of stage override mechanism

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

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

28.1.2.2 Definition of default and credit-impaired assets

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

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.

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.

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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 calculates the default balance as the maximum of the exposure or the exposure plus the difference in limit and exposure multiplied by CCF,
- 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. This effectively calculates an ECL for each future month, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

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

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

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

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

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

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

With effect from 30 Sep 2022, NBKI implemented a new ECL platform with a smaller and more focused set of macroeconomic variables.

28.1.2.4 Forward-looking information incorporated in the ECL models

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

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

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

Scenario	ECL
Downside2	11.28m
Downside1	6.37m
Base Line	4.17m
Upside1	3.85m
Upside2	3.60m

28.1.3 Loss allowance

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

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

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** **US$000**	**Stage 2** **US$000**	**Stage 3** **US$000**	**TOTAL** **US$000**
Debt securities measured at FVOCI (Note **15**)				
At 1 January 2022	**37**	**-**	**-**	**37**
Origination and acquisition	11	-	-	11
Derecognition, repayments and disposals	-	-	-	-
Changes due to change in credit risk (net)	166	-	-	166
Changes due to methodology	(185)	-	-	(185)
At 31 December 2022	**29**	**-**	**-**	**29**
Credit institutions (Note **11,12** & **13**)				
At 1 January 2022	**239**	**-**	**-**	**239**
Origination and acquisition	16	-	-	16
Derecognition, repayments and disposals	(56)	-	-	(56)
Changes due to change in credit risk (net)	448	-	-	448
Changes due to methodology	(589)	-	-	(589)
At 31 December 2022	**58**	**-**	**-**	**58**
Loans and advances to customers (Note **14**)				
At 1 January 2022	**1,473**	**1,461**	**2,244**	**5,178**
Origination and acquisition	441	0	0	441
Derecognition, repayments and disposals	(441)	(28)	(23)	(492)
Transfer from stage 1 to 2	(173)	173	-	-
Transfer from stage 2 to 1	236	(236)	-	-
Transfer from stage 1 to 3	(19)	-	19	-
Transfer from stage 2 to 3	-	(239)	239	-
Transfer from stage 3 to 2	-	23	(23)	-
Changes due to change in credit risk (net)	956	(369)	756	1,343
Changes due to methodology	(1,163)	13	(709)	(1,859)
At 31 December 2022	**1,310**	**798**	**2,503**	**4,611**
Total On Balance Sheet	**1,397**	**798**	**2,503**	**4,698**

Off Balance Sheet	**Stage 1**	**Stage 2**	**Stage 3**	**TOTAL**
	US$000	**US$000**	**US$000**	**US$000**
Commitments and contingent liabilities (Note **19** & **26**)				
At 1 January 2022	**96**	**-**	**-**	**96**
Origination and acquisition	281	-	-	281
Derecognition, repayments and disposals	(91)	-	-	(91)
Changes due to change in credit risk (net)	(71)	-	-	(71)
Changes due to methodology	73	-	-	73
At 31 December 2022	**288**	**-**	**-**	**288**
Grand Total	**1,685**	**798**	**2,503**	**4,986**

The net movement of **US$ 665,000** (includes a foreign exchange adjustment amounting to $101,000) credit (2021: US$ 2,004,000 credit) 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

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

* 2022 carrying amount is presented without accrued interest

2021	Carrying amount (US$000)	Gross carrying amount (US$000)			Accumulated impairment (US$000)		
		Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
		All risks	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 (Note 15)	170,802	170,839	-	-	(37)	-	-

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

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

* 2022 carrying amount is presented without accrued interest

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'.

2021	Carrying amount (US$000)	Gross carrying amount (US$000)			Accumulated impairment (US$000)		
		Stage 1	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**
		All risks	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	1,305,813	266,914	18,025	(1,473)	(1,462)	(2,243)
Financial assets at amortised cost	2,988,749	2,709,227	266,914	18,025	(1,712)	(1,462)	(2,243)

Information on how the 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

2022	Carrying amount*									
	Stage 1 Assets with no significant increase in credit risk (US$000)				**Stage 2** Assets with significant increase in credit risk but not impaired (US$000)			**Stage 3** Credit-impaired assets (US$000)		
DAYS	Not past due	≤ 30	>30≤ 90	>90	≤ 30	>30≤ 90	>90	≤ 30	>30≤ 90	>90
Debt securities (Note **15**)	249,572	-	-	-	-	-	-	-	-	-
On demand and short notice (Note **12**)	66,219	-	-	-	-	-	-	-	-	-
Credit institutions	839,222	-	-	-	-	-	-	-	-	-
Loans and advances	1,249,534	19,153	-	-	239,305	185	-	94,241	-	-
TOTAL	**2,404,547**	**19,153**	**-**	**-**	**239,305**	**185**	**-**	**94,241**	**-**	**-**

* 2022 carrying amount is presented without accrued interest

The balances in ≤30 days within Stage 2 includes balances with no past due of US$ 228,671 and within Stage 3 includes balances with no past due of US$ 12,499.

2021	Carrying amount									
	Stage 1 Assets with no significant increase in credit risk (US$000)				**Stage 2** Assets with significant increase in credit risk but not impaired (US$000)			**Stage 3** Credit-impaired assets (US$000)		
DAYS	Not past due	≤ 30	>30≤ 90	>90	≤ 30	>30≤ 90	>90	≤ 30	>30≤ 90	>90
Debt securities	170,802	-	-	-	-	-	-	-	-	-
On demand and short notice	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 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.

The following disclosures highlight the diversity of exposures.

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

	2022		2021	
	Carrying amount US$000	**Net exposure US$000**	Carrying amount US$000	Net exposure US$000
Deposit with banks	**827,564**	**827,564**	644,300	644,300
Other assets	**19,197**	**19,197**	10,231	10,231
Loans and advances to banks	**77,877**	**77,877**	26,012	26,012
Loans and advances to customers	**1,602,418**	**151,178**	1,585,574	137,894
Contingent liabilities	**282,328**	**282,280**	287,804	287,694

Collateral and other credit enhancements

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

28.1.5 RISK CONCENTRATION OF THE MAXIMUM EXPOSURE TO CREDIT RISK

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

Credit risk can also arise due to a significant concentration of Bank's assets to any single counterparty. This risk is managed by diversification of the portfolio. The Bank's internal limit is 22.5% of capital to any single obligor group. The ten largest loans and advances to customers outstanding as a percentage of gross loans and advances to customers as at 31 December 2022 is 43%% (2021: 41%).

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:

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

2021 Geographic region	MENA US$000	North America US$000	Europe US$000	Asia US$000	Others US$000	Total US$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 available-for-sale	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

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	**2022 US$000**	2021 US$000
Manufacturing	**90,511**	78,593
Banks and other financial institutions	**1,623,558**	1,512,724
Construction	**139,307**	110,560
Real estate	**1,406,144**	1,447,324
Retail	**23,450**	34,452
Government	**143,038**	120,433
Others	**217,220**	208,828
	3,643,228	3,512,914

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 2022 was US$ nil (2021: US$ nil).

28.2 LIQUIDITY RISK

Liquidity risk is the risk that the Bank will be unable to meet its financial liabilities when they fall due. To limit this risk, management has arranged diversified funding sources and manages its assets with liquidity risk in mind. The Bank ensures that it has sufficient liquidity even in stress scenarios, and liquidity adequacy is monitored daily. The funding is diversified between wholesale and retail funding. The Bank's Treasury manages the daily liquidity and cash flows in accordance with best market practice as set out in its ILAAP. The Treasury relies on diversified wholesale funding from the local and international markets and is active in those markets with limited reliance on Group funding. 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.

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

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

2021 Assets	Up to 3 months US$000	3 to 12 months US$000	Over 1 year US$000	Total US$000
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
Derivative 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
Certificate of deposits 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

28.3 MARKET RISK

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

28.3.1 INTEREST RATE RISK

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

The 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

The Bank is exposed to changes in interest rates as interest-bearing financial assets and financial liabilities reprice and fair value of instruments change to reflect these changes in interest rates.

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

	Basis Points	**2022** **Change in Present value US$000**	2021 Change in Present value US$000
Parallel Increase	+200	**5,674**	4,146
Parallel Decrease	-200	**(5,891)**	(4,279)

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. As the Bank deals in various currencies, it is not always possible to match these asset and liability in each currency. Accordingly, any foreign exchange exposures are covered by forward foreign exchange contracts. 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 currently have any significant net open positions in any foreign currencies.

During the year, however there was a material net open position in USD which was a consequence of remeasurement of the balance sheet in GBP which was necessary due to the retrospective application of a GBP functional currency during the year. This was remediated by the redenomination of capital into GBP and the sale of USD into GBP representing this capital and retained earnings and also the re-financing of fixed assets in Sterling.

Accordingly, a change in the USD/GBP rate by +/- 5% at the year end would result in an impact on the income statement amounting to USD 50k (2021: USD 17.2 million).

The Bank actively monitors its net open positions in non-GBP currencies. At all times it seeks to keep its exposure 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 like all other similar organisations is exposed to a variety of operational risks.

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

The Bank's operational risk appetite is also included in the Board approved Risk Appetite Statement ('RAS') in the form of bank wide metrics with assigned thresholds that define what is acceptable, an early warning indicator, within risk appetite, or within tolerance. Areas in scope within the RAS include IT resilience, outsourcing, as well as business resilience.

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

29. POST BALANCE SHEET EVENT

The Bank has agreed a sale price of US$44m sale of its investment in NBK France SA to its parent, NBK S.A.K.P, for an agreed price of US$44m which is subject to regulatory approval from Central Bank of Kuwait and Autorité de Contrôle Prudentiel et de Résolution for NBK France.

30. COUNTRY BY COUNTRY REPORTING

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

Geographical location – UK

Number of employees and secondees – 174

Turnover - $87,553,000

Pre-tax profit - $48,368,000

Corporation tax paid during the year period $11,540,696.

Country by country reporting basis of preparation.

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

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

The Bank received no public subsidies during the period.

31. CAPITAL MANAGEMENT (unaudited)

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

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

	2022	2021
	US$000	US$000
Risk weighted assets	2,131,640	2,034,858
Capital available		
Common Equity Tier 1 capital	453,162	432,220
Tier 1 capital	453,162	432,220
Tier 2 capital	-	-
Total capital	453,162	432,220
Common Equity Tier 1 capital adequacy ratio	21.26%	21.24%
Tier 1 capital adequacy ratio	21.26%	21.24%
Total capital adequacy ratio	21.26%	21.24%