



# ➤ ANNUAL REPORT

# 2022

COMMITTED TOWARDS  
A SUSTAINABLE TOMORROW

A BETTER  
SOLUTION IS HERE

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أَعُوذُ بِاللَّهِ مِنَ الشَّيْطَانِ الرَّجِيمِ

**AND SAY, "DO (RIGHT DEEDS); SO ALLAH WILL SOON SEE YOUR DOING,  
AND HIS MESSENGER AND THE BELIEVERS (WILL SEE) . AND YOU WILL SOON BE TURNED BACK  
TO THE KNOWER OF THE UNSEEN AND THE WITNESSED; THEN HE WILL FULLY INFORM YOU OF  
WHATEVER YOU WERE DOING."**

True are the words of Allah the Almighty  
{Surat Al Tawbah Verse105}



H.H. SHEIKH  
**NAWAF AL AHMAD AL JABER AL SABAH**  
THE AMIR OF THE STATE OF KUWAIT



H.H. SHEIKH  
**MESHAL AL AHMAD AL JABER AL SABAH**  
THE CROWN PRINCE OF THE STATE OF KUWAIT



H.H. SHEIKH  
**AHMAD AL NAWAF AL AHMAD AL SABAH**  
THE PRIME MINISTER

TABLE  
OF  
CONTENTS

- 09 > PROFILE, PURPOSE, VISION,  
MISSION AND VALUES
- 10 > CHAIRMAN'S MESSAGE
- 15 > BOARD OF DIRECTORS
- 19 > FATWA & SHARIA SUPERVISORY  
BOARD MEMBERS
- 21 > REPORT OF FATWA & SHARIA  
SUPERVISORY BOARD
- 23 > EXECUTIVE MANAGEMENT
- 30 > MANAGEMENT DISCUSSION &  
ANALYSIS REPORT
- 46 > GOVERNANCE REPORT
- 72 > CAPITAL ADEQUACY  
DISCLOSURES
- 116 > FINANCIAL STATEMENTS &  
INDEPENDENT AUDITORS REPORT

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# PROFILE, PURPOSE, VISION, MISSION AND VALUES

**PROFILE**

Warba Bank was established on February 17th, 2010 by virtue of the Amiri Decree No. 289/2009, and was officially enrolled in the Central Bank of Kuwait's Register of Islamic Banks on April 7th, 2010. At Warba Bank, we are committed to conducting business in adherence with the principles of Islamic Sharia. We prioritize digital banking products and services and take pride in being pioneers in this field. Our goal is to provide our valued customers with everything they need and more to meet their requirements and exceed their expectations.

**PURPOSE**

Contributing to people, businesses, and society by empowering them to achieve their ambitions.



**VISION**

Creating unique value in banking and beyond to unlock opportunities for people and businesses.



**MISSION**

We deliver the best experience for our customers beyond the boundaries of banking, preserving our uniqueness and nurturing top talents while creating sustainable value for our shareholders and society.



**VALUES**



**TRUST**

We focus on our customers to gain their trust and serve their needs in the best possible way.



**INNOVATION**

We continue to innovate in order to always improve the experience of our customers



**PERFORMANCE**

We aim to excel at execution and are confident to overcome any challenges.



**COLLABORATION**

We work with our clients and team members to deliver the right solution.



**AMBITION**

We have the drive and enthusiasm to continuously surpass

# CHAIRMAN'S MESSAGE

**Praise be to God, Lord of the universe, and blessing and peace be upon the best of all Messengers, our prophet Muhammad, his family, and his companions.**

**Dear Valued Shareholders,**

**Peace, mercy and blessings of God be upon you.**

I am pleased to present to you, on behalf of myself and the fellow members of Warba Bank's Board of Directors, executive management and employees, the annual report of Warba Bank for the year, 2022 which includes the financial statements, a summary of the Bank's activities during that year, as well as the Bank's key achievements and successes on different levels.

## **Growth of all financial indicators**

In, 2022 Warba Bank was distinguished by its outstanding performance. In the context of its strengths, the Bank continued to grow in profitability, achieving a 21% increase in its profits by the end of 2022, as its net profits reached KD 19.3 million, compared to KD 15.9 million in, 2021 with Fils 7.38 in earnings per share (EPS) compared to Fils 6.02.

I am pleased to note here that the increase in profitability, despite the intensification of competition in the banking sector, is due – after the grace of God the Almighty – to the unshakable trust of the Bank's shareholders and customers and the diligence of all its employees, and their continuous desire to achieve the highest levels of customer service, supported by innovation, and the creativity that the Bank has been keen on since the launch of its first five-year strategy in 2022.

On the other hand, the Bank's excessive efforts have succeeded in prompting growth in all basic financial indicators, as we have maintained excellent rates of return on assets and return on shareholders' equity, rationalizing expenses and maximizing profitability, and our proactive plans have been able to improve asset quality indicators and rates of coverage of distressed debt allocations.



Moreover, the Bank's total assets rose to about KD 4.2billion, at a growth rate of 17.3%, while finance income increased to KD 129.3million, at a growth rate of 35.5%. Our outstanding competitive performance attracted more customers and investors, thus, increased the customers' deposits to KD 2.7billion during 2022, equivalent to about KD 386million, with a growth rate of 16.8%.

While our unceasing efforts resulted successfully in improving the economic environment, stimulating projects, and achieving the aspirations of customers. This contributed to the increase in the financing portfolio that reached KD 3.13billion, with a growth rate of, 26.5%, in line with the continuous increase in the Bank's customer base.

According to the results achieved in the fiscal year ending in, 2022 the Board of Directors has proposed the distribution of cash dividends for the year 2022 at 3% (3 fils per share) and bonus shares at 3% (3 shares for every 100 shares).

As for market shares, the market share of local financing has generally increased to about 6.37% at present, while Warba Bank's share of retail financing in particular has increased to about 4.17%. Furthermore, Warba Bank's share of corporate financing increased to about 7.86%.

In addition, the capital adequacy ratio reached, 16.94% exceeding the minimum required by the regulatory authorities, a ratio that confirms the solid financial position of "Warba."

## Our human resources

Within its framework as a modern and developed bank that keeps pace with global and regional developments through its young and ambitious management, Warba Bank devotes particular attention to its human resources.

The Bank is characterized by offering young people a notable leadership role, especially by providing them with all the training and academic capabilities that grant them unique opportunities to acquire professional and practical experiences, giving them a great experience for their age. Nevertheless, in recent years, the Bank has succeeded in creating many job opportunities for ambitious Kuwaiti youth by expanding its services to customers.

The Human Resources Group in the Bank continued to focus on achieving a considerable rate of Kuwaitization, and continuously paying attention to developing and enhancing national talents at a rate of over 80%, as well as highlighting our role and contribution to the Kuwaiti economy. In fact, Warba Bank is considered one of the top authorities to employ Kuwaiti citizens. It is worth mentioning that we at Warba are keen to implement the career succession plan to develop capabilities and skills, while continuing to push towards Kuwaitis handling middle and executive management positions, as this supports the achievement of the goals of Kuwaitization at Warba Bank.

As a result, this has led our Bank to assume an attractive place for Kuwaiti youth seeking positions in the private sector in general, and the banking sector in particular, due to the positive work environment provided by the Bank to deliver more creativity and innovation, and promote youth engagement.

## Governance

Warba Bank has always been committed to adopting a sound and effective governance framework by applying the best standards of governance and risk management, upon which the Bank relies in all its dealings in accordance with the provisions of Islamic Sharia, as the Bank is successfully pursuing the modernization of the governance system in line with the requirements of the Central Bank of Kuwait and the governance procedures associated with the banking sector.

## Technological innovations

Warba Bank is always increasing its investment in technology by adopting the latest innovations in financial technology, using artificial intelligence in banking transactions, in addition to the exclusivity in mobile banking services, which drives the wheel of digital development in the banking industry, and its role in successfully activating the work plan's continuity in emergencies.

### **Distinctive retail banking**

Warba Bank boasts a range of exclusive banking services and products, and has established itself as one of the best institutions in the Kuwaiti private sector in customer service. The Bank always seeks to enhance its customers' reliance on the digital channels to conduct their transactions, and encourage them to use electronic payment solutions, which has greatly increased customer satisfaction.

Moreover, we always strive to keep pace with the rapid and successive developments in today's world, as well as the changes brought about by the digital revolution. Accordingly, Warba has designed exceptional services and products that meet the needs of its customers, reflect their ambitions, and keep up with their aspirations.

Warba continues to succeed in creating new ways to enhance the exceptional experience of its customers from various segments, providing them with an added value that suits their lifestyle. At the same time, the Bank emphasizes its approach through which it seeks to communicate with its customers, and serve them in the most accurate and simple matters that affect their daily lives as a partner and not just as a bank or a financial institution.

### **"Diraya" campaign**

Backing CBK's awareness-raising efforts in 2022, Warba Bank continued to support the banking awareness campaign (Let's Be Aware) through the social responsibility program's activities and other special initiatives, based on the importance of the role played by local banks in raising awareness through various banking activities and operations undertaken by them, in cooperation with the Central Bank of Kuwait and the Kuwait Banking Union. Additionally, Warba Bank is keen to raise the level of awareness among all customers and non-customers, especially in light of the challenges faced by banks as a result of developments the world is witnessing at all levels, which increases the importance of banks' role in promoting banking culture and awareness.

### **Thanks and Appreciation**

We would like to take this opportunity to express our sincere thanks and appreciation to His Highness the Amir of the State of Kuwait, Sheikh Nawaf Al Ahmad Al Jaber Al Sabah, may God Bless him, His Highness the Crown Prince, Sheikh Mishal Al Ahmad Al Jaber Al Sabah, may God Bless him, and His Highness the Prime Minister, Sheikh Ahmed Al Nawaf Al Ahmad Al Jaber Al Sabah.

I would also like to extend my sincere thanks to all the officials of the Central Bank of Kuwait, headed by His Excellency the Governor, Mr. Basil Ahmad Al Haroun, who spared no effort in taking the actions he deems appropriate to support, develop and protect the Kuwaiti banking system. Great thanks are also extended to the supervisory authorities and all partners on their unremitting efforts.

In this regard, I would like to pay tribute to all the Bank's shareholders and valued customers who have always been the reason behind its support and ability to weather the challenges. I also take this opportunity to commend the executive management and all Warba Bank's employees for their efforts and dedication, as well as the distinguished members of the Fatwa and Sharia Supervisory Board for their continuous and fruitful efforts.

In conclusion, I sincerely thank all the employees of Warba Bank at all levels for their dedication and tremendous efforts during 2022 and the previous years. I am also pleased to express my appreciation for their adherence to the spirit of one team for the sake of accomplishing additional achievements for their promising bank; and I have full confidence and hope in God the Almighty, that the coming years will witness a new, unprecedented stage of development for the Bank, leading it towards accomplishing further success.

**May the peace, mercy and blessings of God be upon you.**

**Hamad MUSAED AL SAYER**  
Chairman



# BOARD OF DIRECTORS



**MR. HAMAD MUSAED AL SAYER**  
CHAIRMAN (ELECTED)



**MR. BADER KHALID AL SHALFAN**  
VICE CHAIRMAN (ELECTED)



**MR. MOHAMED HAMED AL SHALFAN**  
BOARD MEMBER  
(ELECTED)



**MR. MOHAMED RIYAD AL MUTAWA**  
BOARD MEMBER  
(ELECTED)



**MR. MOHAMMAD ABDULREDHA SALEEM**  
BOARD MEMBER  
(ELECTED)



**MR. MUBARAK NASSER AL SAYER**  
BOARD MEMBER  
(ELECTED)



**MR. KHALDOUN SHAKER AL TABTABAEI**  
BOARD MEMBER  
(INDEPENDENT ELECTED)



**MR. MOHAMMAD ABDULAZIZ AL BAHAR**  
BOARD MEMBER  
(INDEPENDENT ELECTED)



**MR. MOHAMMAD AHMAD AL RUWAYEH**  
BOARD MEMBER  
(INDEPENDENT ELECTED)



**MS. MAY MOHALHAL AL MUDHAF**  
BOARD MEMBER  
(INDEPENDENT ELECTED)



**MRS. BASMA HAMED AL SANEH**  
BOARD MEMBER  
(APPOINTED BY THE PUBLIC INSTITUTION FOR  
SOCIAL SECURITIES)



# FATWA & SHARIA SUPERVISORY BOARD MEMBERS



**SHEIKH DR. ISAM KHALAF AL ENAZI**  
CHAIRMAN OF FSSB

Dr. Isam Khalaf Al Enazi is a faculty member at the Faculty of Sharia and Islamic Studies at Kuwait University. He holds a PhD in Islamic Jurisprudence from the University of Jordan and a master's degree in Islamic Sharia from Kuwait University.

He is a member of several prominent Sharia boards such as Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), Bahrain Islamic Bank, Investment Dar, Warba Bank, Boubyan Bank and Ahli United Bank. Dr. Al Enazi is one of the regular speakers in conferences and seminars focusing on both Islamic finance and Islamic jurisprudence. He has published numerous papers handling Islamic banking and finance - related issues.



**SHEIKH DR. MOHAMMAD OUD AL FUZAI**  
MEMBER OF FSSB

Dr. Mohammad Oud Al Fuzai holds a PhD in Comparative Jurisprudence from the Faculty of Sharia and Law at Al Azhar University. He is a member of the teaching staff at the Faculty of Sharia and Islamic Studies at Kuwait University.

He is a member of Fatwa and Sharia Supervisory Boards of Zakat House, Boubyan Bank and Warba Bank. He has many studies and researches about Sharia supervision on the activities of Islamic financial institutions.



**SHEIKH DR. ALI IBRAHIM AL RASHED**  
MEMBER OF FSSB

Dr. Ali Ibrahim Al Rashed holds a PhD in Sharia (Cairo University - Arab Republic of Egypt), Member of the faculty in the College of Shariah - Kuwait University,

Member of different Fatwa authorities in many Islamic investment institutions – inside and outside Kuwait, Member of the Shariah Committee in Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), a member of the Fatwa and Shari'a Supervisory Board at Boubyan Bank, a member of the Fatwa and Sharia Supervisory Board at Ahli United Bank, and a member of the Fatwa and Sharia Supervisory Board at Warba Bank, and has many researches in the field of Islamic finance.

20



# FATWA & SHARIA SUPERVISORY BOARD REPORT

**REPORT OF FATWA & SHARIA SUPERVISORY BOARD****For the fiscal year ending on 31/12/2022**

In the name of Allah, the Most Gracious, the Most Merciful

Praise be to Allah the Lord of the universe, and all blessings and peace on our Master Muhammad, his family, and companions

**Valued Warba Shareholders,**

Peace, Mercy and Blessings of Allah be upon you

According to the General Assembly's resolution to appoint Sharia Supervisory Board (SSB) for Warba Bank; a responsibility that has been entrusted to us, we present to you the following report:

At SSB of Warba Bank, we have examined and reviewed the Bank's principles and contracts relevant to the products offered by the Bank during the fiscal year ending on 31/12/2022. We applied due diligence in conducting our examination and review to express our opinion on whether or not the Bank is in compliance with the provisions and principles of the Islamic Sharia, as well as the Fatwas, resolutions, principles and guidelines issued by SSB.

We undertook reasonable examination and review that included checking the contracts and procedures used by the Bank, on test basis for each type of transactions. In addition, we have obtained all the information and explanations required to express an opinion on the extent of Bank activities' compliance with the provisions of the Islamic Sharia, We have ensured that the bank has paid the non-Sharia compliant income in charity proceedings.

It is noteworthy that the responsibility for executing such provisions, principles and Fatwas and purifying any non-sharia compliant income lies with the Bank's Management, while our responsibility is to express an independent opinion based on the relevant information that has been presented to us which we reviewed.

We believe that the contracts, documents and transactions introduced by the Bank during the fiscal year ending on 31/12/2022, which we have reviewed, have been concluded in compliance with the provisions and principles of the Islamic Sharia.

It is important to note that Warba Bank does not pay Zakat on behalf of shareholders, and the SSB's responsibility is limited to calculation of the amount of Zakat due per share.

During the fiscal year ending on 31/12/2022, SSB held 20 meetings attended by all members.

Finally, we supplicate to Allah, the Almighty, to support the Bank management's endeavors in serving our holy religion and beloved country, and to guide and support us all.

**Peace, Mercy and blessings of Allah be upon you.**

**Sheikh Dr. Ali Ibrahim Al Rashed**  
Member of FSSB

**Sheikh Dr. Isam Khalaf Al Enazi**  
Chairman of FSSB

**Sheikh Dr. Mohammad Oud AlFuzai**  
Member of FSSB



# EXECUTIVE MANAGEMENT



**MR. SHAHEEN HAMAD AL GHANEM**

CHIEF EXECUTIVE OFFICER "CEO"



**MR. ANWAR BADER AL GHAITH**

DEPUTY CHIEF EXECUTIVE OFFICER  
SUPPORT SERVICES & TREASURY "DCEO"



**MR. THUWAINI KHALID AL THUWAINI**  
CHIEF INVESTMENT BANKING OFFICER



**MR. FAISAL ABDULRAZAQ AL NASSAR**  
CHIEF CORPORATE BANKING OFFICER



**MR. MUSAED MAZYAD AL MAZYAD**  
ACTING CHIEF RETAIL BANKING OFFICER



**MR. MOHAMED SABRY EISSA**  
CHIEF FINANCIAL OFFICER



**MR. DHARAR ABDULLAH AL DAKHIL**  
CHIEF RISK OFFICER



**MR. HUSSAM SULIMAN MUSTAFA**  
CHIEF INTERNAL AUDITOR



**MRS. LAYALI MOSTAFA AL FAHAD**  
CHIEF OPERATIONS OFFICER



**MS. MAALI ABDULLAH AL RASHEED**  
CHIEF HUMAN RESOURCES & GENERAL SERVICES  
OFFICER



**MR. ABDULLAH MAHMOUD AL LANGAWI**  
CHIEF TREASURY OFFICER



**MR. HAMAD FOUZAN AL FOUZAN**  
CHIEF STRATEGIC PLANNING OFFICER



**MR. WAEL ELSAID SHAWAREB**  
CHIEF TECHNOLOGY OFFICER



**MR. WAEL AHMAD AWAD**  
ACTING CHIEF DIGITAL OFFICER

# Warba's Elite for Q1 2022

## The Doers



## The Team Players



## The Ambitious



28



# MANAGEMENT DISCUSSION & ANALYSIS REPORT

**30**

INTRODUCTION AND  
RISK MANAGEMENT

**31**

RETAIL BANKING GROUP  
AND CORPORATE BANKING  
GROUP

**34**

TREASURY GROUP

**36**

DIGITAL GROUP

**38**

2023 FUTURE OUTLOOK

**40**

INSTITUTIONAL CAPABILITIES

**30**

INTERNAL AUDIT  
GROUP

**32**

INVESTMENT BANKING  
GROUP

**35**

INFORMATION  
TECHNOLOGY GROUP

**37**

OPERATIONS GROUP

**39**

SOCIAL RESPONSIBILITY

**43**

KEY INDICATORS

## INTRODUCTION

Warba Bank considers sound risk management to be the foundation of a long-lasting financial institution. The Bank adopts a holistic and integrated approach to risk management by proactively assessing risks in order to ensure effective mitigation strategies are employed to the extent possible, thereby enabling the Bank to protect the interests of the stakeholders while maximizing its capability to realize its objectives, within the risk appetite framework approved by the Board of Directors. The Risk Management framework is geared to raise risk awareness throughout the organization.

## RISK MANAGEMENT GROUP

The primary purpose of Risk Management at Warba Bank is to ensure the long-term financial sustainability and operational resilience of the Bank in the financial sector, which is continuously evolving in terms of complexity and sophistication, by continuing to foster a sound and prudent risk culture across all its business lines while strengthening the existing framework. The Risk Management Group also ensures that the general level of risk is aligned with the Board approved strategy and that all business related risks are contained within the tolerance levels and the Risk Appetite statement of the Bank.

To achieve this, the Bank has established a comprehensive risk management framework to manage all material risks identified under the directives issued by the Central bank of Kuwait on the adoption of the Capital Adequacy Standards (Basel III), including Credit, Market, Operational, and Information Security Risks. The risk management function operates within the regulatory framework set out by the Central Bank of Kuwait. Risk policies and processes for each type of risk are integrated into the business decision-making process.

Risk Management Group (RMG), reporting to the Board Risk Committee (BRC), is headed by the Chief Risk Officer (CRO) and operates independent of all business lines to provide oversight on Enterprise-wide Risk Management and Internal Controls. RMG is viewed as a strategic partner in achieving appropriate balance between risks and growth objectives.

The Board of Directors, through the Board Risk Committee, is responsible for the overall risk oversight of the Bank. This includes reviewing and approving risk management policies, risk appetite statements, risk exposures and limits, while ensuring the necessary infrastructure and resources are in place.

RMG adopts a proactive approach in managing risks by employing a number of tools and professional talents, to identify, classify, measure, and limit risks. This approach helps in analyzing macro-economic environments, early detection of emerging risks and conducting stress tests of associated risks encountered by the Bank. RMG optimizes and promotes the risk governance framework with comprehensive policies wherein the roles and responsibilities of all relevant parties are defined, while also promoting a culture of managing risks by providing guidance and balance to business activities, informing the Executive Management, the Board Committees and the Board of Directors on the Bank's position and performance in relation with the approved risk parameters and providing recommendations to fine-tune the risk profile of the Bank if the need arises, due to ever-changing business, macro-economic and geo-political factors.

## INTERNAL AUDIT GROUP

The Internal Audit Group (IAG) is an independent assurance and consulting activity within the Bank and is part of the 3rd Line of Defence (as defined by the Institute of Internal Auditors International Standards), Central Bank of Kuwait (CBK) and functions under the policies established by the Board Audit Committee. The roles, responsibilities and authorities of the Internal Audit Group are defined in its charter as approved by the Board Audit Committee and the Board of Directors.

The objective of the Internal Audit Group is to assist the Board Audit Committee in effective discharge of their duties and to be a high performing agile Internal Audit that meets the expectations of stakeholders and adheres to the Institute of Internal Auditors standards. While maintaining independence, act as business partner and trusted advisor, recognized as a driving force behind a culture of effective governance, internal control, risk management, accountability, execution, and innovation to help in and improve achievement of the Bank objectives.

The Internal Audit Group adopts a risk-based audit approach, the audit universe is risk rated based on approved risk assessment methodology covering various bank departments, processes, system, and products. The Internal Audit Group maintains a 3-year audit plan and established annual Key Performance Indicators aligned with its strategic plan. The Board Audit Committee assumes the functional oversight over the Internal Audit Group and assesses IAG performance.

The Internal Audit Group issues its reports to the various stakeholders summarizing the audit results. It provides the management and the Board Audit Committee with its opinion on the adequacy of controls adopted to mitigate the risks.

The Internal Audit Group adheres to the standards and guidelines of the Institute of Internal Auditors (IIA), the Information Systems Audit and Control Association (ISACA), and the Association of Certified Fraud Examiners (ACFE), as well as the standards required by the Central Bank of Kuwait, also ensuring the practices are aligned with the global best practices of the Internal Audit.

## RETAIL BANKING GROUP

In its pursuit to keep pace with development and promote innovative banking solutions and to achieve excellence in performance and the highest levels of customer satisfaction, Warba Bank has continued to provide leading products and services to its customers. The Retail Banking Group has sought, with all possible abilities, to implement its role within the Bank's strategy to create unique value in banking and beyond to unlock opportunities for people and businesses.

The Retail Banking Group has achieved remarkable results in 2022, whereby the deposit portfolio has increased by 11% growth, and the financing portfolio has increased by more than 20% growth compared to 2021. On one hand, the branch network increased to 18 branches to serve the Bank's customers. One branch was opened in vital area, namely, Abu Fatira. According to the Group's strategic plan, the new expansion aims to increase the Bank's presence in residential areas and focus on new areas in 2023 to facilitate the banking experience for the customers. On the other hand, the Group has strengthened and expanded banking channels to serve customers by increasing the number of ATMs to more than 124 ATMs spread in vital locations to facilitate the banking experience for customers and non-customers of the Bank.

At the other end of the spectrum, the Group has launched many new and exclusive digital products and services in line with the Bank's vision to be the leading bank in the retail banking sector. The Bank launched its Drive Thru service, a first-of-its-kind in the banking sector to conduct various transactions such as cash deposit and withdrawal. The Bank has also provided new investment solutions to customers of Al-Masi segment which provide them with three different types of investment funds that are Sharia compliant, namely the Ijara Fund, Bainbridge, and Ardmore. Among the new products that the Bank has provided during the year Al-Sunbula Flexible Deposit, which is an innovative annual investment deposit that allows partial withdrawals and deposits throughout the investment period and enables customers to enter Al-Sunbula weekly and mega draws.

As for the new digital services through the Bank's application, a unique gold account has been launched to allow customers to buy and sell the finest types of gold provided by Swiss and Emirati companies. The account can be opened immediately through the Bank's application without the need to visit a branch to enjoy the account features for all Bank customers.

## CORPORATE BANKING GROUP

The banking services platform for corporate banking group clients was launched, through which banking services are provided that enhance the quality of banking service to the bank's clients and the speed of their delivery through the mobile phone.

The Corporate Banking Group managed to grow the financing portfolio in all its sectors by noticeable growth until December 2022 through expanding the customer base and diversifying financing products and banking services.

Cooperation agreements have been signed with many companies in the local market in order to serve the group's customers to provide multiple products and discounts to the group's customers.

Offering a residential finance calculator via the Internet so that the customer period the cost of financing and the monthly installment, checks eligibility for financing, and completes the residential financing application through the Warba Bank Application.

Additions have been introduced to the online application for companies to include the request for bank guarantees, defining the power of authorities to approve bank operations for the company's employees and bulk transfers.

## THE INVESTMENT BANKING GROUP

The Investment Banking Group (“IBG”) continued to demonstrate resilient performance beyond 2021 and into 2022 in the prolonged aftermath of the 2020 novel coronavirus global pandemic COVID-19. Despite the two-year period since COVID-19 emerged, the world is still witnessing the residual economic impact of COVID-19 in terms of inflation. Global economic growth prospects are confronting a unique mix of headwinds, from Russia’s invasion of Ukraine, rising interest rate environment to contain inflation, depreciation in major currencies such as the Euro and British Pound as well as other lingering pandemic effects such as China’s lockdowns and disruptions in supply chains.

Signs of stretched asset valuations in some market segments persist, and pockets of vulnerabilities remain in the non-bank financial sector; with recovery being uneven in the corporate sector. Nevertheless, IBG prudently navigated the financial waters, focusing on quality credit and on US Dollar investments/ transactions in the midst of the economic and financial turbulence.

### The International Banking Division

The International Banking Division (“IBD”) covers the debt capital market as well as the structured and cross-border financing business for the Bank by developing and maintaining local and international financial institution relationships, as well as ensuring the overall efficiency, synergy and alignment of business lines under IBD. The Structured and Syndicated Finance Department (“SSF”), the Debt Capital Markets Department (“DCM”) and the Financial Institutions Department (“FID”) form part of IBD. Despite challenging market conditions by the good grace of Allah, IBD was successful in executing a few noteworthy transactions.

DCM possesses significant experience in the origination, structuring, pricing, and distribution of Islamic debt capital market (sukuk) securities. 2022 was a relatively active year with three appointments as a joint lead manager and bookrunner on regional primary sukuk issuances, namely: U.S.\$350 million for Arada Sukuk (Arada Development LLC), U.S.\$350 million for The Private Department of Sheikh Mohamed Bin Khalid Al Nahyan and, and a TAP of U.S.\$100 million for Arada Sukuk.

Structured and Syndicated Finance overlooks all cross-border corporate and project finance opportunities across multiple business sectors including but not limited to aviation, oil & gas, infrastructure, power, and utilities. SSF also specializes in structuring and arranging syndicated structured solutions for the Bank’s corporate banking clients.

In the structured and syndicated finance market, Warba Bank seized opportunities to be appointed as Mandated Lead Arranger (“MLA”) and Bookrunner on various transactions which include notable facilities such as acting as a IMLA and Investment Agent on a USD292 million financing facility syndication for SPETCO International Petroleum Company in Kuwait; executing the Jurassic Production Facilities 4 Project in North Kuwait awarded by Kuwait Oil Company; acting as MLA on a USD1.1 billion syndicated financing facility for Ahli United Bank B.S.C.; and acting as MLA on a USD649 million senior secured project financing facility for Shuaibah Three Water Desalination Company Project in KSA.

In addition to the aforementioned transactions, SSF was successful in participating in various other cross-border financing and investment opportunities through existing and newly established relationships.

FID is a dedicated function within IBD to support the bank’s institutional brand awareness and standing in the local and international banking industry.

While the financial markets’ concentration was on post-covid recovery and normalization, the war in Ukraine had adverse effects and triggered additional disruptions to the global supply chain alongside geopolitical instability. Economic activity remained deeply depressed throughout the year, higher commodity and oil prices placing upward pressure on inflation.

In 2022, FID focused on increasing the business lines both through its existing correspondent banking network and new counterparties with whom FID established new business relationships. Throughout the year, FID expanded its correspondent banking network on a reciprocal basis in targeted regions and countries by establishing 11 new correspondent relationships from 8 different countries. FID increased the business volumes on both cash and non-cash business lines from its correspondent banking network across different countries. Moreover, FID supported the growth of the Bank’s various business lines and new Sharia-compliant trade finance products.

## Principal Investment Division

Principal Investment Division (“PID”) manages the Bank’s strategic investments and proprietary investments across multiple asset classes. PID followed a disciplined approach in managing the Bank’s proprietary investment portfolio. A risk budget for the portfolio was developed periodically based on goals, time horizon and tolerance for volatility. Furthermore, IBG follows a Strategic Asset Allocation (“SAA”) framework that helps in maximizing risk adjusted return through asset class diversification. This allows for better risk management for the portfolio with the aim of maximizing the Bank’s return on assets.

PID operates through two departments: the Real Estate Investment Department and the Direct Investment Department.

### The Real Estate Investment Department

Despite the continuing impact of COVID-19 and on-going market volatility, 2022 was another successful year for the Real Estate Investment Department (“REID”) generating returns well above the underwriting targets for Warba Bank through realization of lucrative exits from 3 (three) investment properties, and strong operational performance which has driven an increase in the value of most of the investments.

As on 31 December 2022, the Bank owns properties in USA, UK, Ireland and GCC, mostly through joint venture arrangements. Most of the properties in USA are well diversified across numerous states and high growth cities namely, Atlanta (GA), Charlotte (NC), Jacksonville, Arlington (VA), Pittsburgh (PA), Dallas (TX), Houston (TX), Philadelphia (PA), and Virginia Beach (VA). The properties are strategically located in “core” and “core plus” submarkets, high growth business parks and high growth suburban markets, all of which are supported by robust economic and demographic fundamentals. Prior to 2021, the Real Estate Investment Department had also invested in 5 flagship real estate funds with highly reputable globally operating asset managers diversified across various sub-sectors and geographical locations. During the year, the Bank successfully exited the following 3 real estate investments.

1. An office building called Arrow Electronics located in Denver, Colorado, USA, and acquired in Oct-2017, was sold in May 2022, generating 12.32% after tax net IRR for Warba Bank.
2. A multifamily property located in Dallas, Texas, USA, called Cortland Glade Park (2801 Suites) and acquired in Jul-2017, was sold in Sep-2022, generating 17.44% after tax net IRR for Warba Bank.
3. A 65+ plus Active Community multifamily property called Attiva Central Park located in Dallas, Texas, USA, and acquired in Jul-2018, was sold in Aug-2022, generating 16.35% after tax net IRR for Warba Bank.

During 2022, REID also made the following 5 new real estate investments:

1. A core-plus multi-family real estate property located in Charlotte, North Carolina, USA, was acquired in Q1-2022 with an expectation to generate over 7% p.a. avg. cash on cash return and over 14% pre-tax IRR.
2. A core-plus multi-family real estate property located in Raleigh, North Carolina, USA, was acquired in Q1-2022 with an expectation to generate over 7% p.a. avg. cash on cash return and over 14% pre-tax IRR.
3. A core-plus multi-family real estate property located in West Palm Beach, Florida, USA, was acquired in Q2-2022 with an expectation to generate 10% p.a. avg. cash on cash return and over 13.2% pre-tax IRR.
4. A core-plus city centre high-rise multi-family real estate property located in Arlington, Virginia, USA, and close to the Pentagon Building, was acquired in Q3-2022 with an expectation to generate 9.27% p.a. avg. cash on cash return upon stabilization and 12.4% pre-tax IRR.
5. Invested in a diversified portfolio of car parking and commercial vehicle parking assets across the UK and Europe in Q4-2022 with an expectation to generate over 18% pre-tax IRR.

## The Direct Investment Department

The Direct Investment Department (“DID”) follows the Strategic Asset Allocation framework set by the group in order to make and manage investments across multiple asset classes.

The Department’s investment activity has progressed in 2022 with approximately U.S.\$65 million in new commitments being made to private equity and infrastructure funds. As at 31 December 2022, the Department oversees aggregate commitments of U.S.\$482 million across various strategies.

The portfolio showed resilience in a challenging macroeconomic environment, partly due to our diversification across strategies, vintages, and sub-sectors, while simultaneously investing alongside “best-in-class” managers.

The infrastructure portfolio focuses on global, core/core+ strategies across various sectors, and primarily in OECD countries, with an emphasis on inflation protection and yield. The private equity portfolio is diversified across multiple strategies including primaries, secondaries, co-investments, fund of funds, growth equity and venture capital. The listed equity portfolio is globally diversified with a balance of value and growth exposures, investing primarily in developed markets.

## The Portfolios and Funds Management and Fiduciary Services Departments

The Portfolio & Fund Management Department (PFMD) successfully closed two investment funds in 2022 and has commenced fund raising on a fund in Q4 2022. The funds were all well received within the Bank’s Private Banking clientele and have performed in-line with expectations. Across investment funds and fiduciary services, approximately KD130 million of Assets Under Management (“AUMs”) have been raised in the financial year.

PFMD has also built a robust pipeline of products for 2023 that are at various stages of the product development lifecycle for each of them. The team is working with the AL-Masi segment to understand client preferences and to tailor products accordingly.

## TREASURY GROUP

Warba Bank’s Treasury prevails in managing liquidity to meet business objectives regardless of stressed economic circumstances resulting from market volatility, continuously ensuring viable funds are extended to all departments by having stable strategies in place to prudently monitor market conditions and utilize opportunities to establish a cost-effective structure of funds.

Treasury continuously ensures diverse facilities of credit are available from respected local and international counterparties to maximize the sources of funds and ensure bank liquidity requirements are met within acceptable and minimal levels of risk.

Furthermore, Treasury constantly introduces and implements innovative products of Islamic derivatives, ensuring bank hedging requirements are met as well as providing the local market with financial tools based on its unique requirements.

From a technological standpoint, Treasury proudly participates in the digital transformation movement to improve banking capabilities by adopting top-notch available market solutions to satisfy customer expectations of instantaneous online banking while introducing the ability to execute electronic FX transactions with automated backing to meet the demand of optimal speeds by the market.

## INFORMATION TECHNOLOGY GROUP

During the year 2022, Information Technology Group (ITG) has supported the Bank's activities to improve profitability, productivity, sustainability, and market expansion through the successful implementation of several projects such as but not limited to launching the new account SiDi app, Gold account through Warba mobile app, the implementation of new debit/credit cards printing machines, migrating card switch in Knet from Classic to EPS, corporate online enhancements including bulk payments / multi level approval for salary upload and transfer, credit loss provisioning computation, deploying CBK requirements for KYC enhancements and cash deposit, swift payment status update tracking through SMS and Warba mobile app, new investment products, and MasterCard chip certification upgrade to meet MasterCard mandates.

In parallel to ITG operational activities, we have started a new journey to implement cutting-edge solutions that would improve customer experience, apply latest technology using Open API / microservices / Cloud Agnostic open banking readiness, support performance optimization, and accessibility to top-ranked FinTech that supports in building the new era of the Bank.

In addition to the above, ITG is focusing on advanced implementation of its strategy through employing emerging technologies in different pillars such as but not limited to cloud computing in several solutions that serves the Bank's customers as well as internal users, Robotic Process Automation (RPA), Data Analytics and Artificial Intelligence.

While looking forward to future expansion, we have heavily invested in a unique infrastructure where we are continually building resilient infrastructure that achieves high IT availability and continuity. IT service availability has scored 99.95% during the year.

Moreover, our Cyber Security and Service Continuity division is working around the clock to ensure safe and secured environment from the advanced evolving cyber-attacks targeting the Bank's customers and employees by applying the latest advanced technical protection controls and initiating partnerships with the leading cyber security service providers. The Bank has invested in increasing the employees' and customers' cyber security awareness to strengthen the human factor in defeating cyber-attacks.

With robustly designed and regularly tested cyber security controls, the Bank was able to achieve the expected rates of services availability.

Additionally, self-assessment and testing of service availability and continuity is a regularly practiced exercise ensuring minimal interruptions.

Internal computing environment is highly monitored and protected against evolving threats targeting financial institutions and Warba Bank operations. Cyber security protection works based on the balanced model that allows smooth business operations without compromising protection controls that make it work as business enabler.

Rapid development activities of new services and enhancements to current services pass through thoroughly designed testing phases ensuring the services are safe to be published for customers and end user.

ITG focuses its effort to actively contribute towards the enhancement and sustainability of overall IT Governance to maximize the efficiency and capabilities of Business Technology services and in conformance with the required level of compliance and assurance for the internal control environment. In 2022, Information Technology Group at Warba Bank has successfully accomplished the assessment through periodic surveillance for ISO 27001 certification and attained the Swift-CSP, PCI-DSS and ISO 9001 certifications, thereby ensuring compliance with the Central Bank of Kuwait directives and adherence to continually improving an information security management system within the context of Warba Bank.

ITG has extended its activities out of Warba boundaries through positive contribution in different committees under the supervision of the Central Bank of Kuwait and Kuwait Banking Association such as but not limited to the Open Banking Committee who is responsible for the development of national open banking framework and guidelines.

## DIGITAL GROUP

### Digital Group's Mission

In light of the Bank's strategy and CBK's regulations for shaping the future of the Kuwaiti banking industry, a new function "Digital Group" was established in the Bank during 2020. This function is responsible for overseeing all digital, innovation and transformation initiatives across the Bank. The drivers behind these initiatives include business process improvement, new digital products and services, introducing new strategic partnerships with external parties, and ensuring that the overall digital capabilities are aligned with the Bank's long-term strategies. The Digital Group is comprised of 3 core functions, namely the Digital Transformation Division, the Digital Factory (AI-Wateen), and the Business Excellence.

### Digital Transformation Division

As technology continues to disrupt business models across all industries, the Digital Transformation Division's main objective is to identify how relevant technology advancements can be harnessed to expand the Bank's digital capabilities. These technology shifts offer opportunities for the Bank across multiple avenues, such as creating new business verticals, launching new products and services, increasing internal collaboration, increasing efficiency, and becoming more agile from a software development perspective as well as an operating efficiency perspective. The Digital Transformation Division is divided into two key functions: Innovation and Partnerships and the Transformation Program Office. The Innovation and Partnerships Department's mandate is to research and advise on emerging trends in technology and financial services innovations that could further the Bank's objectives. Approved opportunities are then passed to the Transformation Program Office for project implementation. Innovation and Partnerships and the Transformation Program Office work together synergistically to ensure that projects are aligned with the Bank's digital strategy.

### Digital Factory (AI-Wateen)

The Digital Factory is the Bank's in-house mobile platform development lab that comprises expert product owners, developers, designers, scrum masters, and strategists, all of whom combine their efforts to innovate new features and services, with customer centricity lying at the core of every digital experience. The Digital Factory is divided into "Squads" with various key focuses, such as consumer financing, loyalty, platform optimization, and third-party integrations. The teams are multidisciplinary and work together using Agile as their main software development methodology to define and address their various initiatives. The Digital Factory also includes a team dubbed "AI-Wateen Shield", which tracks and manages all customer issues and suggestions related to all Warba Bank mobile applications.

### Business Excellence

The Business Excellence Department oversees the development of new products and also tracks the Bank's various customer segments via its MIS & Research Unit, which harnesses next-generation technology in machine-learning and data mining to offer advanced statistical analysis. Business Excellence determines effective methods to boost customer engagement in specific segments, provides actionable insights, and measures product performance.

### Achievements of the Digital Group in 2022:

- The launch of SiDi Digital Wallet which is considered one of the most notable achievements in 2022. SiDi is a new mobile app for low-income workers and unbanked clients which provides them with a simple and digital financial experience.
- We have also launched our mobile app for corporate clients. The app promises to provide a seamless customer experience with trendy design and a full support of mobiles & tablets.
- And because we care, we have launched a new version of the application that can help our customers with visual disability, which has greatly improved the online banking experience for these customers.
- We also made significant improvements to our online banking application, including introducing new features such as IPay, Cashback Plus, KCC Stock Portfolio, and Residential Finance.
- Innovation and Partnerships team helped to launch several new financial products and services, such as Gold account which has attracted a large number of customers.
- They also played a big role in the growth of SiDi Partnerships Ecosystem by having exclusive partnerships with Telecom and Airlines sectors.

- They successfully launched the “Rowad” program’s fourth edition. Rowad is a program to adopt the innovations of universities’ students which is the first of its kind in the State of Kuwait.
- MIS team built a lot of advanced analytical models based on AI & Machine learning models targeting to improve customer retention, increase product acquisition and enhance customer experience.
- In alignment with the Bank’s strategy to achieve a high level of ESG, MIS & Research took the responsibility to automate repetitive tasks through workflows to increase productivity, reduce human errors, and mitigate unnecessary waste if the task is done manually.
- To ensure the competitiveness of the Bank’s value propositions for its segments, the Products & Segments Unit launched its new segment W and revamped the previously call Tala segment to Sunbula Kids with additional benefits, ensuring that each campaign launched addresses the targeted segment while maintaining high market standards.
- They worked closely with Digital Factory to launch the Flexible Deposit product which is new type of deposit account that enables the customer to withdraw and deposit funds at any time, resulting in increased revenue and customer satisfaction.
- The Bank has been awarded the following ranking in digital and innovative solutions which is a testimony to our outperformance:
  1. Best Digital Savings App – Hassala – Kuwait 2022 (International Finance - Awards)
  2. Most Innovative Islamic Digital Banking Services for Corporates – Kuwait 2022 (Global Business Outlook - Awards)
  3. Mastercard Digital First Bank in Kuwait 2021/2022

## OPERATIONS GROUP

The Operations Group has commenced the strategic direction of operations internal control through improvement & support of its units in alignment with international best industry standard practices related to the operational management.

Additionally, the Group has worked on its readiness for the new system’s implementation to support the modernization of its core banking processes.

As part of its efforts to improve the quality of our internal policies and procedures’ documentations and achieve ultimate compliance, Operations Group has launched the Digital Portal for Policies and Procedures helping the Bank’s direction to go paperless while achieving compliance with the standards. In support of that, the Operations Group has owned the development of the relevant policies to control the documented information using this systematic approach.

In collaboration with the Information Technology Group, the Operations Group has implemented further system and reporting enhancements that have enabled the scalability to be more efficient and effective through automation and mitigating related operational risks. These initiatives will continue as we strive to reduce volume sensitivity and control and reduce our processing costs.

Operations Group has played vital role in supporting the smooth rollout and improvements of key products with business groups and assuring their operational sustainability, such as SiDi Wallet, MasterCard Send Super and Corporate Online Salary Portal, in line with the Bank’s digital strategy.

The Group has achieved multiple awards from JP Morgan Chase, known as Quality Recognition Awards, for achieving STP rates as high as over 99% for their payments.

Additionally, the Group successfully prepared the systems for a swift upgrade ISO 20022 adaptation.

## 2023 FUTURE OUTLOOKS

### Global Economy

After two years of rebound from covid-19-related recessions, bloated retail inventories and the battle against inflation continuing to weigh on growth in 2023, the IMF forecast that global growth to slow from 6% in 2021 to 3.2% in 2022 and 2.7% in 2023. Additionally, global inflation is forecasted to reduce to 6.5% in 2023 (down from 8.8% in 2022) and 4.1% in 2024. Price pressures will be uneven, with majority of the upward impetus in Europe and North America, and less in Asia. As a result, The Economist foresees a continuance of monetary tightening in western economies via hikes in interest rates and quantitative tightening. By contrast, China, Japan, and other countries in the region will continue to pursue accommodative policies amid economic softening. Separately, several G20 economies - notably Argentina and Turkey - will continue to see very high inflation rates.

### GCC Economy

For oil exporting nations in the GCC, the combination of continually elevated oil prices and strong non-oil related economic growth is counteracting the negative economic impact related to commodity price volatility and rising global inflation rates. According to the IMF, the GCC is expected to gain from increased trade with Europe as European nations look to fill the gap of Russian energy imports. The forecasted GCC real GDP is to perform at a rate of 3.6% in 2023 (down from 6.5% in 2022). Moreover, the IMF forecasts real oil GDP to increase to 10.5% in 2022 and 3.6% in 2023, with global oil prices averaging USD 98.2 per barrel for 2022 (41.2% higher than oil price average of 2021).

### Kuwait Economy

Kuwait GDP in 2023 is projected to grow at 3.7% as forecasted by Oxford Economics. In addition, non-oil related sectors are expected to witness growth of 4.1% in 2023. The oil sector, which accounts for about 50% of GDP, is expected to experience accelerated growth by 11.6% supported by higher oil prices and production. During the first three quarters of 2023, OPEC+ pledged to increase output in response to the disruption to Russian supply. But in its latest summit, the alliance decided to cut production quotas to support prices. That said, the Central Bank of Kuwait (CBK) raised the deposit rate several times in 2022 due to rising inflationary pressures. But given the dinar's peg to a basket of currencies (rather than just the US\$), CBK hikes did not mirror those of the Fedral, which has hiked rates by 375bps (as of December 2022). Monetary tightening will add to borrowing costs, while only modestly affecting credit demand.

### Kuwait Banking Sector

The local banks aggregate assets raised by KWD 7,934 million or 10.3% driven by rise in foreign assets by 29.9% and claims on private sector by 8.0% as well as the increase in other assets and claims on public institutions by (7.5% and 2.4% respectively) at the end of December 2022. The balances of claims on government, interbank deposits, loans to banks and claims on CBK fell by (54.1%, 10.2%, 6.9% and 0.6% respectively). Furthermore, the net foreign assets with the banking sector went up by KWD 346 million or 3.3% to reach KWD 10,831.5 million against KWD 10,485.1 million at the end of prior month. This rise was due to the increase in foreign assets at a greater rate by KWD 952.7 million or 4.3% than the rise in foreign liabilities (KWD 606.2 million or 5.1%). On the other side, residents' deposits increased by KWD 2,348.1 million or 5.3% due to the elevation of both government deposits and private sector's deposits by KWD 513.3 million or 18.2% and 2,289.4 million or 6.6%, respectively, at the end of December 2022 for the same comparative month of previous year. In contrast, public institutions' deposits decreased by KWD 454.6 million or 6.3%. From the beginning of this year until the end of December 2022, the average ratio of the total resident private sector's deposits accounted for 77.0% of the total resident deposits with local banks followed by the average ratio of the total public institutions' deposits (15.6%) and the average ratio of the total government deposits (7.4%). Moreover, the average ratios of the private sector's KWD deposits accounted for 73.5% of the total residents' deposits with local banks and 95.3% of the total resident private sectors' deposits during the same period. Kuwait banks remained to be the lowest NPL ratio (Non-Performing Loans) compared with GCC banks, the Kuwait banks' NPL represents 1.5% of the total loans at the end first half of the year.

## Warba Bank

Warba Bank has successfully achieved various milestones throughout 2022. On the retail banking front, Warba Bank opened one new branch (Abu Fatira ) in addition to relocating Farwaniya branch to a prime location. Moreover, we revamped our segments Lamar and Senyar to be under a comprehensive segment (W). Additionally, we launched the first drive-through teller service in Kuwait at Al-Shuhada branch as part of our commitment to innovation & providing a seamless experience for our customers. On the Corporate Banking front, we launched a dedicated Corporate & Business Banking app (Beyond) to better serve our corporate clients by providing them with a tailored experience that connects them to their daily & strategic business needs. On the Investment Banking front, we successfully raised US\$100m for Warba Ijara Fund I. Three capital calls were issued during the year and three quarterly income distributions were made at an annualized rate of 8%. Lastly, SiDi, the first digital wallet in Kuwait aiming to target a new segment, launched a partnership with STC and Huawei to promote our services for the unbanked segment and further commit to our financial inclusion and sustainability ambitions. One prestigious award won by Warba Bank is "Best Digital Savings App – Hassala – Kuwait 2022" from International Finance Awards. In terms of credit rating, Warba's credit rating is at A as per FitchRatings and Baa2 as per Moody's.

2023 is a promising year for Warba Bank, as we have launched our renewed vision & mission statements that serve a better image of the Bank towards serving communities and providing value beyond our classical financial services. To support our ambitions, we are targeting a holistic customer-centric approach towards serving our customers by understanding their demands & catering our services accordingly. These ambitions come in parallel to Warba's ambition to bridge its performance with global sustainability goals.

**Source: Central Bank of Kuwait, Oxford Economics, IMF, World Bank.**

## SOCIAL RESPONSIBILITY

### Various and Comprehensive Social Initiatives and Contributions

In 2022, Warba Bank was distinguished by various and comprehensive social initiatives and contributions, and the Bank's community efforts culminated in the launch of numerous initiatives, events, and qualitative activities across the banking sector.

Warba has succeeded in taking the concept of social responsibility to a new level of innovation, inclusion, and sustainability in order to contribute to serving society in its various categories and aspects and developing the form of community institutional work.

In fact, keeping up with and meeting the needs and concerns of society is an essential part of the Bank's approach, as Warba's contributions during 2022 appeared to be diverse and covered multiple sectors and aspects, ranging from the environmental sector, healthcare, youth, education, the spread of financial and banking culture, to taking interest in various community initiators and groups such as those with special needs and others.

Additionally, the sustainability component was strongly present in the Social Responsibility Program through partnerships and programs launched by Warba Bank in collaboration with local and global actors.

Youth occupied a large part of Warba Bank's interest in 2022, as the Bank launched several qualitative initiatives and premium activities that meet youth's aspirations and interests, whereby it sponsored many sports activities, including its strategic sponsorship of E-sports with the Kuwaiti club and its sponsorship of the "Jusour Run". As the largest supporter of youth and students, Warba Bank continued backing the "Rowad" (Pioneers of Innovation) program, which was developed by the Bank within the framework of social responsibility and contributing to unlocking the potential of university students, as well as supporting Warba Bank's employees and providing them with the opportunity to play a key role in enhancing the Bank's position with the possibility of growing professionally.

Furthermore, Warba Bank followed a strategic sponsorship for the children's marathon event held at the Ahmed Suleiman Al-Rashdan Racecourse in Kaifan, with the presence of over 200 children enrolled in the marathon, along with their guardians.

The Bank also sponsored the first Padel Championship for the disabled, which was held for the first time in Kuwait and the Gulf countries under the auspices of the Minister of Social Affairs and Community Development.

In fact, Warba Bank is a leading supporter and contributor to the banking awareness campaign “Diraya”, launched by the CBK at the beginning of the year in cooperation with the Kuwait Banks Association. The Bank’s contribution to this campaign has been effectively demonstrated through the dissemination of educational materials and awareness posts on its social media platforms, as well as all its e-channels.

In order to ensure that the “Diraya” campaign spreads through social media and achieves its desired goals, the Bank assigned a budget for paid advertising and for using all the features and services provided by social media platforms to promote the spread of the campaign, in addition to the contests and interactive questions presented to the public.

Finally, the “Diraya” campaign has not only targeted the public and Warba’s customers, but the Bank has also worked to sensitize its employees by disseminating the campaign materials through an internal communication platform and posting them on its employees’ Instagram accounts.

## **INSTITUTIONAL CAPABILITIES**

In 2022, we continued our plan to develop our employees and qualify cadres at various administrative levels, as the year witnessed the launch of training and development programs at Warba Bank under the umbrella of “Warba Institute for Learning and Leadership WILL”, which included the launch of many programs and initiatives at the strategic level, including:

1. The strategic collaboration with GUST university in several activities. GUST has been mainly one of the main vendors associated with the Bank’s external training calendar which with time developed further by providing the Bank with special rates for Master’s education which started with the MBA sponsorship program.
2. The collaboration with the Center of Creative Leadership aims to develop the middle management by providing them with the necessary tools and development opportunities that will support them into growing to be the future executives within Warba Bank. The program offers case study exposure, group activities as well as one to one coaching and will focus on understanding others, motivating them, and meeting the needs of diverse teams.
3. The joint venture program between Warba Bank and Esade aims to provide Warba Bank Executives (Deputies & Directors) with the optimal content and methodologies to catalyze internal talent and bring out the best managerial and leadership capabilities in them. The program provides each participant with their own development journey customized to ensure the relevance and best methodology that will bring out the desired outcome, by considering the specific competencies and priorities identified for each.
4. Warba Bank provides its own talent identification and assessment center through the tools provided by SHL banking on the Occupational Personality assessment and identifying the proper development course for each assessed employee. The assessment results help the Bank in creating the succession planning activities by analyzing the gap between the employee profile and the identified position profile.
5. Warba Bank has hosted many internship activities within the year for different segments such as Kuwait University, KLAW, Public Authority of Manpower, Kuwait Investment Authority, and Institute of Banking Studies.
6. The Bank has shown interest and support to Youth Public Authority with its desire to hire the next generation of developers throughout the Coded sponsored program.
7. Warba Bank is collaborating with the United Nations Development Program office to bring a first of its kind workshop related to “Islamic Finance & Green Sukook”. This workshop will be an event bringing together different entities like: Kuwait Fund, CBK, Boursa, CMA, and KIA.

This year, the Human Resources and General Services Group continued its usual efforts to support the Kuwaitization plans and provide job opportunities throughout the year at various administrative levels, with a focus on the importance of attracting qualified national talent to undertake leadership positions, which helped to increase the Kuwaitization rate in the Bank to 80.6%.

Due to the importance of the work environment in positively affecting employee motivation and increasing their productivity, we have started to use this year a new methodology to measure the level of employee satisfaction as internal customers by launching a survey that measures employee willingness to promote Warba Bank as a positive work environment, where this indicator witnessed a positive figure compared to leading international companies. This measure will be a baseline towards our future enhancements.

For the second year in a row, the Bank continued to establish a team under the name of “Employee Experience”, which monitors the level of job satisfaction, improves the work environment, develops specific action plans, and launches yearly initiatives to improve all indicators and re-measure them on employees, as the results this year witnessed a remarkable improvement rate of 8.5% compared to last year. Some of the programs that were included this year are:

1. Developing the Ideas Box tool to encourage employees to a culture of innovation and improvement, where more than 150 different ideas were received in areas such as improving the work environment, maximizing the Bank’s profits, and enhancing the work process.
2. The “Social Hub” cultural program for the second year in a row, which is concerned with raising awareness and spreading knowledge among employees. This year, the Social Hub included panel discussions in several areas such as legal awareness, Islamic products, as well as customer care and dealing with customer complaints.
3. The continuation of the Warba Bank ELITE initiative for its second year, a recognition program that highlights the employees who demonstrate the values of Warba Bank and rewards them for their achievements.

We launched this year the “Care” program as part of our social sustainability to support the professional talents of employees financially and non-financially. This year, the Bank sponsored 4 employees in various fields (arts and photography, health and sports, as well as social and humanitarian activities). The program had a positive impact on the sponsored employees and their surrounding environment and left an indication of the Bank’s interest in the personal side of the employee in addition to the professional side.

# “Most Innovative Islamic Digital Banking Services for Corporates - Kuwait 2022”

Award from  
“Global Business Outlook Awards”



# KEY INDICATORS

## KD 160.3

**Total revenues**  
(in million)



## KD 4,200.95

**Total assets**  
(in million)



## KD 3,129.676

**Financing to customers**  
(in million)



## KD 2,674.482

**Customer deposits**  
(in million)



# Warba's Elite for Q2 2022

## The Doers



## The Team Players



## The Ambitious



# International Rating

MOODY'S  
Baa2

Fitch  
Ratings A



# THE CORPORATE GOVERNANCE REPORT

**48**

INTRODUCTION

**50**

BOARD OF DIRECTORS

**56**

MANAGEMENT  
COMMITTEES – DUTIES AND  
RESPONSIBILITIES

**62**

COMPENSATION POLICY  
(SALARY & REMUNERATION)

**64**

CODE OF BUSINESS  
CONDUCT AND ETHICS

**66**

EXTERNAL AUDITOR REPORT  
ON INTERNAL CONTROL  
REVIEW

**49**

ORGANIZATIONAL  
STRUCTURE

**53**

BOARD COMMITTEES – DUTIES  
AND RESPONSIBILITIES

**58**

THE EXECUTIVE  
MANAGEMENT

**63**

ANTI-MONEY LAUNDERING/  
COMBATING THE FINANCING  
OF TERRORISM

**65**

ADEQUACY OF INTERNAL  
CONTROLS

**68**

EXTERNAL SHARIA AUDIT  
REPORT

## INTRODUCTION

Warba Bank is committed to applying the best practices in governance within the framework of the Central Bank of Kuwait's instructions, issued in June 2012, on Corporate Governance Rules and Regulations at Kuwaiti banks. The Bank has fully complied with these regulations in terms of designing the systems, organizational structures and functions that ensure institutional control. In addition, the Bank pays due diligence to full commitment in the implementation of the nine key pillars of the governance rules and regulations at Kuwaiti banks, a compliance with regulations that has become a deeply rooted culture across the Bank. In addition, the Central Bank of Kuwait issued an update in September 2019 to its instructions concerning corporate governance rules and regulations at Kuwaiti banks. Warba Bank has come a long way in meeting the new requirements since the issuance of the last instructions; board and board committees charters have been updated to satisfy the new requirements and All remaining requirements have now been met with regard to the appointment of independent members of the Board of Directors within the allowed timeframe and in accordance with the new regulations, as mandated by the instructions within the prescribed deadline.

The commitment to corporate governance rules and regulations ensures that Warba Bank has the ability to balance risk-related activities appropriately. In addition, Warba Bank believes that having robust corporate governance principles safeguards the interests of all key stakeholders, and also serves as a shield against all forms of mismanagement and fraud activities, enhancing the accountability and transparency at the Bank.

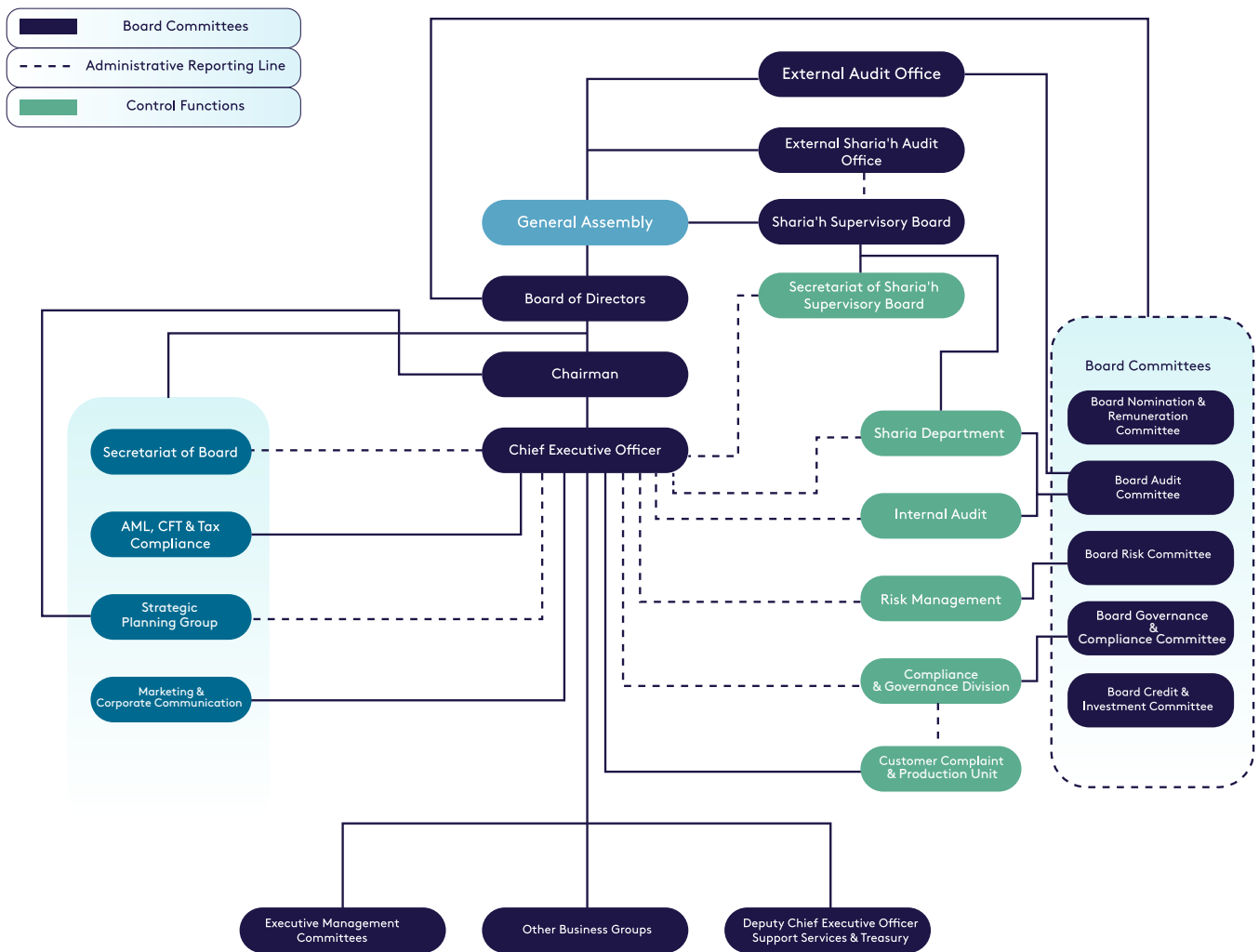
Therefore, Warba Bank prides itself on having a robust and sound governance framework, based on regulatory instructions, that helps to apply best practices of sound governance.

### WARBA BANK'S KEY SHAREHOLDERS (5% AND ABOVE)

Name	Shareholding Percentage
Kuwait Investment Authority (KIA)	15.9% Direct –2.328% Indirect
Al Sayer Group Holding Company	10.242% Direct
Abdullah Saleh Al-Shalfan	10% Direct
The Public Institution for Social Security (PIFSS)	9.025% Indirect

**ORGANIZATIONAL STRUCTURE**

The Bank's organizational structure has been designed with maintaining transparency and clarity to facilitate decision making process, achievement of sound corporate governance and ability to define authority limits that clearly set key responsibilities and duties of the board of directors, executive management, and heads of supervisory and control functions in the Bank. The Bank's organizational structure has been updated to cover all CBK requirements.



## BOARD OF DIRECTORS

### ROLES AND RESPONSIBILITIES

The board of directors continues to assume full responsibilities stipulated in the Articles of Association and Corporate Governance instructions, as issued by the Central Bank of Kuwait on 20/6/2012, as well as the updates to these instructions by CBK on 10/9/2019. These generally focus on preserving the interests of depositors, shareholders, creditors, and employees. As part of compliance with the corporate governance rules and instructions, the board of directors has approved all corporate governance policies, set new ones, and ensured putting them into practice, in addition to approving the Corporate Governance Manual and uploading it to the Bank's website.

The board of directors is responsible for reviewing and approving the Bank's strategic plan, setting the budget, and comparing targets with actual results and setting business priorities. The board of directors also monitors the implementation of such strategies. It also sets and approves the policies covering the Bank's various activities.

The board of directors is responsible for monitoring the Bank's vulnerabilities to ensure having the proper structures for managing risks and internal controls in place; reviewing the adequacy and availability of systems in light of the laws and regulations applicable to the Bank; ensuring there are written policies in place covering the Bank's various activities and that they are annually reviewed for enhancement and improvements. The board of directors, in cooperation with the executive management, reviews the policies and regulatory controls on a regular basis, including internal control and supervisory functions, in order to identify and tackle weaknesses and risks areas for improvements; ensuring that control and supervision functions are performed satisfactorily, have the required functional support and that they perform effectively and independently.

### BOARD MEMBERS TRAINING DURING 2022

Warba Bank takes the utmost care in training programs for members of the board of directors, as these programs are pivotal in developing leadership skills. The Bank arranged during 2022 a training program on "Global/GCC update in Anti-Money Laundering AML and Counter Terrorism Financing CTF, Developments in Corporate Governance, Environmental, Social and Governance (ESG), Cyber Security/Information Security", in cooperation with a specialized advisory training agency. In addition, the Bank arranged for the Sharia Training Program, provided by the chairman of the Sharia Supervisory Board concerning Islamic Banking.

### BOARD MEMBERS FOR THE FIFTH SESSION (2022-2024)

At the Ordinary General Assembly meeting held on 30th March 2022 for the fiscal year that ended 31 December 2021, the Bank's board of directors was formed, composing of 11 members for the Fifth session (2022-2024) including 4 independent members.

### BRIEFS ON THE BOARD MEMBERS

#### 1. Mr. Hamad Musaed Al Sayer – Chairman / Elected:

Al Sayer holds a bachelor's degree in Finance from Seattle University in the United States of America in 1997 and an MBA from Maastricht University of Business Administration in 2006. He has been the Vice Chairman of Warba Bank from March 2019 and the Chairman of the Bank from March 2022 to date, and he is a board member of Kuwait Chamber of Commerce and Industry since March 2022. He currently occupies the position of CEO of One Franchising Holding Company since July 2021, he also served as the CEO of Al Sayer Franchising General Trading and Contracting Company W.L.L from 2003 until June 2021. He started his career in the corporate finance sector at National Bank of Kuwait from 1998 to 2003. He has been a Chairman and a member of the board of directors in several local and regional companies and financial institutions including but not limited to Al Dhow Investment Company, United Securities Brokerage Company in Egypt, Al Roeya Securities Company in the Sultanate of Oman and FIMBank in Malta.

#### 2. Mr. Bader Khaled Al Shalfan – Vice Chairman / Elected:

Al Shalfan holds a bachelor's degree in Business Administration from Kuwait University in 2000. He has been a member of Warba Bank's board of directors from March 2019 and the Vice Chairman of the board from March 2022 to date. He joined the Ministry of Finance in 2001 as an officer and researcher in the Procurement Systems Department. Later on, he founded Health Company with a group of partners where he has worked as the General Manager for over ten years. He then founded in 2013 Bond International Real Estate Company where he continues to serve as the General Manager of the company, providing advisory services and studies in the investment and real estate domestic and international market.

**3. Mrs. Basma Hamed Al Sanee – Board Member / Appointed by the Public Institution for Social Securities:**

Al Sanee holds a bachelor's degree in Business Administration with a specialization in Marketing from the American University of Kuwait in 2008. She also holds a higher diploma in Global Finance from the Chinese University of Hong Kong in 2012, a certificate in Strategic Management from Georgetown University in 2021 and a certificate in Basics of Management from Harvard University in 2022. Member of the board of directors of Warba Bank from March 2022 to date representing the Public Institution for Social Security (PIFSS). She started her career in the training program of Kuwait Investment Authority from 2008 to 2010. She then joined (PIFSS) since 2010 to date, where she rose in positions until she held the position of Director of Real Estate Management. She is currently a member of the board of directors of Gravitax Holding PCC Ltd, Egycap Investments and Kuwait Medical City Company.

**4. Mr. Khaldoun Shaker Al Tabtabaie – Board Member / Independent Elected:**

Al Tabtabaie holds a bachelor's degree in Business Administration from George Washington University in the United States of America in 1998 and a master's degree in Management Information Systems from the same university in 1999. He also holds a diploma in Market Operations from the University of Reading and the International Capital Markets Association in the United Kingdom in 2017. He currently assumes various directorship and consultancy roles both locally and internationally. He is an international board Member at Muscat Clearing and Depository Company in the Sultanate of Oman since February 2022, and an independent board Member at Warba Bank since March 2022. Al Tabtabaie spent most of his career in the financial industry and his most recent experience was at Kuwait Clearing Company where he held various executive positions until he became the company's Chief Executive Officer. During his latest tenure in the Capital Market, he contributed to the market's development and Bursa Kuwait's upgrade to emerging market status on several international indices such as MSCI and FTSE Russell through his work as an Executive Member in the Market Development Committee established by the CMA, as well as heading the Strategic Transformation team at KCC. During that period, he was also elected as vice president for the Africa & Middle East Depositories Association (AMEDA), and a board member at the Arab Federation of Capital Markets (AFCM).

**5. Mr. Mubarak Nasser Al Sayer – Board Member / Elected:**

Al Sayer holds a bachelor's degree in Business Administration from Bowling Green State University in the United States of America in 1984. Member of the board of directors of Warba Bank from March 2022 to date. He has an extensive experience in the field of commerce for more than 35 years. Since 2016 he has been a board member and CEO of Al Sayer Group Holding Company, and he is also the Managing Partner in Nasser Mohamed Al Sayer Group of Companies. He also currently holds the position of General Manager of Al Dhow Holding Company. He contributed to the presidency and membership of several local companies, most notably the National International Holding Company and Intel Consult Company.

**6. Mr. Mohamad Ahmad Al Ruwayeh – Board Member / Independent Elected:**

Al Ruwayeh holds a bachelor's degree in Law from Kuwait University in 1999 and a master's in Corporate Finance Law from the University of Westminster in the United Kingdom in 2009. An independent member of the board of directors of Warba Bank from March 2022 to date, Al-Ruwayeh is also a member of the Kuwait Bar Association. He gained his professional experience through his work since 1999 to date at Ahmed Al Ruwayeh lawyers and legal advisors law firm.

**7. Mr. Mohammad Hamed Al Shalfan – Board Member / Elected:**

Al Shalfan holds a bachelor's degree in Civil Engineering from Colorado University in 2002 and an MBA from DePaul University in the United States of America in 2008. He has been a member of Warba Bank's board of directors from March 2019 to date. He started his career at Kuwaiti Manager Holding Company from 2003 to 2017 in the position of Deputy General Manager for Operations in 2010, then as the company's General Manager in 2013. In 2017, he became the executive partner of Sama Project Management Company and held the position of board member and CEO of Al Masaken International Real Estate Development Company from May 2019 to June 2022. He is currently the Chairman of the board of directors of INOVEST Company. He has been a member of the board of directors at several local and regional companies, most notably, Kuwaiti Manager Holding Company, Kuwaiti Manager for Real Estate Management Projects Company, Kuwaiti Manager Ready Mix for Concrete Production, Kuwaiti Manager Bahrain, Kuwaiti Manager Oman, Khaleeji Manager Saudi Arabia, Baitak Real Estate Company in Saudi Arabia, and Al Masaken United Real Estate Company.

**8. Mr. Mohamad Riyad Al Mutawa – Board Member / Elected:**

Al Mutawa holds a bachelor's degree in Finance from Kuwait University in 2001. He has been a member of Warba Bank's board of directors since March 2016 to date. He started his career at the Kuwait Investment Authority KIA where he currently holds the position of Senior Investment Manager. He has participated in the membership of the boards of directors of several companies, most notably the Pakistan-Kuwait Investment Company, the Arabian Sea Company Limited, Farah Al Maghrib Real Estate Company and the National Offset Company, in addition to his participation in many training programs and seminars in various fields.

**9. Mr. Mohamad Abdulredha Saleem – Board Member / Elected:**

Saleem holds a bachelor's degree of Business Administration in Finance from Kuwait University in 1985. He has been a member of Warba Bank's board of directors since March 2016 to date. He gained his professional experience due to his service of more than 30 years at Kuwait Investment Authority KIA where he held various positions until he became the Treasury Department Manager from 2006 to date. He currently holds the position of Vice Chairman in the Arab Banking Corporation. He has been a chairman & a member of the board of directors in several companies such as Generations Fund Holding Company, Kuwait Investment Company, the Egyptian Kuwaiti Real Estate Development Company, Gulf Custody Company, Kuwait Real Estate Holding Company, and Kuwait Flour Mill & Bakeries Company. Saleem also participated in many theoretical and practical courses at leading banks and global financial institutions in areas of portfolios management, investment, and capital markets.

**10. Mr. Mohammad Abdulaziz Al Bahar – Board Member / Independent Elected:**

Al Bahar holds a bachelor's degree in Industrial and Systems Engineering from the University of Southern California in the United States of America in 1982 and a master's in Operations Research from the same university in 1985. An independent member of the board of directors of Warba Bank from March 2022 to date. In 1983, he joined the Kuwait Institute for Scientific Research in the Department of Technical Economics until 1985, then moved to the Gulf Investment Corporation in 1985, where he held the position of Vice President in Project Management until 2001, then he assumed the position of General Manager of Boubyan Petrochemical Company from 2001 until 2018. He held the presidency and membership of the boards of directors of a number of local and regional companies and banks, especially in the fields of education and industry, most notably Burgan Bank, Kuwait Olefins Company, and Touristic Enterprises Company, assuming the position of Chairman of the board of trustees of the Gulf University for Science and Technology, as well as each of the Nama Chemicals Company, the National Company for Titanium Dioxide (Crystal), the Arab Insulation Industry Company (Insulators), and the Arab Company for Industrial Fibers (Ibn Rushd) in Saudi Arabia.

**11. Ms. May Mohalhal Al Mudhaf – Board Member / Independent Elected:**

Al Mudhaf holds a bachelor's degree in Economics from the American University of Beirut in 1980. She has also completed several banking programs at Harvard Business School, Harvard School of Government, New York School of Finance, and the Institute of Banking Studies. Furthermore, she is a member of the Kuwait Economic Association, Kuwait Alumni Association, and The Arab Bankers of North America (ABANA). An experienced banker with a wealth of knowledge and industrial contacts gained from more than three decades of banking experience, she is currently an independent board member of the board of directors of Warba Bank in Kuwait since 2022. She is a Managing Partner in Novum Consulting providing consultation services for high net worth individuals and financial institutions with various investment opportunities. She held the position of CEO from 2013 to 2018 at First Abu Dhabi Bank in Kuwait, and before joining First Abu Dhabi Bank she was the first General Manager of Burgan Bank from 20/9/2012 and was responsible for treasury, financial institutions, investment management and private banking. Before Burgan Bank, she worked as a Trustee Treasurer/General Manager at Commercial Bank of Kuwait where she headed the treasury department from 2001 until 2006, and from 1998 until 2001 Al-Mudhaf worked at Gulf Bank of Kuwait to reach the position of Assistant General Manager of the Treasury Group, previously spending 15 years at Commercial Bank of Kuwait to reach the position of senior manager in the treasury department.

## BOARD COMMITTEES – MEMBERSHIP AND DUTIES

The board of directors has established five board-level committees and assigned them with the responsibilities to act on its behalf on specific matters. The respective committees are established in line with corporate governance principles at banks and the applicable regulatory requirements.



### BOARD CREDIT & INVESTMENT COMMITTEE (BCIC)

The committee reviews, evaluates, develops, and recommends all issues related to financing and investment proposals, fees and commissions, financing portfolio performance and investments for the board’s approval, as well as the legal actions taken for non-performing financing. The committee has specific delegated approval authority for credit financing and investment decisions. The committee is composed of the following members:

Mr. Mohamad Abdulredha Saleem	Chairman
Ms. May Mohalal Al Mudhaf	Vice Chairman
Mr. Bader Khaled Al Shalfan	Member
Mrs. Basma Hamed Al Sanee	Member

### BOARD AUDIT COMMITTEE (BAC)

The committee reviews the scope, effect, and extent of adequacy of the internal and external audit at the Bank, as well as key accounting issues of material impacts on the Bank’s financial information and internal controls. It ensures sufficiency of the resources designated for control functions. It reviews the Bank’s financial statements before submission to the board of directors, ensuring the adequacy of the necessary provisions.

BAC evaluates the performance of the chief internal auditor and his remunerations and considers the recommendation of the executive management regarding the appointment and termination of external auditors and determining their fees. The committee is composed of the following members:

Mr. Mohammad Ahmad Al Ruwayeh	Chairman
Mr. Mohammad Riyad Al Mutawa	Vice Chairman
Mr. Khaldoun Shaker Al Tabtabaei	Member
Mr. Mubarak Nasser Al Sayer	Member
Mr. Mohammad Abdulaziz Al Baher*	Member

\*The Board of Directors approved during its meeting on 11th October 2022 to increase the number of Board Audit Committee from (4) to (5) members, and to designate Mr. Mohammad Abdulaziz Al Bahar as a member of the Committee.

## BOARD GOVERNANCE & COMPLIANCE COMMITTEE (BGCC)

The committee assists the board of directors to fulfill the governance responsibilities, prepares and updates the Bank's corporate governance manual and ensures compliance of the Bank's related parties with implementing governance requirements and rules. The committee submits reports to the board of directors on these issues and reviews the contents to be published in the annual report in respect of corporate governance. The committee is composed of the following members:

Mr. Hamad Musaed Al Sayer	Chairman
Mr. Mohammad Abdulredha Saleem	Vice Chairman
Mr. Mohammad Ahmad Al Ruwayeh	Member

## BOARD RISK COMMITTEE (BRC)

The committee assists the board of directors to perform its duties and responsibilities in respect of strategies, risk appetite and risks associated with financing and investment activities. The committee is also responsible for highlighting and developing the Bank's risk strategy, risk appetite and other risk related measures such as reviewing the reports of the Risk Management Group, reviewing the Bank's risk and control policies, and recommending their approval by the board of directors. The committee is composed of the following members:

Mr. Khaldoun Shaker Al Tabtabaei	Chairman
Mr. Mubarak Nasser Al Sayer	Vice Chairman
Mr. Mohamed Hamed Al Shalfan	Member
Mr. Mohammad Riyad Al Mutawa	Member
Mr. Mohammad Abdulaziz Al Baher	Member

## BOARD NOMINATIONS & REMUNERATIONS COMMITTEE (BNRC)

The committee assists the board of directors in determining the eligibility of the nominees to the board membership, the nominees for the positions of CEO and CEO's deputies and assistants. It also ensures the efficiency and application of the nomination policy and its consistency with the Bank's objectives, along with ensuring the efficiency and integrity of compensation and rewards policies and practices in the Bank. The committee is composed of the following members:

Ms. May Mohalhal Al Mudhaf	Chairman
Mr. Bader Khaled Al Shalfan	Vice Chairman
Mrs. Basma Hamed Al Saneer	Member
Mr. Mohammad Hamed Al Shalfan	Member
Mr. Mohammad Abdulaziz Al Bahar	Member

## ATTENDANCE AT MEETINGS OF THE BOARD AND THE COMMITTEES OF THE BOARD DURING 2022:

Total number of board & committee meetings in 2022

	BOD	BCIC	BAC	BRC	BGCC	BNRC	BSSC
Total number of board & committee meetings in 2022	13	25	10	9	4	7	1

**FOR THE PERIOD FROM 1st JANUARY 2022 TO 30th MARCH 2022:**

No.	Member	Title	BOD	BCIC	BAC	BRC	BGCC	BNRC	BSSC
	Mr. Abdulwahab A. Al Houti	Chairman	3				0		1
	Mr. Hamad M. Al Sayer	Vice Chairman	3				0	1	1
	Mr. Bader K. Al Shalfan	Member	3	5				1	
	Mr. Bader A. Al Sumait	Independent Member	3		1		0		
	Mr. Abdulaziz A. Al Jaber	Member	2	3				1	
	Mr. Mohamed H. Al Shalfan	Member	3		1	1			1
	Mr. Mohamed R. Al Mutawa	Member	3		1	1			
	Mr. Mohammad A. Saleem	Member	3	5					1
	Mr. Musaab Omar Al Fulajj	Member	2		1	0		1	
	Mr. Hisham A. Al Razuqi	Independent Member	3			1		1	0
	Mr. Yousef Ibrahim Al Ghanim	Member	3	5					1
<b>Total number of meetings</b>			<b>3</b>	<b>5</b>	<b>1</b>	<b>1</b>	<b>0</b>	<b>1</b>	<b>1</b>

The Board decided that there is no need to maintain the Strategy Steering Committee as one of the committees emanating from the Board of Directors, on May 30, 2022.

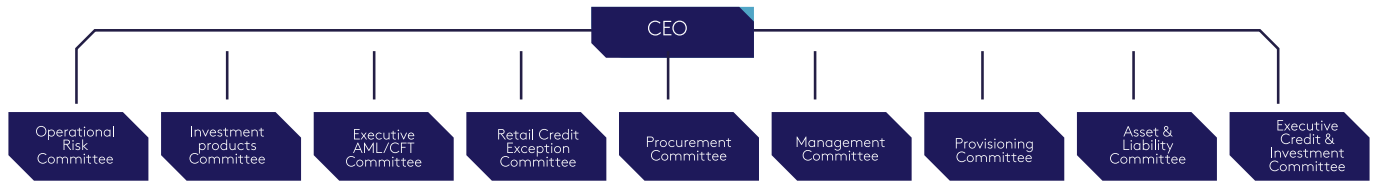
**FOR THE PERIOD FROM 30th March 2022 TO 31st December 2022:**

No.	Member	Title	BOD	BCIC	BAC	BRC	BGCC	BNRC
	Mr. Hamad M. Al Sayer	Chairman	10				4	
	Mr. Bader K. Al Shalfan	Vice Chairman	10	20				6
	Mrs. Basma H. Al Sane'e	Member	10	20				6
	Mr. Khaldoun S. Al Tabtabaei	Independent Member	10		9	8		
	Mr. Mubarak N. Al Sayer	Member	7		5	5		
	Mr. Mohammad A. Al Ruwayeh	Independent Member	10		9		3	
	Mr. Mohammad H. Al Shalfan	Member	10			8		6
	Mr. Mohammad R. Al Mutawa	Member	10		9	8		
	Mr. Mohammad A. Saleem	Member	8	20			3	
	Mr. Mohammad A. Al Bahar*	Independent Member	10		2	8		6
	Ms. May M. Al Mudhaf	Independent Member	10	19				6
<b>Total number of meetings</b>			<b>10</b>	<b>20</b>	<b>9</b>	<b>8</b>	<b>4</b>	<b>6</b>

\*The Board of Directors approved during its meeting dated 11th October 2022 to increase the number of Board Audit Committee from (4) to (5) members, and to designate Mr. Mohammad Abdulaziz Al Bahar as a member of the Committee.

**MANAGEMENT COMMITTEES – DUTIES AND RESPONSIBILITIES**

The board of directors has approved the formation of certain executive level committees for performing ad-hoc tasks and responsibilities in order to assist the chief executive officer (CEO) in the efficient and effective administration of the Bank. Most of the committees are chaired by Mr. Shaheen Hamad Al Ghanem, CEO of the Bank.



**EXECUTIVE CREDIT & INVESTMENT COMMITTEE (ECIC)**

ECIC is authorized to consider all credit financing and investment proposals. The committee approves such proposals or refers them to the Credit & Investment Committee as per delegated authority. The ECIC is responsible for monitoring and reviewing the Bank’s financing and investment portfolio and taking the appropriate measures to ensure sound performance of the Bank’s financing and investment assets.

**ASSETS AND LIABILITY MANAGEMENT COMMITTEE (ALCO)**

ALCO is responsible for all matters related to managing and controlling the balance sheet including all aspects of assets and liabilities, assets allocation, liabilities structure, liquidity requirements and all other matters in respect of capital adequacy and managing market risks and liquidity risks to which the Bank is exposed. The committee is responsible for supervising all aspects of optimal balance of assets and liabilities on the short, medium, and long term to ensure business growth and profitability while maintaining compliance with the regulatory and financial requirements.

**PROVISIONING COMMITTEE**

The provisioning committee is responsible for analyzing and evaluating all outstanding exposures under approved financing facilities and investments, for the purpose of determining whether an exposure is impaired or has any signs of irregularity, warranting that provisions are built in accordance with the internationally accepted financial reporting standards and Central Bank of Kuwait regulatory requirements. In addition, the committee is delegated to review debt write-offs and provide relevant recommendations to the board audit committee (BAC) and board of directors.

**MANAGEMENT COMMITTEE “ManCom”**

The committee is responsible for developing and implementing the Bank’s vision and strategy. It convenes regularly to ensure information flow and consensus views to the executive management in respect of decisions affecting the Bank’s overall organization and position. The committee’s scope of work includes, but is not limited to, matters pertaining to the Bank’s business plans, policies, processes and procedures, new products and services programs, special projects, human resources, and information technology. It also tackles and decides on all other issues which do not fall within the remit of any specific committee.

**PROCUREMENT COMMITTEE**

The procurement committee was established to ensure that the procurement process of all goods, services, contracts, and works necessary for Bank’s business are undertaken properly according to a transparent, effective, and timely approach, taking into account best practices in the field of procurement. The main role of the committee is to oversee the Bank’s needs for procuring products and services that fit their objectives. The committee ensures that procurement is carried out in proper time, at the right place and against the appropriate cost in such a manner that balances the overall corporate requirements of consumption rationalization, transparency, and accountability. It also ensures that the procurement activity is performed in accordance with the highest ethical standards of fair and equitable treatment with suppliers and vendors who provide the Bank with services and goods.

**Retail Credit Exceptions Committee ("RCEC")**

The retail credit exceptions committee ("RCEC") has been formed for reviewing all personal finance transactions that require thoughtful and deeper study, giving opinion about the viability of granting exceptions and taking decisions for approval/disapproval, depending on specific credit grounds and rationale in the best interest of the Bank's long-term business objectives under acceptable risk tolerance parameters.

**Executive AML/CFT Committee ("EAML/CFTC")**

Warba Bank, in implementation of CBK instructions dated 28th August 2019, has established a committee for reporting suspicious transactions. The committee's role is to take the final decision on suspicious cases that the Bank should report to the Kuwaiti Financial Intelligence Unit. The committee is composed of four members headed by the AML/CFT officer and membership of the Compliance & Governance division, the legal department, and the Retail Banking Group. The committee prepares a quarterly report of all suspicious transactions, agreed by the committee, for submission to Kuwait Financial Intelligence Unit and to the board risk committee and board of directors.

**Investment Products Committee ("IPC")**

The Investment Products Committee ("IPC") is responsible for the introduction, roll out and management of investment products, offerings, and services, licensed by the Capital Markets Authority, to the Bank's existing and prospective clients and ensuring that they are carried out in accordance with the strategy for asset management approved by the board of directors.

**Operational Risk Committee ("ORC")**

Operational Risk Committee ("ORC") is a management level committee that has been formed for the purpose of managing risks other than market, liquidity, and credit risk. The committee convenes at least once per quarter to assess and monitor the overall control environment of the Bank and recommend or approve actions to mitigate risks whose impact (should it materialize) is over the Bank's risk appetite. The risks managed by ORC include, but are not limited to, operational risks, information security risks, IT risks, AML risks, legal risks, regulatory compliance risks and sharia risk. It also reviews and monitors the Bank's business continuity plans and ensures that a managed process is followed to develop, maintain, and test business continuity plans.

## THE EXECUTIVE MANAGEMENT

	Name	Title	Experience in years	Nationality	Education
1	Mr. Shaheen Hamad Al Ghanem	Chief Executive Officer	34	Kuwait	Master
2	Mr. Anwar Bader Al Ghaith	Deputy Chief Executive Officer Support Services & Treasury	25	Kuwait	Bachelor
3	Mr. Mohamed Sabry Eissa	Chief Financial Officer	22	Egypt	Bachelor
4	Mr. Dharar Abdullah Al Dakhil	Chief Risk Officer	25	Kuwait	Master
5	Mr. Hussam Sulieman Mustafa	Chief Internal Auditor	30	Jordan	Bachelor
6	Mrs. Laylai Mustafa Al Fahad	Chief Operations Officer	29	Kuwait	Master
7	Mr. Wael El-Said Shawareb	Chief Technology Officer	21	Egypt	Bachelor
8	Mr. Abdullah Mahmoud Al Lanqawi	Chief Treasury Officer	16	Kuwait	Master
9	Mr. Wael Ahmad Awad	Acting Chief Digital Officer	21	Egypt	Bachelor
10	Mr. Musaed Mazyad Al Mazyad	Acting Chief Retail Banking Officer	21	Kuwait	Bachelor
11	Mr. Thuwaini Khalid Al Thuwaini	Chief Investment Banking Officer	17	Kuwait	Bachelor
12	Mr. Faisal Abdulrazaq Al Nassar	Chief Corporate Banking Officer	23	Kuwait	Bachelor
13	Ms. Maali Abdullah Al Rasheed	Chief Human Resources & General Services Officer	21	Kuwait	Master
14	Mr. Hamad Fouzan Al Fouzan	Chief Strategic Planning Officer	17	Kuwait	Master

### BRIEF ON THE EXECUTIVE MANAGEMENT

#### 1. Mr. Shaheen Hamad Al Ghanem - Chief Executive Officer «CEO»

Al Ghanem holds a master's degree in Business Administration from Maastricht University and a bachelor's degree in Accounting from Kuwait University. He has a broad and long experience of more than 34 years in banking and investment. He began his career in the oil sector from 1988 to 1999, then moved to the financial and investment sector where he served as Assistant Chief Financial Officer in the International Investor Company in 1999. He moved to Kuwait Finance House in 2001 where he held several positions in various departments, the last of which was General Manager of the International Banking Department in 2012 and Acting Chief Investment Officer in 2013. Al Ghanem joined Warba Bank in March 2014 as Deputy CEO for Investment and Treasury then has assumed the position of Chief Executive Officer since 2016 to date.

#### 2. Mr. Anwar Bader Al Ghaith - Deputy Chief Executive Officer Support Services & Treasury «DCEO»

Al Ghaith holds a bachelor's degree in Accounting from Kuwait University and has more than 25 years of experience in the government & private financial sectors. His career started in 1997 as a Tax Inspector at the Ministry of Finance. After serving for 3 years, he joined Kuwait Finance House in 2001 and has gradually been promoted to the Head of Local Real Estate Operations and then, in 2005, to the Operations Department Manager, finally becoming Chief Operating Officer in 2011 until 2014 being responsible on the banking operations, information technology and human resources. In 2014, he was appointed as the Acting Chief Executive Officer. In 2015, Al Ghaith joined Gulf Investment Corporation as the Head of Operations Division. Afterwards, he joined Central Bank of Kuwait in 2016 and held many positions such as the Executive Director for Organization & Administration and the Executive Director for Information Technology & Banking Operations as well as the Acting Department Head for Foreign Operations Department. Mr. Al Ghaith joined Warba in October 2020 and is currently holding the position of Deputy Chief Executive Officer for Support Services & Treasury. Al-Ghaith has successfully completed many training and leadership programs such as the Leadership Development Program from Harvard Business School in 2007. In addition, he has many professional certifications such as certified Islamic Banker from the Accounting & Auditing Organization for Islamic Financial Institutions (AAOIFI) in 2012 and he is a certified & licensed External Auditor from the Ministry of Commerce in the State of Kuwait.

### 3. Mr. Mohamed Sabry Eissa - Chief Financial Officer «CFO»

Mohamed Eissa holds a bachelor's degree in Accounting from Ain Shams University and is a Certified Public Accountant (CPA) from the California Board of Accountancy - USA & Certified International Public Sector Accountant - ACCA Cert IPSAS. He started his career in 1999 as an auditor and worked for some of the largest international audit and consulting firms for more than 22 years, where he gained extensive experience in the fields of audit and internal control over Islamic banks and financial institutions and progressed in different positions until he held the position of Audit Principal in one of the largest audit and consultancy firms in the Middle East. He joined Warba Bank in 2022 as Chief Financial Officer.

### 4. Mr. Dharar Al Dakhil - Chief Risk Officer «CRO»

Al Dakhil holds a master's degree in Business Administration from the American University of the Middle East and a bachelor's degree from the College of Economic and Political Sciences, including a minor in management. He holds many certificates including International Certified CFA level 1, passed Licensed International Financial Analyst examinations (LIFA), and obtained a »CCM« certificate in credit management and a risk management certificate in the banking program. Al Dakheel has more than 24 years of working experience. He started his career with Burgan Bank in 2000, where he held several different positions such as Correspondent Banking Group Relationship Officer, International Banking Group Relationship Manager, Corporate Banking Group. In 2005, he worked at Boubyan Bank as Treasury Manager in the Correspondent Banking and Financial Institutions Department for three years. In 2007, Al Dakheel worked as a Manager in Treasury and Financial Planning in investment companies, and in 2008 he returned to Boubyan Bank as Senior Manager for Debt Restructuring in the Corporate Banking Group. In 2013, he joined Kuwait Finance House and was promoted to several positions the latest of which was the position of General Manager under the Risk Management Group and then he joined Warba Bank in August 2020 as Deputy Chief of Risk Management and held the position of Acting Chief of Risk Management Group before being appointed as Chief Risk Officer in October 2021.

### 5. Mr. Hussam Sulieman Mustafa - Chief Internal Auditor «CIA»

Mustafa holds a bachelor's degree in Accounting from Yarmouk University in Irbid, Jordan in 1989. He also holds professional certifications as Certified Fraud Examiner (CFE), Certified Internal Controls Auditor (CICA), Certified Information System Auditor (CISA), Certified Bank Auditor (CBA) and is a member of the IIA, ISACA and ACFE as well. Mustafa has more than 30 years of experience in Internal Audit and Risk Management in conventional, regulatory, and Islamic banking industry as well as the investments sector in the region and is also well versed with Fraud Risk Management, Internal Controls and Enterprise Risk Management. In 1989, he started his career as a Teller in Gulf Bank. He then worked at Central Bank of Jordan before moving to UAE where he held many managerial positions at the National Bank of Abu Dhabi and Abu Dhabi Islamic Bank prior to returning to Gulf Bank of Kuwait in 2014 as a General Manager and Chief Internal Auditor. Mustafa joined Warba Bank in July 2022 as Chief Internal Auditor «CIA».

### 6. Ms. Layali Mustafa Al Fahad - Chief Operations Officer «COO»

Al Fahad holds a master's degree in Business Administration from the International University of Islamic Sciences and a bachelor's degree in Business Administration from Arab Open University. She has more than 29 years of experience in the field of operations in the banking sector. She started her career in 1993 with National Bank of Kuwait where she progressed professionally until she worked as Senior Supervisor Credit Execution and Quality Assurance, then she moved in 2009 to work at Burgan Bank as Director of Asset and Liability Operations and held several positions until she became Head - Operation in addition to Asset and Liability Operations and Credit Operations in 2016. Al Fahad moved to Boubyan Bank in 2018 and held the position of Deputy General Manager of the Banking Operation Group in 2022. She also chaired the Operation Committee of the Kuwait Banking Association during the years 2013-2016. She passed the course of " Managing strategically, leading for result" from Harvard Business School in 2013, the Oxford Women's Leadership development program in 2020, and she received a certificate of leadership in " A World Transformed " from Harvard Business School in 2022. Al Fahad joined Warba Bank in October 2022 to become the Chief Operations Officer.

**7. Mr. Wael Elsaid Shawareb - Chief Technology Officer «CTO»**

Shawareb holds a bachelor's degree in Computer Sciences (2002) from the Modern Academy. He has over 21 years of experience in this field. He started his career with Arab Trust Company as a Senior Information Security Engineer from 2002 to 2005 followed by Kuwait Finance House from 2005 to 2012 where he worked as a Deputy Manager – Information Security and Infrastructure Planning. Shawareb joined Warba Bank in 2013 as a Senior Director of Cyber Security and IT Governance and played a significant role in setting up the infrastructure of the Information Technology Group in the Bank. Throughout his career in Warba Bank, Shawareb received two major awards: "Cloud Trailblazer Award" and "DevOps Rockstar Award" award and has grown his career to become the Deputy Chief Technology Officer before his current position as Chief Technology Officer.

**8. Mr. Abdullah Mahmoud Al Lanqawi – Chief Treasury Officer «CTO»**

Al Lanqawi holds an MBA degree from Maastricht Business School of Management and a bachelor's degree in business management from Kuwait University. He has an extensive experience in Assets & Liabilities Management, Investments and Treasury Sales of Structure Products and Derivatives. He has completed the " PLD program " from the prestigious Harvard Business School and the Certificate of Investment Management (CIM) and the Program of Investment Strategies and Portfolio Management (ISPM) at Wharton University of Pennsylvania, USA, in addition to a Dealing Certificate from the Financial Markets Association (ACI). Al Lanqawi started his career at Ahli United Bank as a Treasury Dealer in 2006 and progressed in many positions until he became General Manager of Treasury in 2019. Al Lanqawi joined Warba Bank in July 2022 as Chief Treasury Officer.

**9. Mr. Wael Ahmad Awad – Acting Chief Digital Officer «ACDO»**

Awad holds a bachelor's degree in Computer Science Engineering from the Faculty of Electronic Engineering, Al-Monofia University, Egypt. He has more than 21 years of experience in the banking industry, where he started in the year 2000 as a System Officer in the Information Technology department in Ahli Bank of Kuwait for 7 years, then transferred in 2007 to work in Kuwait Finance House as an IT Business Consultant in the Information Systems Planning department in the information technology sector. In 2013, Awad joined Warba Bank and was accredited several certificates including Certified Associate in Project Management 2006, Certified Manager from ICPM in 2015, and Executive Leadership Program from the University of Chicago Booth School of Business in 2017. Awad held several leadership positions in Warba and has been appointed as Acting Chief Digital Officer in April 2022.

**10. Mr. Musaed Mazyad Al Mazyad – Acting Chief Retail Banking Officer «ACRBO»**

Al Mazyad holds a bachelor's degree in Political Science from Kuwait University in 2001 and has more than 20 years of experience in the field of retail banking, where he joined Gulf Bank as a teller in 2001 and gradually got promoted to become an area manager in 2015. He joined Warba Bank as a Branches Department Manager at the end of 2015, then got promoted to be the Head of Sales & Distribution Channels Division in 2017. After that, he held the position of Deputy Chief Retail Banking Officer in 2019 and now serves as the Acting Chief Retail Banking Officer. He also won many awards and achievements, including the CEO of the distinguished employees' award at Warba Bank in 2016, and attended the Executive Leadership Development Program from the University of Chicago Booth Business School in 2017. He has completed the Certified Retail Banker from Moody's in 2021.

**11. Mr. Thuwaini Khalid Al Thuwaini - Chief Investment Banking Officer «CIBO»**

Al Thuwaini holds a bachelor's degree in Economics from the University of Maryland, College Park. He attended many programs for executive leadership development. He has more than 17 years of experience in the banking and investment sector of which 6 years were in Rasameel Structured Finance Company where he held several positions, including the Vice President - Head of Deal Structuring and Analytics. In January 2015, Al-Thuwaini joined Warba Bank where he currently serves as Chief Investment Banking Officer.

**12. Mr. Faisal Abdulrazaq Al Nassar - Chief Corporate Banking Officer «CCBO»**

Al Nassar holds a bachelor's degree of Arts & Science in Economics from University of Colorado, USA in 1998 and has more than 24 years of experience in the Corporate Banking & Corporate Finance sectors, which started in 1999 when he joined Bank of Kuwait & the Middle East in which gradually progressed to be an Assistant Manager in 2003. In 2005, he joined Aayan Leasing & Investment Company as Vice President – Treasury & Corporate Finance then joined Boubyan Bank as Senior Manager in the Corporate Banking Department in 2010. He joined Warba Bank in 2012 as Senior Manager in the Corporate Banking Group where he gradually progressed become the Chief Corporate Banking Officer since February 2021. He also has a certificate in Credit Management from the Institute of Banking Studies (1999) and a Leadership and Management Certificate program from Wharton university (2022).

**13. Ms. Maali Abdullah Al Rasheed - Chief Human Resources & General Services Officer «CHRGSO»**

Al Rasheed holds a master's in Business Administration (MBA) from Maastricht School of Management and a bachelor's degree in General Chemistry, with MIS Minor from Kuwait University. She is an established Human Resources Executive offering over 21 years of experience. She has extensive experience in Human Resources and distinguished background in all HR domains, including but not limited to total rewards, talent & performance management, HR operations, and employee and organizational development. Former to her appointment at Warba Bank, Al Rasheed was the Head of Human Resources and Development at Burgan Bank Kuwait, where she progressed in multiple managerial and leadership roles since joining back in 2005. Al Rasheed has also attended Harvard Business School Executive Education in addition to various development programs, she is also a Certified Professional in Human Resources (PHR) from HRCI and a SHRM Certified Professional (SHRM-CP) from the Society for Human Resource Management. Al Rasheed joined Warba Bank in 2021 where she currently holds the role of Chief Human Resources & General Services Officer.

**14. Mr. Hamad Fouzan Al Fouzan - Acting Chief Strategic Planning Officer "ACSPO"**

Al Fouzan holds a master's in Business Administration from the Imperial College London and a bachelor's degree in Information Science from the University of Arkansas in USA. Al Fouzan has a total of 17 years of experience in Leading IT, Digital Transformation, Innovation, and Strategy Planning & Execution. In addition, he attended several leadership and strategy programs by Harvard University, Wharton, and Booth. He is also a certified cloud technology practitioner. He started his career in 2005 as a Project Engineer at Zain, then in 2006 he joined Boubyan Bank where he started as a Systems Engineer in the Core System Division and got promoted several times until he became the Executive Manager for IT Systems Management. Afterwards Al Fouzan was assigned as Head of Innovation and Partnerships in 2019 until he became the AGM – Head of Innovation and Partnerships in April 2020 and participated in several achievements, one of which was his participation in building UK's Nomo Digital Bank under BLME. Al Fouzan joined Warba Bank as a Deputy Chief Strategic Planning Officer under the Strategic Planning Group on the 3<sup>rd</sup> of May 2021, and currently holds the position of Chief Strategic Planning Officer.

**Compensation Policy (Salary & Remuneration)**

The Bank's Compensation Policy (salaries and remunerations) is in line with the strategies set by the Board of Directors in accordance with the provisions of the Labor Law in the Private Sector, the Corporate Governance mandates issued by the Central Bank of Kuwait and the recommendations of the Nomination and Remuneration Committee. This policy is in line with the best international practices that encourage and reward employees for their outstanding performance. In addition, compensation is a significant factor in attracting caliber with expertise and efficiency, from various companies and sectors to work for Warba Bank. The Bank is keen to regularly update this policy. Such updates are clearly demonstrated by "indicators" specifically designed to reflect the performance of individual or team activities. They also provide flexibility to cope with labor market variables, requirements, and benchmarks according to organized and standard methodology. The Bank has set financial performance measures for revenue, profits, cash flow, or return on equity-based objectives, and other economic objectives associated with Risk-Adjusted Return on Capital (RAROC). The Bank has also set non-financial or non-economic performance measures that assess compliance with internal controls, teamwork, or other qualitative criteria for evaluating staff non-financial and non-economic contributions. The Bank has paid great attention to updating these measures given the fact that the human capital has much more to offer than financial and economic contributions.

The compensation package (salaries and remunerations) includes several items given to the employees. Such items are divided into the following categories:

- Basic salary paid monthly to the employee and determined according to the job evaluation rating and the Bank's grading system.
- Allowances: amounts paid monthly to employee along with the salary as per employee's nature of work.
- Annual Bonus: Reward given to the employee at the yearend depending on employee's performance assessment and the Bank's performance.
- Incentives: They are schemes set for motivating staff for production increase and performance improvement.
- Other benefits like travel tickets, medical insurance, tuition allowance, end of service benefits as well as the remunerations approved by the Board of Directors in coordination with the Board Nominations and Remunerations Committee and the Board Risk Committee.

The annual compensation package (fixed and variable) is reviewed by the Nominations & Remunerations Committee and approved by the Board of Directors. The Nominations & Remunerations Committee held (7) meetings for the year ended 31/12/2022.

The Bank engages with an external consultant to carry out a comprehensive review of the Bank's compensation policy, schemes and procedures which will ensure that Warba Bank is in compliance with the implementation of the compensation policy and procedures in accordance with CBK instructions concerning Sharia's Governance Rules in Kuwaiti Islamic Banks issued in December 2016 and the Corporate Governance Rules issued in September 2019.

**Disclosures of salaries and remunerations as per CBK Corporate Governance Instructions:****First: Board Members' Remunerations**

The remunerations paid to the members of the board of directors during 2022 amounted KD 66 Thousand.

**Second: Compensations to the Bank's Highest Paid Executives:**

The total compensations and remunerations paid to the six key executives who received the highest compensation package for 2022 including the CEO, CFO, CRO and CIA amounted \*(KD 2,082,265.90). This amount includes basic salaries, allowances, entitlements, and end of service benefits.

Two employees have been undertaken with doing some of the work of the six key executives during 2022.

**Third: Compensations as per Warba's various categories of employees:**

Total compensations paid to the executive management for 2022 (CEO and his deputies and / or other senior executives whose appointment is subject to the approval of the regulatory and supervisory bodies, i.e., (20) individuals (amounted KD 3,426,025.72) inclusive of basic salaries, allowances, entitlements, and end of service benefits.

Total compensations paid to the Financial Control and Risk employees, i.e., (15) employees, amounted to (KD 1,366,082.19) inclusive of basic salaries, allowances, entitlements, and end of service benefits.

Total compensations paid to the risk takers employees i.e., (17) employees, amounted (KD 3,049,313.77) inclusive of basic salaries, allowances, entitlements, and end of service benefits. This category includes the Top Management, Groups and Departments heads, with financial authorities who delegate responsibilities to their staff members but still assume the ultimate responsibility and accountability for the risks taken.

**Anti-Money Laundering/ Combating the Financing of Terrorism**

As a financial institution, Warba Bank is fully committed to mitigating and controlling threats and risks of money laundering and financing of terrorism and therefore complies with all laws and regulations issued by the Central Bank of Kuwait (CBK) on anti-money laundering (AML) and combating the financing of terrorism (CFT). Accordingly, the Bank has amended the relevant policies and procedures in accordance with AML/CFT law No. 106 of 2013, CBK instructions dated 23/7/2013 and any other subsequent regulatory guidelines, if required, as well as the latest instructions dated 14/5/2019 concerning AML/CFT. This approach ensures full compliance with all legislative and regulatory requirements, most importantly, dealing with customers in accordance with risk assessment associated with money laundering and financing of terrorism, and identification of risk factors associated with customers, banking transactions, and country risks.

Additionally, the Bank confirms the adoption of the Know-Your-Customer (KYC) and due diligence principles on risk-based assessment throughout the customer's relationship with the Bank. Further, the Bank seeks to comply with the relevant international guidelines and best practices as per FATF recommendations in this regard. In order to combat money laundering, Warba Bank ensures the effectiveness of its human resources and systems in identifying any unusual or suspicious transactions. Accordingly, Warba's staff members receive quarterly training to be familiarized with the patterns used in AML/CFT transactions issued by the KFIU. Also, staff are given guidance and tools that enable them to handle any such cases. It is noteworthy that Warba has set the required systems to mitigate the risks of money laundering and financing of terrorism. In implementation of CBK instructions dated 28/8/2019, the Bank has set an AML/CFT committee for taking the final decision concerning suspicious transactions and reporting them to KFIU.

Warba Bank also complies with the requirements of the USA Foreign Account Tax Compliance Act (FATCA) and the ministerial decisions issued in this respect. These efforts included amendments to applicable account opening forms, Know Your Customer forms (KYC) and other procedures for new account opening. A leading global audit firm approved by the Ministry of Finance has been engaged to act as the Bank's consultant for verifying the implementation of the law requirements and reviewing the FATCA report for 2021 to technically verify the report accordance and accuracy. The FATCA report has been successfully uploaded before deadline in May 2022 to the Ministry of Finance's website as deadline was end of August 2022.

As for implementing the agreement of the common reporting standards signed by the State of Kuwait on 19/08/2016 and the ministerial resolutions issued in this regard, Warba Bank is committed to implementing this agreement and the required amendments to the procedures, policies and forms that should be filled to prepare the reports required to be uploaded to the Ministry of Finance's website in line with the terms of the agreement. An audit firm, approved by the Ministry of Finance, has been engaged to review the Bank's processes to determine the extent of the Bank's commitment with the requirements of the common reporting standards, thus the Bank's CRS report for 2021 has been prepared and sent to the Ministry of Finance in due time in May 2022, and successfully uploaded to the Ministry of Finance's website in due time.

## **Compliance & Governance Division**

The Compliance & Governance Division undertakes the task of assisting the Bank in achieving its objectives in accordance with the applicable regulations and instructions in the State of Kuwait to protect the Bank from any violations, and financial or non-financial penalties. This is clearly demonstrated in our slogan "We comply to protect our growth." The Compliance & Governance Division is the second line of defense, with duties that cover monitoring compliance with laws, regulatory instructions, and corporate governance rules and systems. The year 2022 witnessed multiple accomplishments for the Compliance & Governance Division in terms of enhancing bank-wide levels of compliance with regulatory instructions and applicable laws, along with updating the Bank's policies and procedures which ensures employees' compliance and supports their implementation. The Division has also raised the level of all Bank staff compliance during 2022, through conducting awareness programs related to regulatory authorities' requirements that cover all the Bank's activities.

## **Code of Business Conduct and Ethics**

Warba Bank's practices and activities are governed by the standards of behavioral ethical conduct that apply to all Warba staff members working for or representing the Bank and serving its interests.

## **Disclosure and Transparency**

In line with the instructions from the Central Bank of Kuwait, Capital Markets Authority and Boursa Kuwait, corporate governance rules and standards stipulate enhancement of accurate and timely disclosure processes on all matters and significant information about the Bank. The Bank has set an ad-hoc Disclosure & Transparency Department under the Governance and Compliance Division, dedicated to the disclosure of the Bank's significant information to Boursa Kuwait and CMA. The Bank's website constitutes a significant part of the disclosure channels, plus the annual reports, financial statements and notes, and information related to the Bank's activities such as the key products and services, and regular press releases published by media.

### Adequacy of Internal Controls

Warba Bank's board of directors is responsible for reviewing and approving the effectiveness of the Bank's system of internal control, for the purpose of ensuring effective and efficient operations, quality of internal and external reporting, internal control and compliance with laws and regulations. Senior management is responsible for establishing and maintaining the system of internal control, designed to manage the risk of failure, to achieve the Bank's objectives. The system of internal control can only provide reasonable but not absolute assurance against the risk of gross loss.

The board, through its committees, regularly reviews the effectiveness of the internal control systems as assessed by the various internal control functions. The board also ensures that these functions are properly positioned, staffed, and resourced and are carrying out their responsibilities independently and effectively. The board also reviews the management letters issued by the external financial auditors and reviews the report on accounting and other records and internal control system, issued by the external auditor (other than the financial statement external auditors), and the external auditor opinion was included in the annual report.

The board believes that the internal control systems as of 31<sup>st</sup> December 2022 are adequate to provide reasonable assurance regarding the achievement of Warba Bank's objectives.

Based on CBK's instructions, the Bank has engaged an independent external auditor in 2022 to conduct an independent review report on the Bank's internal controls for 2021. The report was presented to the board audit committee and the board of directors in the meeting held on 27/6/2022. The report was submitted to the CBK on 28/6/2022 and indicated that the accounting and other records and internal controls systems, in the areas examined, were established and maintained in accordance with the requirements of manual general directives issued by CBK on 15/6/2003 and the memo issued by CBK dated 29/1/2022 in respect of conducting internal control review for 2021. The exceptions mentioned in the ICR report that do not have material effect on the credibility of the presentation of the Bank's financial statements for the year ending 31/12/2021 and the actions taken by the Bank to address the exceptions mentioned in the report are considered satisfactory. The follow-up report issued by the external auditors for the periods ending 30/09/2022 and 31/12/2022 concerning the report on accounting and other records and internal control systems for the year ended 31/12/2021 was sent to CBK on 4/10/2022 and 03/01/2023 and concluded that the Bank has resolved all findings in the said report.

External Auditor Report on Internal Control Review



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Kuwait

The Board of Directors  
Warba Bank  
P.O.Box 1220, Safat 13013  
State of Kuwait

22 June 2022

Dear Sirs,

**Report on Accounting and Other Records and Internal Control Systems**

In accordance with our letter of engagement dated 9 March 2022, we have examined the accounting and other records and internal control systems of WARBA Bank K.S.C.P. ('the Bank') for the year ended 31 December 2021:

We covered the following departments and activities of the Bank:

- Financial Control Group
- Investment Banking Group
- Treasury Group
- Human Resources & General Services Group
- Risk Management Group
- Regulatory Division
- AML, CFT and Tax Compliance Department
- Corporate Banking Group
- Retail Banking Group
- Operations Group
- Internal Sharia'h Audit Department
- Customer Complaint Unit
- Digital Group
- Strategy Planning Department
- Legal Department
- Information Technology Group
- Corporate Communications Department
- Corporate Governance
- Internal Audit Group

Our examination has been carried out as per the requirements of the Central Bank of Kuwait (CBK) circular dated 19 January 2022 considering the requirements contained in the Manual of General Directives issued by the CBK on 15 June 2003, Pillar IV of corporate governance instructions in respect of risk management and internal controls issued by the CBK on 20 June 2012 and its amendments on 10 September 2019, instructions dated 14 May 2019 concerning anti money laundering and combating financing of terrorism and the related instructions, instructions dated 9 February 2012 regarding confidentiality of customer's information and financial securities activities of the Bank and activities and instructions regarding internal controls with respect to prevention and reporting of fraud and embezzlement cases and the

## External Auditor Report on Internal Control Review



letter from the Central Bank of Kuwait dated 19 January 2022 regarding the request of assigning an external auditor to express an opinion on the adequacy of the procedures in the review and archive unit.

As members of the Board of Directors of the Bank, you are responsible for establishing and maintaining adequate accounting and other records and internal control systems, taking into consideration the expected benefits and relative costs of establishing such systems and complying with the requirements contained in the CBK instructions mentioned in the above paragraph. The objective of this report is to provide reasonable, but not absolute, assurance on the extent to which the adopted procedures and systems are adequate to safeguard the assets against loss from unauthorized use or disposition; that key risks are properly monitored and evaluated; that transactions are executed in accordance with established authorization procedures and are recorded properly; and to enable you to conduct the business in a prudent manner.

Because of inherent limitations in internal control system, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the systems to future periods is subject to the risk that management information and control procedures may become inadequate because of changes in conditions or that the degree of compliance with those procedures may deteriorate.

With the exception of the matters set out in the accompanying report, and having regard to the nature and volumes of the Bank's operations, during the year ended 31 December 2021, and the materiality and risk rating of our findings, we report that:

- a) The accounting and other records and internal control systems of the Bank were established and maintained in accordance with the requirements of the Manual of General Directives issued by the CBK on 15 June 2003 and letter issued by CBK on 19 January 2022,
- b) The findings raised in the examination and assessment of the internal controls do not have a material impact on the fair presentation of the financial statements of the Bank for the year ended 31 December 2021, and
- c) The actions taken by the Bank to address the findings referred in the report are satisfactory.

Yours faithfully,

**Qais M. Al Nisf**  
License No. 38 "A"  
BDO Al Nisf & Partners

## External Sharia Audit Report of Warba Bank (K.S.C.P.)- Kuwait

for the Fiscal Year Ended 31 December 2022

To the Esteemed Shareholders

Warba Bank (K.S.C.P.)- Kuwait

We have conducted the external Sharia audit over the operations and activities of Warba Bank (K.S.C.P.)-Kuwait (the Bank) for the fiscal year ended 31 December 2022, in accordance with the instructions of the Sharia Supervisory Governance for Kuwaiti Islamic Banks issued by the Central Bank of Kuwait on 20/12/2016, which aim to obtain a reasonable and independent assurance that the Bank's operations and activities are carried out in compliance with Islamic Sharia rules and principles, in accordance with the resolutions and fatwas issued by the Bank's Sharia Supervisory Board (Sharia Supervisory Board).

### Opinion

In our Opinion, the contracts, operations, and activities (transactions) concluded and executed by the concerned departments at the Bank during the fiscal year ended 31 December 2022 comply with Islamic Sharia rules and principles according to the resolutions and fatwas issued by the Sharia Supervisory Board.

### Basis for Opinion

We have conducted the external Sharia audit based on the following professional instructions and standards:

The instructions of the Sharia Supervisory Governance for Kuwaiti Islamic Banks issued by the Central Bank of Kuwait on 20/12/2016.

The External Sharia Audit Standard (No. 6) issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI).

The International Standard on Assurance Engagements (Standard 3000), Assurance other than Audits or Reviews of Historical Financial Information.

These standards require us to adhere to the ethical requirements, plan and conduct the external Sharia audit to obtain reasonable and independent assurance that the Bank complies with Islamic Sharia rules and principles according to the resolutions and fatwas issued by the Sharia Supervisory Board.

### Responsibility of the Management

The Bank's management is responsible for compliance with Islamic Sharia rules and principles in accordance with the resolutions and fatwas issued by the Sharia Supervisory Board in all contracts it concludes and transactions and activities it carries out, and relevant policies and procedures. The Bank's management is also responsible for establishing and maintaining an efficient and effective system for internal Sharia control which enables it to achieve compliance with Islamic Sharia rules and principles in all its transactions according to the resolutions and fatwas issued by the Sharia Supervisory Board.

### Responsibility of the External Sharia Auditor

Our responsibility is to conduct the external Sharia audit in accordance with the instructions of Sharia Supervisory Governance for Kuwaiti Islamic Banks issued by the Central Bank of Kuwait on 20/12/2016, which aim to obtain a reasonable and independent assurance that the Bank's operations and activities are carried out in compliance with Islamic Sharia rules and principles, in accordance with the resolutions and fatwas issued by the Sharia Supervisory Board.

### Summary of External Sharia Audit Work

We have conducted the external Sharia audit work according to the External Sharia Audit Standard (No. 6) issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and the International Standard on Assurance Engagements (Standard 3000), Assurance other than Audits or Reviews of Historical Financial Information, and we carried out the external Sharia audit work according to the following:

Planning for external Sharia audit based on the potential Sharia risks.

Examine the Bank's internal Sharia control system, not to express opinion on the efficiency and effectiveness of the system, but with the aim to design appropriate external Sharia audit procedures that enable us to obtain a reasonable and independent assurance.

Assessment of the potential Sharia risks based on the Bank's Sharia risks matrix.

Design external Sharia audit programs based on the results of the potential Sharia risks assessment.

Using external Sharia audit programs in examining transactions on products, operations and activities executed by the Bank, on a sample basis.

Gathering the findings of the examinations and audits we conducted, discussing those findings – if any – with the departments responsible for execution of such transactions at the Bank.

Issue a draft of the external Sharia audit report and discuss it with the concerned executive departments at the Bank.

Issue of the final external Sharia audit report.

We conducted several field audit visits to the concerned executive departments at the Bank. We conducted a number of 82 field audit visits. The first visit was on 5/10/2022 and the last one was on 9/01/2023.

### Our External Sharia Audit included, mainly, the following concerned executive departments:

- |  |                                    |                                       |
|--|------------------------------------|---------------------------------------|
| • Sharia Supervisory Board Secretariat | • Internal Sharia Audit Department | • Sharia Control Department           |
| • Treasury group                       | • Credit Administration Department | • Corporate Banking Group             |
| • Operations group                     | • Retail Banking Group             | • Banking Cards.                      |
| • Branches & Operations                | • Direct Sales                     | • Financial Control group             |
| • Trade Finance Department             | • Retail Finance Department        | • Human Resources group               |
| • Legal Department                     | • Risk Management group            | • Information system Tech. group      |
| • Review Department                    | • Quality Service Department       | • Customer Complaints and Call Center |

### Our External Sharia Audit basically included the following:

1. Conducting discussions with the Bank's management on the Sharia supervisory and control system and the Bank's organizational and administrative structure.
2. Reviewing the documents, systems, policies, and procedures adopted by the Bank to establish the framework for the Bank's internal Sharia control system, which included:
  - Reviewing the minutes of the Sharia Supervisory Board meetings.
  - Reviewing the manuals of policies and procedures for the internal Sharia control system.
  - Reviewing job descriptions for some selected jobs.
  - Reviewing the Bank's policies and procedures related to recruitment and employees training procedures.
  - Reviewing internal Sharia audit reports.
  - Reviewing the Bank's policy related to reporting on Sharia violations - if any - in the executed activities and operations.
  - Reviewing the policies and procedures related to correcting Sharia violations if any .

3. Reviewing the resolutions and fatwas issued by the Sharia Supervisory Board during the fiscal year ended 31/12/2022, related to concluded contracts, and products, operations and activities provided by or entered by the Bank and ensuring that they are implemented by concerned departments at the Bank, in accordance with the Sharia Supervisory Board's approvals.
4. Reviewing the manuals of policies and procedures related to the operations, products and activities carried out by the concerned departments at the Bank and ensuring that they are approved by the Sharia Supervisory Board.
5. Reviewing the terms, conditions, contracts, and documents related to banking and financing products and operations provided by the Bank and ensuring that they are approved by the Sharia Supervisory Board.
6. Reviewing the contracts concluded with external parties by the concerned executive departments at the Bank and ensuring that they are approved by the Sharia Supervisory Board.
7. Reviewing the Bank's investment activities and operations to ensure that they are approved by the Sharia Supervisory Board.
8. Examining the transactions executed by the concerned executive departments at the Bank - on a sample basis - of the banking and financing products, operations, and contracts of the Bank to ensure that they were carried out according to the Sharia terms of reference established for those transactions, as follows:
  - The forms and contracts approved by the Sharia Supervisory Board.
  - Manuals of policies and procedures that have been approved by the Sharia Supervisory Board.
  - Policies, terms, and conditions that have been approved by the Sharia Supervisory Board.
9. The banking, financing and investment contracts, operations and products that have been examined and reviewed include for example but are not limited to the following:
  - Banking accounts.
  - Banking cards.
  - Treasury products, operations, and contracts.
  - Corporate finance contracts.
  - Retail financing contracts.
  - Investment funds and portfolios.
  - Contracts concluded with external parties.
10. Reviewing Sharia Supervisory Board's report for the fiscal year ended 31/12/2022.

**Abdulsattar A. Kattan**  
**Shura Sharia Consultancy**

16 Jumada Alakhir 1444 AH

09 January 2023  
State of Kuwait



# Warba's Elite for Q3 2022

## The Doers



## The Team Players



## The Ambitious





# CAPITAL ADEQUACY DISCLOSURES

74

FIRST: BANK STRUCTURE

83

THIRD: CAPITAL ADEQUACY RATIOS

87

FIFTH: RISK MANAGEMENT

111

SEVENTH: SHARIA REGULATIONS

74

SECOND: CAPITAL STRUCTURE

85

FOURTH: RISK WEIGHTED ASSETS

110

SIXTH: INVESTMENT ACCOUNTS

111

EIGHTH: BANK'S REMUNERATION POLICIES

## **PUBLIC DISCLOSURE REQUIREMENTS (BASEL III)**

The qualitative and quantitative public disclosures under this section have been prepared in accordance with the Central Bank of Kuwait (CBK) Rules and Regulations concerning Capital Adequacy Standard (Basel III) for Islamic Banks licensed in the State of Kuwait, vide circular reference 2/RB/RBA/3362014/ dated June 24, 2014, Leverage Ratio Standard circular reference 2/RBA/3432014/ dated October 21, 2014, and Liquidity Coverage Ratio Standard circular reference 2/RBA/3462014/ dated December 23, 2014.

Disclosures related to Capital Adequacy Standards under Basel III are based on calculating the minimum capital required to cover credit and market risks using the Standardized Approach, and the minimum capital required to cover operational risk using the Basic Indicator Approach.

### **FIRST: BANK STRUCTURE**

Warba Bank K.S.C.P. (the "Bank") is engaged in providing Islamic banking, finance and investment services that comply with Islamic Shari'a to various customer and industry segments.

### **SECOND: CAPITAL STRUCTURE**

The Bank's regulatory capital comprises:

- Equity Tier 1 (CET1) which demonstrates the Bank's underlying strength and includes share capital, reserves, and share premium according to applicable rules and regulations.
- Additional Tier 1 (AT1) which comprises of the Tier 1 Perpetual Sukuk issued by the bank.
- Tier 2 Supplementary Capital which comprises of the allowed portion of general provisions (1.25% of the risk weighted assets).
- The Bank's capital does not include either structured instruments or complex equity instruments.

As at 31 December 2022, Tier 1 "Core Capital" amounted to KD 373,279 thousand (2021: KD 423,843 thousand), and Tier 2 "Supplementary Capital" amounted to KD 27,892 thousand (2021: KD 24,308 thousand) as detailed below:

<b>Capital Structure</b>	2021 (KD'000)	2022 (KD'000)
<b>Tier (1) Capital</b>		
<b>A Common Equity Tier 1 (CET1)</b>		
1- Directly issued qualifying common share capital plus related stock surplus	280,375	<b>286,375</b>
2- Eligible Minority Interest in Consolidated Subsidiaries	-	-
3- Retained earnings (loss)	15,927	<b>20,328</b>
4- Other reserves	6,271	<b>(3,232)</b>
5- Proposed dividends	-	<b>(6,000)</b>
<b>Total (A) CET1 before deductions</b>	302,573	<b>297,471</b>
Deductions from CET1		
1- Treasury shares	-	-
2- Dividends (Declared but not incurred)	-	-
3- Goodwill	-	-
4- Other deductions	-	-
<b>Total (A) CET1 after deductions</b>	302,573	<b>297,471</b>
<b>B Additional Tier 1 (AT1)</b>	121,270	<b>75,808</b>
Deduction from AT1	-	-
<b>Total (B) AT1 after deductions</b>	121,270	<b>75,808</b>
<b>Total (A+B) Tier 1 after Deductions</b>	423,843	<b>373,279</b>
<b>Tier (2) Supplementary Capital</b>		
1- Capital Eligible as T2	-	-
2- General provisions	24,308	<b>27,892</b>
<b>Total Tier (2) Supplementary Capital before deductions</b>	24,308	<b>27,892</b>
Deduction from Tier (2) Supplementary Capital	-	-
<b>Total Tier (2) Supplementary Capital after deductions</b>	24,308	<b>27,892</b>
	-	-
<b>Total Available Capital (Tier 1 &amp; Tier 2) before adjustments</b>	448,151	<b>401,171</b>
Other Adjustments	-	-
<b>Total Available Capital (Tier 1 &amp; Tier 2) After adjustments</b>	448,151	<b>401,171</b>

As at 31 December 2022, Profit Equalization Reserve and Investment Risk Reserve amounted to KD Nil (2021: KD Nil).

**1. Common Disclosures Template**

The common disclosure template demonstrated below is presented with the objective of disclosing a detailed breakdown of the Bank's regulatory capital in a consistent and clear format, thus enhancing the consistency and comparability of the disclosed elements of capital between banks and across jurisdictions.

Item	2021 (KD'000)	2022 (KD'000)	
<b>Common Equity Tier 1 capital: instruments and reserves</b>			
1	Directly issued qualifying common share capital plus related stock surplus	280,375	<b>286,375</b>
2	Retained earnings	15,927	<b>20,328</b>
3	Accumulated other comprehensive income (and other reserves)	6,271	<b>(3,232)</b>
4	Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies)	-	-
5	Common share capital issued by subsidiaries and held by third parties minority interest)	-	-
6	Proposed dividends	-	<b>(6,000)</b>
<b>7</b>	<b>Common Equity Tier 1 capital before regulatory adjustments</b>	<b>302,573</b>	<b>297,471</b>
<b>Common Equity Tier 1 capital: regulatory adjustments</b>			
8	Prudential valuation adjustments	-	-
9	Goodwill (net of related tax liability)	-	-
10	Other intangibles (net of related tax liability)	-	-
11	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-	-
12	Cash-flow hedge reserve	-	-
13	Shortfall of provisions to expected losses (based on the Internal Models Approach, if applied)	-	-
14	Taskeek gain on sale (as set out in para 72 of these guidelines)	-	-
15	Gains and losses due to changes in own credit risk on fair valued liabilities	-	-
16	Defined-benefit pension fund net assets (para 68)	-	-
17	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	-	-
18	Reciprocal cross-holdings in common equity of banks, FIs, and insurance entities	-	-
19	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold of bank's CET1 capital)	-	-
20	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold of bank's CET1 capital)	-	-
21	Mortgage servicing rights (amount above 10% threshold of bank's CET1 capital)	-	-
22	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-	-
23	Amount exceeding the 15% threshold	-	-
24	of which: significant investments in the common stock of financials	-	-
25	of which: mortgage servicing rights	-	-
26	of which: deferred tax assets arising from temporary differences	-	-
27	National specific regulatory adjustments	-	-
28	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	-	-

Item	2021 (KD'000)	2022 (KD'000)
<b>29 Total regulatory adjustments to Common Equity Tier 1</b>	-	-
<b>30 Common Equity Tier 1 after the regulatory adjustments</b>	302,573	<b>297,471</b>
<b>Additional Tier 1 capital: instruments</b>	-	-
31 Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	121,270	<b>75,808</b>
32 of which: classified as equity under applicable accounting standards	121,270	<b>75,808</b>
33 of which: classified as liabilities under applicable accounting standards	-	-
34 Directly issued capital instruments subject to phase out from Additional Tier 1	-	-
35 Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	-	-
36 of which: instruments issued by subsidiaries subject to phase-out	-	-
<b>37 Additional Tier 1 capital before regulatory adjustments</b>	121,270	<b>75,808</b>
<b>Additional Tier 1 capital: regulatory adjustments</b>	-	-
38 Investments in own Additional Tier 1 instruments	-	-
39 Reciprocal cross-holdings in Additional Tier 1 instruments	-	-
40 Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	-	-
41 Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	-
42 National specific regulatory adjustments	-	-
43 Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-	-
<b>44 Total regulatory adjustments to Additional Tier 1 capital</b>	-	-
<b>45 Additional Tier 1 capital (AT1)</b>	121,270	<b>75,808</b>
<b>46 Tier 1 capital (T1 = CET1 + AT1)</b>	423,843	<b>373,279</b>
<b>Tier 2 capital: instruments and provisions</b>	-	-
47 Directly issued qualifying Tier 2 instruments plus related stock surplus	-	-
48 Directly issued capital instruments subject to phase-out from Tier 2	-	-
49 Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	-	-
50 of which: instruments issued by subsidiaries subject to phase-out	-	-
51 General provisions included in Tier 2 capital	24,308	<b>27,892</b>
<b>52 Tier 2 capital before regulatory adjustments</b>	24,308	<b>27,892</b>
<b>Tier 2 capital: regulatory adjustments</b>	-	-
53 Investments in own Tier 2 instruments	-	-
54 Reciprocal cross-holdings in Tier 2 instruments	-	-
55 Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold)	-	-
56 Significant investments in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	-
<b>57 National specific regulatory adjustments</b>	-	-
<b>58 Total regulatory adjustments to Tier 2 capital</b>	-	-

Item	2021 (KD'000)	2022 (KD'000)
59 Tier 2 capital (T2)	24,308	<b>27,892</b>
60 Total capital (TC = T1 + T2)	448,151	<b>401,171</b>
61 Total risk weighted assets (after applying 50% additional weighting)	2,081,752	<b>2,368,231</b>
<b>Capital ratios and buffers</b>		
62 Common Equity Tier 1 (as a percentage of risk weighted assets)	14.53%	<b>12.56%</b>
63 Tier 1 (as a percentage of risk weighted assets)	20.36%	<b>15.76%</b>
64 Total capital (as a percentage of risk weighted assets)	21.53%	<b>16.94%</b>
65 Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus D-SIB buffer requirement, expressed as a percentage of risk weighted assets)	7.00%	<b>8.00%</b>
66 of which: capital conservation buffer requirement		<b>1.00%</b>
67 of which: bank specific countercyclical buffer requirement	-	-
68 of which: D-SIB buffer requirement	-	-
69 Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	6.70%	<b>4.74%</b>
<b>National minimal</b>		
70 National Common Equity Tier 1 minimum ratio: 7.0%	145,723	<b>189,458</b>
71 National Tier 1 minimum ratio: 8.5%	176,949	<b>224,982</b>
72 National total capital minimum ratio excluding CCY and DSIB: 10.5%	218,584	<b>272,347</b>
<b>Amounts below the thresholds for deduction (before risk weighting)</b>		
73 Non-significant investments in the capital of other financials	-	-
74 Significant investments in the common stock of financials	-	-
75 Mortgage servicing rights (net of related tax liability)	-	-
76 Deferred tax assets arising from temporary differences (net of related tax liability)	-	-
<b>Applicable caps on the inclusion of provisions in Tier 2</b>		
77 Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardized approach (prior to application of cap)	60,088	<b>82,481</b>
78 Cap on inclusion of provisions in Tier 2 under standardized approach	24,308	<b>27,892</b>
79 Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	-	-
80 Cap for inclusion of provisions in Tier 2 under internal ratings-based approach	-	-

## 2. Reconciliation Requirements

The Group has adopted a three-step approach for reconciliation of balance sheet items and the regulatory capital components as detailed in the instructions are as follows:

### Step 1 & 2 of the reconciliation requirements:

31 December 2022

Step 1 & 2 of the reconciliation requirements	Balance sheet as in published financial statements (KD'000)	Under regulatory scope of consolidation (KD'000)	Reference
<b>Assets</b>			
Cash and balances with banks	146,634	146,634	
Placements with banks and CBK	278,895	278,895	
Financing receivables	3,129,676	3,129,676	
<b>of which maximum general provisions (netted above) capped for Tier 2 inclusion</b>	<b>27,892</b>	<b>27,892</b>	<b>a</b>
Financial assets at fair value through profit or loss	139,592	139,592	
Financial assets at fair value through other comprehensive income	295,413	295,413	
Investments in joint ventures	107,880	107,880	
Investment properties	16,193	16,193	
Others assets	69,321	69,321	
Property and equipment	17,353	17,353	
<b>Total Assets</b>	<b>4,200,957</b>	<b>4,200,957</b>	
<b>Liabilities</b>			
Due to banks	792,766	792,766	
Depositors accounts	2,674,482	2,674,482	
Issued Sukuk	304,057	304,057	
Other liabilities	55,735	55,735	
<b>Total Liabilities</b>	<b>3,827,040</b>	<b>3,827,040</b>	
<b>Equity</b>			
Share Capital	200,000	200,000	b
Share Premium	80,375	80,375	c
Statutory Reserve	6,803	6,803	d
Retained Earnings	8,966	8,966	
<b>of which retained earnings eligible for (CET1)</b>	<b>20,328</b>	<b>20,328</b>	<b>e</b>
<b>of which proposal for bonus shares</b>	<b>6,000</b>	<b>6,000</b>	<b>f</b>
<b>of which loss adjustment from postponement of installments</b>	<b>5,362</b>	<b>5,362</b>	
Fair value reserve	(9,759)	(9,759)	g
Forex reserve	(276)	(276)	h
Proposed dividends	12,000	12,000	
<b>Equity attributable to Shareholders of the Bank</b>	<b>298,109</b>	<b>298,109</b>	
Perpetual Tier 1 Sukuk	75,808	75,808	i
<b>Total Equity</b>	<b>373,917</b>	<b>373,917</b>	
<b>Total Liabilities and Equity</b>	<b>4,200,957</b>	<b>4,200,957</b>	

**Step 3 of the reconciliation requirements:**

<b>Step 3 of Reconciliation requirements</b>		<b>Component of regulatory capital reported by bank (KD'000)</b>	<b>Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation from Step 2</b>
<b>No.</b>	<b>Common Equity Tier 1 capital: instruments and reserves</b>		
1	Share Capital	206,000	b
2	Share Premium	80,375	c
3	Statutory Reserve	6,803	d
4	Retained Earnings	20,328	e
5	Fair value reserve	(9,759)	f
6	Forex Reserve	(276)	g
7	Proposed dividends	(6,000)	h
8	<b>Common Equity Tier 1 capital (CET1)</b>	<b>297,471</b>	
	<b>Additional Tier 1 capital: Instruments</b>		
9	Perpetual Tier 1 Sukuk	75,808	i
10	<b>Additional Tier 1 capital</b>	<b>75,808</b>	
11	<b>Tier 1 Capital (Tier 1 = Common Tier 1 capital + Additional Tier 1 capital)</b>	<b>373,279</b>	
	<b>Tier 2 Capital : Instruments and provisions</b>		
12	Tier 2 Instruments	-	
13	General provisions included in Tier 2 capital	27,892	a
14	<b>Tier 2 Capital</b>	<b>27,892</b>	
15	<b>Total Capital (Total capital = Tier 1 + Tier 2)</b>	<b>401,171</b>	

**Step 1 & 2 of the reconciliation requirements:**

31 December 2021

<b>Step 1 &amp; 2 of the reconciliation requirements</b>	<b>Balance sheet as in published financial statements (KD'000)</b>	<b>Under regulatory scope of consolidation (KD'000)</b>	<b>Reference</b>
<b>Assets</b>			
Cash and balances with banks	79,856	79,856	
Placements with banks and CBK	437,043	437,043	
Financing receivables	2,473,516	2,473,516	
<b>of which maximum general provisions (netted above) capped for Tier 2 inclusion</b>	<b>24,308</b>	<b>24,308</b>	<b>a</b>
Financial assets at fair value through profit or loss	128,898	128,898	
Financial assets at fair value through other comprehensive income	263,753	263,753	
Investments in joint ventures	104,891	104,891	
Investment properties	18,715	18,715	
Others assets	55,598	55,598	
Property and equipment	17,942	17,942	
<b>Total Assets</b>	<b>3,580,212</b>	<b>3,580,212</b>	
<b>Liabilities</b>			
Due to banks	512,571	512,571	
Depositors accounts	2,288,918	2,288,918	
Issued Sukuk	302,024	302,024	
Other liabilities	60,900	60,900	
<b>Total Liabilities</b>	<b>3,164,413</b>	<b>3,164,413</b>	
<b>Equity</b>			
Share Capital	200,000	200,000	b
Share Premium	80,375	80,375	c
Statutory Reserve	4,776	4,776	d
Retained Earnings	7,883	7,883	
<b>of which retained earnings eligible for (CET1)</b>	<b>15,927</b>	<b>15,927</b>	<b>e</b>
Fair value reserve	1,608	1,608	f
Forex reserve	(133)	(133)	g
Proposed dividends	-	-	h
<b>Equity attributable to Shareholders of the Bank</b>	<b>294,529</b>	<b>294,529</b>	
Perpetual Tier 1 Sukuk	121,270	121,270	i
<b>Total Equity</b>	<b>415,799</b>	<b>415,799</b>	
<b>Total Liabilities and Equity</b>	<b>3,580,212</b>	<b>3,580,212</b>	

Step 3 of the reconciliation requirements:

Step 3 of Reconciliation requirements		Component of regulatory capital reported by bank (KD'000)	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation from Step 2
<b>No.</b>	<b>Common Equity Tier 1 capital: instruments and reserves</b>		
1	Share Capital	200,000	b
2	Share Premium	80,375	c
3	Statutory Reserve	4,776	d
4	Retained Earnings	15,927	e
5	Fair value reserve	1,608	f
6	Forex Reserve	(113)	g
7	Proposed dividends	-	h
8	<b>Common Equity Tier 1 capital (CET1)</b>	<b>302,573</b>	
	<b>Additional Tier 1 capital: Instruments</b>		
9	Perpetual Tier 1 Sukuk	121,270	i
10	<b>Additional Tier 1 capital</b>	<b>121,270</b>	
11	<b>Tier 1 Capital (Tier 1 = Common Tier 1 capital + Additional Tier 1 capital)</b>	<b>423,843</b>	
	<b>Tier 2 Capital : Instruments and provisions</b>		
12	Tier 2 Instruments	-	
13	General provisions included in Tier 2 capital	24,308	a
14	<b>Tier 2 Capital</b>	<b>24,308</b>	
15	<b>Total Capital (Total capital = Tier 1 + Tier 2)</b>	<b>448,151</b>	

### THIRD: CAPITAL ADEQUACY RATIOS

The Bank actively manages its capital with the objective of maintaining adequate levels in order to cover all risks inherent in the business. The capital base is assessed to support the current and future growth of the business and the capital allocation is determined on the basis of financing and investments growth expectations for each business line.

The Bank is currently operating well above the minimum regulatory capital ratios, with ability to cover any eventuality and intervene at an early stage in situation of any stress. The business growth forecast is based on available capital, as allocated for different business lines to ensure that the Bank's internal capital targets are consistent with the approved Risk Appetite of the Bank to maximize shareholders' value on risk-adjusted basis.

#### 1. Capital Adequacy Ratios are as follows:

##### 2022

No.	Ratio Description	Total Required Capital (%)	Available Capital (%)
1.	Total Capital Adequacy Ratio	11.50%	16.94%
2.	Tier 1 Capital Adequacy Ratio	9.50%	15.76%
3.	CET1 Capital Adequacy Ratio	8.00%	12.56%

##### 2021

No.	Ratio Description	Total Required Capital (%)	Available Capital (%)
1.	Total Capital Adequacy Ratio	10.50%	21.53%
2.	Tier 1 Capital Adequacy Ratio	8.50%	20.36%
3.	CET1 Capital Adequacy Ratio	7.00%	14.53%

The Bank ensures the fulfillment of Central Bank of Kuwait requirements in relation to capital adequacy.

#### 2. Financial Leverage Ratio:

The below table depicts information regarding the calculation of the Financial Leverage Ratio, as per the applicable CBK regulations:

Item	2021 KD'000	2022 KD'000
<b>No. On-balance sheet exposures</b>		
1 On-balance sheet items (excluding Sharia compliant hedging contracts, but including collaterals)	3,639,425	4,282,333
2 (Asset amounts deducted in determining Basel III Tier 1 capital)	-	-
3 <b>Total on-balance sheet exposures (excluding Sharia compliant hedging contracts) (sum of lines 1 and 2)</b>	3,639,425	4,282,333
<b>Exposures to Sharia compliant hedging contracts</b>		
4 Replacement cost associated with all Sharia compliant hedging contracts (i.e. net of eligible cash variation margin)	454	459
5 Add-on amounts for potential future exposures "PFE" associated with all Sharia compliant hedging contracts	228	133

Item	2021 KD'000	2022 KD'000
6		
Gross-up for the collateral of Sharia compliant hedging contracts provided where deducted from the balance sheet assets pursuant to the bank's accounting policy.	-	-
7		
(Deductions of receivables assets for cash variation margin provided in with all Sharia compliant hedging contracts )	-	-
8		
(Bank's exposures to exempted Central Counter Parties "CCP" )	-	-
<b>9 Total exposures of Sharia compliant hedging contracts (sum of lines 4 to 8)</b>	<b>682</b>	<b>592</b>
<b>Other off-balance sheet exposures</b>		
10		
Off-balance sheet exposure (before any adjustment for credit conversion factors)	578,228	<b>1,433,141</b>
11		
(Adjustments for conversion to credit equivalent amounts)	(353,171)	<b>(1,217,163)</b>
<b>12 Off-balance sheet items (sum of lines 10 and 11)</b>	<b>225,057</b>	<b>215,978</b>
<b>Capital and total exposures</b>		
<b>13 Tier 1 capital</b>	<b>423,843</b>	<b>373,279</b>
<b>14 Total exposures (sum of lines 3, 9 and 12)</b>	<b>3,865,164</b>	<b>4,498,903</b>
<b>Leverage ratio</b>		
<b>15 Leverage ratio (Tier 1 Capital (13)/total exposures (14))</b>	<b>10.97%</b>	<b>8.30%</b>

As stated above, the Bank's leverage ratio for the present period is 8.30% compared to 10.97% in the previous year. The decrease in the leverage ratio is mainly due to the following:

- Redemption of 40% of the Tier 1 Sukuk that was issued in 2017.
- An increase in on- and off-balance sheet exposures compared to the previous year resulting from an increase in the Bank's assets in addition to an increase in letters of guarantee and letter of credits issued to customers.

**Summary comparison of accounting assets versus leverage ratio exposure measure:**

Item	2021 KD'000	2022 KD'000
<b>No. On-balance sheet exposures</b>		
1		
Total assets as per published financial statements	3,580,212	<b>4,200,957</b>
2		
Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	-	-
3		
Adjustment for fiduciary assets recognized on the balance sheet pursuant to the bank accounting policy but excluded from the gross leverage ratio exposure measure.	-	-
4		
Exposures to Sharia compliant hedging contracts	682	<b>592</b>
5		
Off-balance sheet exposures (i.e. equivalent credit amounts)	225,057	<b>215,978</b>
6		
Other exposures	59,213	<b>81,376</b>
<b>Total exposures in calculation of leverage ratio (sum of the above items)</b>	<b>3,865,164</b>	<b>4,498,903</b>

**FOURTH: RISK WEIGHTED ASSETS**
**1. Credit risk**

The minimum required capital for credit risk exposures as at 31 December 2022 was KD 250,327 thousand (31 December 2021: KD 200,433 thousand) as detailed below:

**2022  
(KD'000)**

SN	Description of Credit Risk Exposures	Total Exposures	Net Exposures	Risk-Weighted Assets	Required Capital
1	Cash items	8,095	8,095	-	-
2	Claims on sovereigns	505,133	505,133	94,384	10,854
3	Claims on international organizations	-	-	-	-
4	Claims on public sector entities	90,011	90,011	12,633	1,453
5	Claims on multilateral development banks	83,029	83,029	-	-
6	Claims on banks	283,234	283,234	97,095	11,166
7	Claims on corporates	2,122,006	1,728,635	1,085,862	124,874
8	Regulatory retail exposure	611,003	602,528	358,811	41,263
9	Qualifying residential housing financing facilities	-	-	-	-
10	Past due exposures	29,662	23,418	9,050	1,041
11	Goods and commodities positions	-	-	-	-
12	Real estate investments	136,301	136,301	162,737	18,715
13	Investment and financing with customers	337,489	226,331	198,992	22,884
14	Sukuk and taskeek exposures	-	-	-	-
15	Claims on central counterparties.	-	-	-	-
16	Other exposures	292,940	292,940	157,192	18,077
<b>Total</b>		<b>4,498,903</b>	<b>3,979,655</b>	<b>2,176,756</b>	<b>250,327</b>

**2021  
(KD'000)**

SN	Description of Credit Risk Exposures	Total Exposures	Net Exposures	Risk-Weighted Assets	Required Capital
1	Cash item	5,930	5,930	-	-
2	Claims on sovereigns	430,402	430,402	75,190	7,895
3	Claims on international organizations	-	-	-	-
4	Claims on public sector entities	94,593	94,593	7,130	749
5	Claims on multilateral development banks	81,977	81,977	-	-
6	Claims on banks	378,954	378,954	76,378	8,020
7	Claims on corporates	1,778,435	1,566,537	995,527	104,530
8	Regulatory retail exposure	510,257	499,295	309,272	32,474
9	Qualifying residential housing financing facilities	-	-	-	-
10	Past due exposures	26,500	23,176	8,396	882

SN	Description of Credit Risk Exposures	Total Exposures	Net Exposures	Risk-Weighted Assets	Required Capital
11	Goods and commodities positions	70	70	44	5
12	Real estate investments	123,605	123,605	153,441	16,111
13	Investment and financing with customers	133,996	111,462	103,233	10,839
14	Sukuk and taskeek exposures	-	-	-	-
15	Claims on central counterparties.	-	-	-	-
16	Other exposures	300,445	300,445	180,278	18,928
<b>Total</b>		<b>3,865,164</b>	<b>3,616,446</b>	<b>1,908,889</b>	<b>200,433</b>

The minimum required capital for financing receivable as at 31 December 2022 was KD 199,191 thousand (31 December 2021: KD 151,370 thousand) as detailed below:

**2022**  
**(KD'000)**

SN	Description of Credit Risk Exposures	Total Exposures	Net Exposures	Risk-Weighted Assets	Required Capital
1	Claims on sovereigns	<b>114,808</b>	<b>114,808</b>	<b>61,564</b>	<b>7,080</b>
2	Claims on public sector institutions	<b>88,493</b>	<b>88,493</b>	<b>12,161</b>	<b>1,398</b>
3	Claims on banks	<b>112,915</b>	<b>112,915</b>	<b>52,167</b>	<b>5,999</b>
4	Claims on corporates	<b>1,916,726</b>	<b>1,575,339</b>	<b>971,994</b>	<b>111,779</b>
5	Regulatory retail exposure	<b>610,889</b>	<b>602,528</b>	<b>372,265</b>	<b>42,810</b>
6	Qualifying residential housing financing facilities	-	-	-	-
7	Past due exposures	<b>29,656</b>	<b>23,417</b>	<b>9,450</b>	<b>1,087</b>
8	Investment and financing with customers	<b>337,489</b>	<b>226,331</b>	<b>210,163</b>	<b>24,169</b>
9	Other exposures	-	<b>68,392</b>	<b>42,335</b>	<b>4,869</b>
<b>Total</b>		<b>3,210,976</b>	<b>2,812,223</b>	<b>1,732,099</b>	<b>199,191</b>

**2021**  
**(KD'000)**

SN	Description of Credit Risk Exposures	Total Exposures	Net Exposures	Risk-Weighted Assets	Required Capital
1	Claims on sovereigns	87,668	87,668	40,726	4,276
2	Claims on public sector institutions	92,948	92,948	6,267	658
3	Claims on banks	70,054	70,054	30,135	3,164
4	Claims on corporates	1,611,343	1,464,001	931,944	97,854
5	Regulatory retail exposure	510,076	499,295	317,442	33,331
6	Qualifying residential housing financing facilities	-	-	-	-
7	Past due exposures	26,500	23,181	8,654	909
8	Investment and financing with customers	133,996	111,462	106,458	11,178
<b>Total</b>		<b>2,532,585</b>	<b>2,348,609</b>	<b>1,441,626</b>	<b>151,370</b>

## 2. Market Risk

Market Risk-weighted exposure during the financial year 2022 amounted to KD 2,725 thousand (31 December 2021: KD 2,038 thousand), based on the standardized approach. The minimum required capital for market risk exposures amounts to KD 313 thousand (31 December 2021: KD 214 thousand).

## 3. Operational Risk

Operational Risk-weighted exposures calculated during the year 2022 amounted to KD 188,750 thousand (31 December 2021: KD 170,825 thousand) as per the Basic Indicator Approach. The minimum required capital for operational risk exposures amounts to KD 21,706 thousand (31 December 2021: KD 17,937 thousand).

## FIFTH: RISK MANAGEMENT

Risk is inherent in all activities of a Bank and is managed through a process of ongoing identification, measurement, mitigation and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's financial health and continuing profitability. The Bank's business generates exposure to the following broad risk types from its financial transactions, use of financial instruments and its operations:

- Credit risk
- Market risk
- Liquidity Risk
- Operational risk

In addition, there are other risk areas that need to be monitored and controlled. The following presents information about the Bank's exposure to each of the risks, the Bank's objectives, framework of policies, models and quantification techniques, and processes for identifying, measuring, mitigating and managing risks, and the management of Bank's capital.

### 1. Risk Management Structure

The Board of Directors (the 'Board') has overall responsibility for the establishment and oversight of Bank's Risk Management function. The Board has established a Board Risk Committee (the 'BRC') comprising of members from the Board, to set the framework and monitor the Bank's Risks and Control-related requirements.

For specific types of risk such as credit, market and liquidity risks, the Board has further set up a Board Credit & Investment Committee (the 'BCIC'). At the management-level, the following committees are setup to assist the Board in fulfilling its responsibilities: the Executive Credit & Investment Committee (the 'ECIC'), Assets and Liabilities Management Committee (the 'ALCO'), and the Provisioning Committee.

An independent Risk Management Group (the 'RMG') headed by the Chief Risk Officer (the 'CRO') reports to the BRC, responsible for Enterprise-wide Risks to assist the Board and BRC in carrying out the risk oversight responsibility.

### 2. Risk Management Framework

The Board Risk Committee (the 'BRC') sets the framework and monitors the Risks and Control functions of the Bank.

The Board has also established a Board Audit Committee (the 'BAC'), as required by Central Bank of Kuwait (the 'CBK'), which amongst other functions, is also required to monitor adherence with the Bank's Risk Management principles, policies and procedures, and for reviewing the adequacy of the Risk Management Framework.

The Executive Credit & Investment Committee (the 'ECIC') is the executive management level decision making body which is empowered to consider all financing and investment proposals for approval within its delegated authorities and/or recommendations to the Board Credit & Investment Committee (the 'BCIC') for final approval.

The Provisioning Committee is responsible for reviewing the entire financing and investment portfolio of the Bank on a periodic basis, to assess against actual delinquency or potential impairment and recommend the required level of provisioning in accordance with the Central Bank of Kuwait (CBK) regulations and financial/accounting standards.

The Assets and Liabilities Management Committee (the 'ALCO') is responsible for all matters related to the Bank's Balance Sheet management including all assets & liabilities, asset allocation, liability structure, funding diversification & cost-effectiveness, asset & liability maturity profile, net return margin, as well as all other issues related to capital adequacy with respect to market and liquidity risk management.

### **3. Risk Appetite**

The Bank's risk appetite defines the maximum limit of risk that the Bank is willing to accept in relevant business categories to achieve an optimal balance of risk and return which will enable the achievement of its strategic objectives and is approved at the Board level. Any risk which is not in line with the Bank's stated risk appetite must be mitigated as a matter of priority to be within acceptable levels. The risk appetite is reviewed and recommended by the BRC to the Board of Directors for approval and periodic updates. This ensures the risk appetite statements are consistent with the Bank's strategy and business environment. Through the risk appetite statements, the Board communicates to management the acceptable level of risk for the Bank, determined in a manner which meets the objectives of shareholders, depositors and regulators. RMG aims to identify early warning signs of potential breaches to risk appetite limits; and is responsible for notifying the executive management of action required to mitigate or avoid such risks. The RMG is also responsible for escalating the matter to the BRC and the Board.

### **4. Risk Management Systems**

In order to manage risks in a holistic manner and to measure risks on a consolidated basis, the Bank has a formal Risk Governance Framework, which provides detailed guidelines for a sound framework for Enterprise-wide Risk Management. The objectives of risk management are supported by various risk policies that are reviewed and updated regularly. The risk policies, in general, cater to detailed planning for various risks based on business strategies, past performance, future expectations, economic conditions, and internal as well as external events. The policies also require comprehensive analysis of a set of pre-determined parameters prior to introduction of new products or instruments. The policies have put in place internal limits (nominal as well as risk based) for continuous monitoring and ensuring that risks are maintained within the Bank's Risk Appetite. Periodical reporting of risks to various authorities including the ALCO, ECIC, BCIC and the BRC ensures that the Board and the Executive management are continuously kept aware of positions thereby enabling informed decision-making.

The Risk Management policies are established to identify, quantify, control, mitigate, and analyze the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and ensure adherence to the risk appetite limits. Risk Management policies and systems are subject to review regularly, on an ongoing basis, to reflect changes in economic environment, market conditions, products and services offered by the Bank.

### **5. Categories of Risks**

The following are the main risks the Bank is exposed to:

#### **5.1 Credit Risks**

Credit risk is the risk of financial loss to the Bank if any counterparty to a financial obligation or instrument fails to or delays in meeting its contractual obligations, and arises principally from the Bank's receivables from Islamic financing activities, Ijara and Investments, etc. For risk management control purposes, the Bank considers and consolidates all elements of credit risk exposure such as individual obligor default risk, country risk and sector risk in one measure about riskiness of an exposure, based on models and inter-play of matrices.

#### **Credit Risk Framework**

The Bank's Board has approved Financing and Investment Policies for various business groups and investment asset types. The Board has also approved the Executive Credit & Investment Committee (the 'ECIC') Charter which is empowered for initial screening of proposals and approval within its delegated authorities. The Board has also constituted the Board Credit & Investment Committee (the 'BCIC') which by virtue of its Charter is the next level of authority which provides guiding principles and approves the various financing and investment proposals on behalf of the Board of the Bank. Risk Management Group provides independent opinion and assessment of risk for every financing and investment that is proposed and presented to the approving authorities for decision making.

In addition, the Bank endeavors to manage the credit exposure by obtaining security where appropriate and limiting the tenor of exposure or structures that are beneficial to the overall risk profile of the Bank's credit risk exposure.

**Net Credit Exposures (Rated or Unrated)**
**2022**  
**(KD'000)**

SN	Description of Credit Risk Exposures	Net Credit Exposure	Rated Exposures	Unrated Exposures
1	Cash item	8,095	-	8,095
2	Claims on sovereigns	505,133	459,826	45,307
3	Claims on international organizations	-	-	-
4	Claims on public sector entities	90,011	12,634	77,377
5	Claims on multilateral development banks	83,029	83,027	2
6	Claims on banks	283,234	254,677	28,557
7	Claims on corporates	2,122,006	81,288	2,040,718
8	Regulatory retail exposure	611,003	-	611,003
9	Qualifying residential housing financing facilities	-	-	-
10	Past due exposures	29,662	-	29,662
11	Goods and commodities positions	-	-	-
12	Real estate investments	136,301	-	136,301
13	Investment and financing with customers	337,489	-	337,489
14	Sukuk and taskeek exposures	-	-	-
15	Claims on central counterparties.	-	-	-
16	Other exposures	292,940	-	292,940
<b>Total</b>		<b>4,498,903</b>	<b>891,452</b>	<b>3,607,451</b>

**2021**  
**(KD'000)**

SN	Description of Credit Risk Exposures	Net Credit Exposure	Rated Exposures	Unrated Exposures
1	Cash item	5,930	-	5,930
2	Claims on sovereigns	430,402	379,730	50,672
3	Claims on international organizations	-	-	-
4	Claims on public sector entities	94,593	5,401	89,192
5	Claims on multilateral development banks	81,977	81,975	2
6	Claims on banks	378,954	357,875	21,079
7	Claims on corporates	1,778,435	30,055	1,748,380
8	Regulatory retail exposure	510,257	-	510,257
9	Qualifying residential housing financing facilities	-	-	-
10	Past due exposures	26,500	-	26,500
11	Goods and commodities positions	70	-	70
12	Real estate investments	123,605	-	123,605
13	Investment and financing with customers	133,996	-	133,996
14	Sukuk and taskeek exposures	-	-	-
15	Claims on central counterparties.	-	-	-
16	Other exposures	300,445	-	300,445
<b>Total</b>		<b>3,865,164</b>	<b>855,036</b>	<b>3,010,128</b>

**Total Credit Risk Exposures (Self-Financed or Financed from Investment Accounts):**
**2022**  
(KD'000)

SN	Description of Credit Risk Exposures	Credit Risk Exposures	Self Financed	Financed From Investment Accounts
1	Cash item	8,095	8,095	-
2	Claims on sovereigns	505,133	192,749	312,384
3	Claims on international organizations	-	-	-
4	Claims on public sector entities	90,011	17,457	72,554
5	Claims on multilateral development banks	83,029	16,104	66,925
6	Claims on banks	283,234	82,467	200,767
7	Claims on corporates	2,122,006	480,179	1,641,827
8	Regulatory retail exposure	611,003	118,510	492,493
9	Qualifying residential housing financing facilities	-	-	-
10	Past due exposures	29,662	5,758	23,904
11	Goods and commodities positions	-	-	-
12	Real estate investments	136,301	26,436	109,865
13	Investment and financing with customers	337,489	65,456	272,033
14	Sukuk and taskeek exposures	-	-	-
15	Claims on central counterparties.	-	-	-
16	Other exposures	292,940	130,623	162,317
<b>Total</b>		<b>4,498,903</b>	<b>1,143,834</b>	<b>3,355,069</b>

**2021**  
(KD'000)

SN	Description of Credit Risk Exposures	Credit Risk Exposures	Self Financed	Financed From Investment Accounts
1	Cash item	5,930	5,930	-
2	Claims on sovereigns	430,402	148,903	281,499
3	Claims on international organizations	-	-	-
4	Claims on public sector entities	94,593	22,832	71,761
5	Claims on multilateral development banks	81,977	19,788	62,189
6	Claims on banks	378,954	109,250	269,704
7	Claims on corporates	1,778,435	482,297	1,296,138
8	Regulatory retail exposure	510,256	123,171	387,085
9	Qualifying residential housing financing facilities	-	-	-
10	Past due exposures	26,500	6,396	20,104
11	Goods and commodities positions	70	17	53
12	Real estate investments	123,605	29,836	93,769
13	Investment and financing with customers	133,996	32,344	101,652
14	Sukuk and taskeek exposures	-	-	-
15	Claims on central counterparties.	-	-	-
16	Other exposures	300,446	131,675	168,771
<b>Total</b>		<b>3,865,164</b>	<b>1,112,439</b>	<b>2,752,725</b>

**Average exposures (Self-Financed or Financed from Unrestricted Investment Accounts) on a quarterly basis:**
**2022**  
**(KD'000)**

SN	Description of Credit Risk Exposures	Average Credit Risk Exposures	Average Self Financed	Average Financed From Investment Accounts
1	Cash item	8,095	8,095	-
2	Claims on sovereigns	505,133	192,749	312,384
3	Claims on international organizations	-	-	-
4	Claims on public sector entities	90,011	17,457	72,554
5	Claims on multilateral development banks	83,029	16,104	66,925
6	Claims on banks	283,234	82,467	200,767
7	Claims on corporates	2,122,006	480,179	1,641,827
8	Regulatory retail exposure	611,003	118,510	492,493
9	Qualifying residential housing financing facilities	-	-	-
10	Past due exposures	29,662	5,758	23,904
11	Goods and commodities positions	-	-	-
12	Real estate investments	136,301	26,436	109,865
13	Investment and financing with customers	337,489	65,456	272,033
14	Sukuk and taskeek exposures	-	-	-
15	Claims on central counterparties.	-	-	-
16	Other exposures	292,940	130,623	162,317
<b>Total</b>		<b>4,498,903</b>	<b>1,143,834</b>	<b>3,355,069</b>

**2021**  
**(KD'000)**

SN	Description of Credit Risk Exposures	Average Credit Risk Exposures	Average Self Financed	Average Financed From Investment Accounts
1	Cash item	9,554	9,554	-
2	Claims on sovereigns	389,223	140,010	249,213
3	Claims on international organizations	-	-	-
4	Claims on public sector entities	101,883	21,803	80,080
5	Claims on multilateral development banks	88,039	18,835	69,204
6	Claims on banks	347,624	88,714	258,910
7	Claims on corporates	1,789,822	436,574	1,353,248
8	Regulatory retail exposure	481,454	103,495	377,959
9	Qualifying residential housing financing facilities	-	-	-
10	Past due exposures	35,505	7,980	27,525
11	Goods and commodities positions	161	34	127
12	Real estate investments	131,289	28,138	103,151
13	Investment and financing with customers	118,237	25,483	92,754
14	Sukuk and taskeek exposures	-	-	-
15	Claims on central counterparties.	-	-	-
16	Other exposures	282,605	116,417	166,188
<b>Total</b>		<b>3,775,396</b>	<b>997,037</b>	<b>2,778,359</b>

### Excess Risk Concentrations

Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or exposed to similar economic environment that would cause their ability to meet contractual obligations and be similarly impacted by changes in economic, political and/or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Bank's performance to developments affecting similarly connected counterparties.

### Geographical Distributions for Credit Risk Exposure

**2022**  
(KD'000)

SN	Description of Credit Risk Exposures	MENA	North America	Europe	Asia	Others	Total
1	Cash item	8,095	-	-	-	-	8,095
2	Claims on sovereigns	471,452	7,760	11,874	14,047	-	505,133
3	Claims on international organizations	-	-	-	-	-	-
4	Claims on public sector entities	90,011	-	-	-	-	90,011
5	Claims on multilateral development banks	83,029	-	-	-	-	83,029
6	Claims on banks	220,422	12,332	44,615	5,865	-	283,234
7	Claims on corporates	2,037,566	33,602	9,823	41,015	-	2,122,006
8	Regulatory retail exposure	611,003	-	-	-	-	611,003
9	Qualifying residential housing financing facilities	-	-	-	-	-	-
10	Past due exposures	29,662	-	-	-	-	29,662
11	Goods and commodities positions	-	-	-	-	-	-
12	Real estate investments	16,193	106,442	13,666	-	-	136,301
13	Investment and financing with customers	337,489	-	-	-	-	337,489
14	Sukuk and taskeek exposures	-	-	-	-	-	-
15	Claims on central counterparties.	-	-	-	-	-	-
16	Other exposures	201,662	41,579	11,444	6,866	31,389	292,940
<b>Total</b>		<b>4,106,584</b>	<b>201,715</b>	<b>91,422</b>	<b>67,793</b>	<b>31,389</b>	<b>4,498,903</b>

2021  
(KD'000)

SN	Description of Credit Risk Exposures	MENA	North America	Europe	Asia	Others	Total
1	Cash item	5,930	-	-	-	-	5,930
2	Claims on sovereigns	397,076	8,486	13,456	11,384	-	430,402
3	Claims on international organizations	-	-	-	-	-	-
4	Claims on public sector entities	94,593	-	-	-	-	94,593
5	Claims on multilateral development banks	81,977	-	-	-	-	81,977
6	Claims on banks	343,134	6,260	26,824	2,736	-	378,954
7	Claims on corporates	1,726,807	24,109	16,971	10,548	-	1,778,435
8	Regulatory retail exposure	510,257	-	-	-	-	510,257
9	Qualifying residential housing financing facilities	-	-	-	-	-	-
10	Past due exposures	26,500	-	-	-	-	26,500
11	Goods and commodities positions	70	-	-	-	-	70
12	Real estate investments	18,715	100,348	4,542	-	-	123,605
13	Investment and financing with customers	133,996	-	-	-	-	133,996
14	Sukuk and taskeek exposures	-	-	-	-	-	-
15	Claims on central counterparties.	-	-	-	-	-	-
16	Other exposures	209,167	41,579	11,444	6,866	31,389	300,445
<b>Total</b>		<b>3,548,222</b>	<b>180,782</b>	<b>73,237</b>	<b>31,534</b>	<b>31,389</b>	<b>3,865,164</b>

**Maturities of total "Credit Risk" exposures**
**2022**  
**(KD'000)**

SN	Description of Credit Risk Exposures	Up to 3 months	3 to 12 months	Over 1 year	Total
1	Cash item	8,095	-	-	8,095
2	Claims on sovereigns	375,559	47,604	81,970	505,133
3	Claims on international organizations	-	-	-	-
4	Claims on public sector entities	60,241	28,252	1,518	90,011
5	Claims on multilateral development banks	-	2,088	80,941	83,029
6	Claims on banks	191,525	53,340	38,369	283,234
7	Claims on corporates	1,426,023	547,079	148,904	2,122,006
8	Regulatory retail exposure	1,721	9,102	600,180	611,003
9	Qualifying residential housing financing facilities	-	-	-	-
10	Past due exposures	29,662	-	-	29,662
11	Goods and commodities positions	-	-	-	-
12	Real estate investments	-	-	136,301	136,301
13	Investment and financing with customers	319,113	15,738	2,638	337,489
14	Sukuk and taskeek exposures	-	-	-	-
15	Claims on central counterparties.	-	-	-	-
16	Other exposures	22,872	952	269,116	292,940
<b>Total</b>		<b>2,434,811</b>	<b>704,155</b>	<b>1,359,937</b>	<b>4,498,903</b>

**2021**  
**(KD'000)**

SN	Description of Credit Risk Exposures	Up to 3 months	3 to 12 months	Over 1 year	Total
1	Cash item	5,930	-	-	5,930
2	Claims on sovereigns	301,209	42,549	86,644	430,402
3	Claims on international organizations	-	-	-	-
4	Claims on public sector entities	72,546	20,402	1,645	94,593
5	Claims on multilateral development banks	-	765	81,212	81,977
6	Claims on banks	350,572	5,961	22,421	378,954
7	Claims on corporates	1,138,811	519,983	119,641	1,778,435
8	Regulatory retail exposure	3,118	8,981	498,158	510,257
9	Qualifying residential housing financing facilities	-	-	-	-
10	Past due exposures	26,500	-	-	26,500
11	Goods and commodities positions	-	70	-	70
12	Real estate investments	-	-	123,605	123,605
13	Investment and financing with customers	117,527	13,926	2,543	133,996
14	Sukuk and taskeek exposures	-	-	-	-
15	Claims on central counterparties.	-	-	-	-
16	Other exposures	14,215	1,109	285,121	300,445
<b>Total</b>		<b>2,030,428</b>	<b>613,746</b>	<b>1,220,990</b>	<b>3,865,164</b>

**Main sectors of total Credit Risk exposures**
**2022  
(KD'000)**

SN	Description of Credit Risk Exposures	Manufacturing & Trade	Banks & Financial Institutions	Construction & Real Estate	Government	Others	Total
1	Cash item	-	-	-	-	8,095	8,095
2	Claims on sovereigns	2,016	1,549	-	390,325	111,243	505,133
3	Claims on international organizations	-	-	-	-	-	-
4	Claims on public sector entities	31,407	-	-	1,518	57,086	90,011
5	Claims on multilateral development banks	-	83,029	-	-	-	83,029
6	Claims on banks	-	283,234	-	-	-	283,234
7	Claims on corporates	534,286	156,669	1,162,309	-	268,742	2,122,006
8	Regulatory retail exposure	-	-	-	-	611,003	611,003
9	Qualifying residential housing financing facilities	-	-	-	-	-	-
10	Past due exposures	999	-	10,022	-	18,641	29,662
11	Goods and commodities position	-	-	-	-	-	-
12	Real estate investments	-	-	136,301	-	-	136,301
13	Investment and financing with customers	-	-	80,866	-	256,623	337,489
14	Sukuk and taskeek exposures	-	-	-	-	-	-
15	Claims on central counterparties.	-	-	-	-	-	-
16	Other exposures	-	-	-	-	292,940	292,940
<b>Total</b>		<b>568,708</b>	<b>524,481</b>	<b>1,389,498</b>	<b>391,843</b>	<b>1,624,373</b>	<b>4,498,903</b>

**2021  
(KD'000)**

SN	Description of Credit Risk Exposures	Manufacturing & Trade	Banks & Financial Institutions	Construction & Real Estate	Government	Others	Total
1	Cash item	-	-	-	-	5,930	5,930
2	Claims on sovereigns	-	1,529	-	342,734	86,139	430,402
3	Claims on international organizations	-	-	-	-	-	-
4	Claims on public sector entities	24,908	-	-	1,645	68,040	94,593

SN	Description of Credit Risk Exposures	Manufacturing & Trade	Banks & Financial Institutions	Construction & Real Estate	Government	Others	Total
5	Claims on multilateral development banks	-	81,977	-	-	-	81,977
6	Claims on banks	-	378,954	-	-	-	378,954
7	Claims on corporates	503,672	80,474	950,357	-	243,932	1,778,435
8	Regulatory retail exposure	-	-	-	-	510,257	510,257
9	Qualifying residential housing financing facilities	-	-	-	-	-	-
10	Past due exposures	999	-	10,022	-	15,479	26,500
11	Goods and commodities position	70	-	-	-	-	70
12	Real estate investments	-	-	123,605	-	-	123,605
13	Investment and financing with customers	-	-	44,766	-	89,230	133,996
14	Sukuk and taskeek exposures	-	-	-	-	-	-
15	Claims on central counterparties.	-	-	-	-	-	-
16	Other exposures	-	-	-	-	300,445	300,445
<b>Total</b>		<b>529,649</b>	<b>542,934</b>	<b>1,128,750</b>	<b>344,379</b>	<b>1,319,452</b>	<b>3,865,164</b>

### 5.1.1 Irregular and past due credit facilities

The Bank complies with CBK instructions regarding the provisions required for credit risks by applying the requirements as per IFRS 9. With regard to the credit facilities/financing portfolio, the Bank estimates the expected credit losses in accordance with IFRS 9 and complies with the relevant CBK regulations or as per the instructions issued by CBK regarding rules and regulations concerning classification of credit facilities and calculation of their provisions and method for treating the revenues resulting therefrom, whichever is greater.

#### Irregular and past due financing facilities exposures in accordance with standard portfolios:

On 31 December, 2022, the value of the irregular financing facilities (impaired), including the Bank's accounts receivable, amounted to KD 39,111 thousand after excluding the deferred revenues and due profits (31 December 2021: KD 39,593 thousand) and KD 20,544 thousand (31 December 2021: KD 23,792 thousand) after excluding the acceptable collaterals as per the instructions of the Central Bank of Kuwait for the purpose of calculating the Capital Adequacy Ratio.

As of 31 December 2022, the Bank's provisions are KD 100,990 thousand including a general provision of KD 82,420 thousand (31 December 2021: KD 80,126 thousand including a general provision of KD 59,957).

**Irregular and past due exposures as per standard portfolios:**
**2022**  
**(KD'000)**

SN	Description of Standard Portfolios	Impaired	Net Impaired after deducting acceptable guarantees	Specific Provision	Net Facilities	Past Due
1	Claims on banks	-	-	-	-	-
2	Claims on corporates	36,598	18,031	17,070	961	269,952
3	Regulatory retail exposures	2,513	2,513	1,191	1,322	19,470
4	Real estate investments	-	-	-	-	-
5	Investment and financing with customers	-	-	-	-	-
<b>Total</b>		<b>39,111</b>	<b>20,544</b>	<b>18,261</b>	<b>2,283</b>	<b>289,422</b>

**2021**  
**(KD'000)**

SN	Description of Standard Portfolios	Impaired	Net Impaired after deducting acceptable guarantees	Specific Provision	Net Facilities	Past Due
1	Claims on banks	-	-	-	-	-
2	Claims on corporates	37,198	21,397	18,216	3,181	181,726
3	Regulatory retail exposures	2,395	2,395	1,520	875	19,536
4	Real estate investments	-	-	-	-	-
5	Investment and financing with customers	-	-	-	-	-
<b>Total</b>		<b>39,593</b>	<b>23,792</b>	<b>19,736</b>	<b>4,056</b>	<b>201,262</b>

**Irregular and past due exposures as per geographical location:**
**2022**  
**(KD000)**

SN	Description of geographical location	Impaired	Net Impaired after deducting acceptable guarantees	Specific Provision	Net Facilities	Past Due
1	MENA	30,072	15,426	13,143	2,283	289,422
2	Europe	-	-	-	-	-
3	Asia	-	-	-	-	-
4	Rest of the World	9,039	5,118	5,118	-	-
<b>Total</b>		<b>39,111</b>	<b>20,544</b>	<b>18,261</b>	<b>2,283</b>	<b>289,422</b>

2021  
 (KD'000)

SN	Description of geographical location	Impaired	Net Impaired after deducting acceptable guarantees	Specific Provision	Net Facilities	Past Due
1	MENA	30,666	23,792	19,736	4,056	201,262
2	Europe	-	-	-	-	-
3	Asia	-	-	-	-	-
4	Rest of the World	8,927	-	-	-	-
<b>Total</b>		<b>39,593</b>	<b>23,792</b>	<b>19,736</b>	<b>4,056</b>	<b>201,262</b>

**Irregular and past due exposures by industrial sector:**

 2022  
 (KD'000)

SN	Description of Industrial Sector	Impaired	Specific Provision	Net Facilities	Past Due
1	Manufacturing & Trade	<b>2,227</b>	<b>580</b>	<b>863</b>	<b>47,055</b>
2	Banks and financial institutions	-	-	-	-
3	Constructions and real estates	<b>34,369</b>	<b>16,490</b>	<b>97</b>	<b>126,948</b>
4	Others	<b>2,515</b>	<b>1,391</b>	<b>1,323</b>	<b>115,419</b>
<b>Total</b>		<b>39,111</b>	<b>18,261</b>	<b>2,283</b>	<b>289,422</b>

 2021  
 (KD'000)

SN	Description of Industrial Sector	Impaired	Specific Provision	Net Facilities	Past Due
1	Manufacturing & Trade	1,222	105	782	25,035
2	Banks and financial institutions	-	-	-	-
3	Constructions and real estates	35,665	17,783	2,417	154,981
4	Others	2,706	1,848	857	21,246
<b>Total</b>		<b>39,593</b>	<b>19,736</b>	<b>4,056</b>	<b>201,262</b>

**Aging of Irregular and past due exposures:**
**2022**  
(KD'000)

SN	Description of Irregular and past due exposures	Up to 3 months	From 3 months to 6 months	From 6 months to 12 months	More than 1 Year	Total
1	Impaired	-	7,764	3,275	28,072	39,111
2	Past Due	289,422	-	-	-	328,533
<b>Total</b>		<b>289,422</b>	<b>7,764</b>	<b>2,021</b>	<b>28,072</b>	<b>367,644</b>

**2021**  
(KD'000)

SN	Description of Irregular and past due exposures	Up to 3 months	From 3 months to 6 months	From 6 months to 12 months	More than 1 Year	Total
1	Impaired	-	5,326	2,021	32,246	39,593
2	Past Due	201,262	-	-	-	201,262
<b>Total</b>		<b>201,262</b>	<b>5,326</b>	<b>2,021</b>	<b>32,246</b>	<b>251,967</b>

**General Provisions Balance:**

SN	Distribution of General Provisions to credit risk exposures	2021 (KD'000)	2022 (KD'000)
1	Claims on sovereigns	136	771
2	Claims on public sector institutions	938	889
3	Claims on banks	552	1,025
4	Claims on corporates*	52,010	70,400
5	Regulatory retail exposures	4,971	5,989
6	Real estate investments	-	-
7	Investment and financing with customers	1,347	3,342
<b>Total</b>		<b>59,954</b>	<b>82,416</b>

\* As at 31 December 2022, claims on corporates include precautionary provisions of KD 50,369 thousand (31 December 2021: KD 34,869 thousand).

SN	Distribution of General Provisions to geographical location	2021 (KD'000)	2022 (KD'000)
1	MENA*	59,604	81,851
2	Europe	163	319
3	Asia	105	156
4	Rest of the World	82	90
<b>Total</b>		<b>59,954</b>	<b>82,416</b>

\* As at 31 December 2022, MENA includes precautionary provisions of KD 50,369 thousand (31 December 2021: KD 34,869 thousand).

### 5.1.2 Applicable Risk Mitigation Methods

The Credit Policy of the Bank lays down guidelines for collateral valuation and management which includes, haircuts, minimum coverage requirement for different categories of collateral, revaluation, frequency and basis of revaluation, documentation, takaful, custodial requirements etc. According to the credit policy, the frequency of revaluing the collateral depends on the type of collateral. Specifically, daily revaluation is required for share collateral and also where the collateral is in a different currency than the exposure. This process is handled by a department independent of the business groups to ensure objectivity.

Acceptable collateral includes cash, bank guarantees, shares, real estate etc. subject to specific conditions on eligibility, margin requirements etc., laid down in the credit policy. The credit risk mitigation used for capital adequacy computation includes collateral in the form of cash and shares as well as guarantees in accordance with the CBK's rules and regulations concerning capital adequacy standard.

### Credit Risk Exposures, Eligible Collaterals and Banking Guarantees

**2022**  
**(KD'000)**

SN	Description of Credit Risk Exposure	Total Credit Exposure	Eligible Collaterals	Banking Guarantees
1	Cash item	8,095	-	-
2	Claims on sovereigns	505,133	-	-
3	Claims on international organizations	-	-	-
4	Claims on public sector entities	90,011	-	-
5	Claims on multilateral development banks	83,029	-	-
6	Claims on banks	283,234	-	-
7	Claims on corporates	2,122,006	393,371	-
8	Regulatory retail exposure	611,003	8,475	-
9	Qualifying residential housing financing facilities	-	-	-
10	Past due exposures	29,662	6,244	-
11	Goods and commodities positions	-	-	-
12	Real estate investments	136,301	-	-
13	Investment and financing with customers	337,489	111,158	-
14	Sukuk and taskeek exposures	-	-	-
15	Claims on central counterparties.	-	-	-
16	Other exposures	292,940	-	-
<b>Total</b>		<b>4,498,903</b>	<b>519,248</b>	<b>-</b>

2021  
(KD'000)

SN	Description of Credit Risk Exposure	Total Credit Exposure	Eligible Collaterals	Banking Guarantees
1	Cash item	5,930	-	-
2	Claims on sovereigns	430,402	-	-
3	Claims on international organizations	-	-	-
4	Claims on public sector entities	94,593	-	-
5	Claims on multilateral development banks	81,977	-	-
6	Claims on banks	378,954	-	-
7	Claims on corporates	1,778,435	211,898	-
8	Regulatory retail exposure	510,257	10,961	-
9	Qualifying residential housing financing facilities	-	-	-
10	Past due exposures	26,500	3,324	-
11	Goods and commodities positions	70	-	-
12	Real estate investments	123,605	-	-
13	Investment and financing with customers	133,996	22,534	-
14	Sukuk and taskeek exposures	-	-	-
15	Claims on central counterparties.	-	-	-
16	Other exposures	300,445	-	-
<b>Total</b>		<b>3,865,164</b>	<b>248,717</b>	<b>-</b>

## 5.2 Market Risks

Market risk emanates from the process of fair value or future cash flows of a financial instrument which fluctuates because of changes in market prices. Market risk may arise from open positions in profit 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 or prices such as profit rates, credit spreads, foreign exchange rates and equity prices.

The Risk Management Group is responsible for development of detailed Market Risk Management policies and for the periodic review of their implementation, while it is the responsibility of Investment Banking Group and Treasury to proactively manage and control market risk generated from various market positions in investments, financial instruments and over-the-counter deals.

### 5.2.1 Market Risk Framework

The Bank uses market practice for the valuation of its positions and receives regular market information in order to regulate market risk.

The market risk framework comprises of the following elements:

- Limits for all market risk parameters and regular limits monitoring to ensure that Bank does not exceed aggregate risk and concentration parameters set by the CBK limits and internal limits.
- Mark-to-market valuation based on independently published market data, and continuous review of all open positions.

The policies and procedures and the market risk limits are periodically set and reviewed to ensure the implementation of the Bank's market risk appetite. The Bank is required to comply with the guidelines and regulations of the Central Bank of Kuwait, in addition to its internal policies and procedures.

### 5.3 Liquidity Risks

Liquidity Risk is the risk of the Bank being unable to meet its financial liabilities when they fall due. Liquidity risk management is one of the vital components of the management of day-to-day banking business. In order to meet any eventuality, the Bank's liquidity strategy is to maintain a healthy level of liquid assets in the form of cash, cash equivalents and readily marketable securities. The Bank continuously monitors liquidity risk by measuring the maturity profile of its assets and liabilities on a daily basis and the liquidity gaps position is reviewed by Asset Liability Management Committee (ALCO) on a monthly basis. Furthermore, the Liquidity Coverage Ratio, Net Stable Funding Ratio, liquidity reserve position and the ratio of financing facilities to eligible deposits are monitored on a daily basis.

The Bank has in place a Contingency Funding Plan (CFP) which will be used as a blueprint of the action plan to be followed during any liquidity contingencies. The CFP establishes a framework which improves the Bank's preparedness to handle liquidity stress as it emerges due to systemic or non-systemic situations. It identifies trigger events that could potentially cause a liquidity crisis, details the actions to be taken to manage the crisis, and also lays down the administrative structure and responsibilities to ensure accountability in handling an emergency. The CFP supplements the existing Liquidity Risk Policy of the Bank and will be operative only in case of an adverse/stress liquidity situation, actual or perceived.

#### A- Short-term assets to short-term liabilities ratio as of 31 December 2022 is 89% (31 December 2021: 92%) calculated as follows:

SN		2021	2022
1	Current assets (KD '000)	2,546,535	<b>2,948,966</b>
2	Current liabilities (KD '000)	2,756,974	<b>3,323,070</b>
	<b>Current ratio</b>	92%	<b>89%</b>

#### B- Maturity analysis of various categories of funding (current account, unrestricted investment account and restricted investment account) are as follows:

##### 2022 (KD'000)

SN	Categories of funding	Up to 3 months	3 to 12 months	Over 1 year	Total
1	Current account	219,001	-	-	219,001
2	Unrestricted investment account	2,300,885	747,528	189,726	3,238,139
3	Restricted investment account	-	-	-	-
4	Other Deposits	10,108	-	-	10,108
	<b>Total</b>	<b>2,529,994</b>	<b>747,528</b>	<b>189,726</b>	<b>3,467,248</b>

##### 2021 (KD'000)

SN	Categories of funding	Up to 3 months	3 to 12 months	Over 1 year	Total
1	Current account	244,041	-	-	244,041
2	Unrestricted investment account	1,598,500	864,674	88,540	2,551,714
3	Restricted investment account	-	-	-	-
4	Other Deposits	5,735	-	-	5,735
	<b>Total</b>	<b>1,848,276</b>	<b>864,674</b>	<b>88,540</b>	<b>2,801,490</b>

### 5.3.1 Liquidity Coverage Ratio Disclosure

The qualitative and quantitative public disclosures under this section have been prepared in accordance with the Central Bank of Kuwait (CBK) Rules and Regulations concerning Liquidity Coverage Ratio for Islamic Banks licensed in the State of Kuwait, vide circular reference (2/IBS/3462014/) dated 23/2014/12/.

#### Qualitative disclosure on LCR

The Liquidity Coverage Ratio (LCR) is a global standard for assessing bank liquidity. It aims to ensure that a bank has adequate unencumbered High Quality Liquid Assets (HQLA) that can be converted into cash easily and immediately to meet its liquidity needs for a 30 calendar day liquidity stress scenario.

LCR has been defined as 
$$\frac{\text{Stock of high-quality liquid assets (HQLAs)}}{\text{Total net cash outflows over the next 30 calendar days}} \geq 100\%$$

Liquid assets comprise of high-quality assets that can be readily sold or used as collateral to obtain funds in a range of stress scenarios. There are two categories of assets included in the stock of HQLAs, viz. Level 1 and Level 2 assets. Level 1 assets are with 0% haircut while Level 2A assets are with a minimum 15% haircut and Level 2B Assets, with a minimum 50% haircut.

The total net cash outflow is the total expected cash outflows minus total expected cash inflows for the upcoming 30 calendar days. Total expected cash outflows are calculated by multiplying the outstanding balances of various categories or types of liabilities and off-balance sheet commitments by the rates at which they are expected to run off or be drawn down. Total expected cash inflows are calculated by multiplying the outstanding balances of various categories of contractual receivables by the rates at which they are expected to flow in up to an aggregate cap of 75% of total expected cash outflows.

The Bank's focus has been to ensure diversified funding sources in addition to its core deposit base. The Treasury of the Bank manages liquidity by constant monitoring of future cash flows and liquidity needs. This incorporates an assessment of expected cash flows and the availability of high-quality assets which could be used to secure additional funding if required. The bank also conducts stress tests to assess impact of stress on liquidity under various scenarios. Furthermore, the bank has established a Contingency Funding Plan to manage liquidity during stressed conditions.

The average HQLA for the quarter ended 31 December 2022 was KD 435 Million of which Central Bank reserves constituted about 62.6%. Average cash outflows over a 30-day horizon amounted to KD 738 Million while average inflows from assets were KD 542 Million.

Bank's LCR of 199% (based on average of last three months' position) was above the minimum 90% prescribed by CBK for 2022. Management of liquidity is centrally managed through the Treasury within the bank. The Bank has sufficient liquidity sources for outflows and management is of the view that we are adequately liquid as required by LCR regulations. The Asset and Liability Management Committee (ALCO) of the Bank is responsible for oversight of liquidity management and review of positions on monthly basis and/or on need basis based on systemic risks.

Quantitative information on Liquidity coverage ratio (LCR) is given below:

LCR common disclosure template for the quarter ending on 31 December 2022

Item	Description	"value in KD'000"	
		Value before applying inflows rates (average)*	Value after applying inflows rates (average)*
<b>High-Quality Liquid Assets (HQLA)</b>			
1	Total HQLA (before adjustments)		434,750
<b>Cash Outflows</b>			
2	Retail deposits and small business	840,456	160,945
3	• Stable deposits		
4	• Less stable deposits	840,456	160,945
5	Unsecured wholesale funding excluding the deposits of small business customers:	905,711	528,604
6	• Operational deposits		
7	• Non-operational deposits (other unsecured commitments)	905,711	528,604
8	Secured Funding		
9	Other cash outflows, including:		
10	• Resulting from Shari'ah compliant hedging contracts		
11	• Resulting from assets-backed sukuk and other structured funding instruments		
12	• Binding credit and liquidity facilities		
13	Other contingent funding obligations	<b>963,328</b>	<b>48,166</b>
14	Other contractual cash outflows obligations	-	-
15	<b>Total Cash Outflows</b>		<b>737,716</b>
<b>Cash Inflows</b>			
16	Secured lending transactions		
17	Inflows from fully performing exposures (as per the counterparties)	978,647	542,473
18	Other cash Inflows		
19	<b>Total Cash Inflows</b>	<b>978,647</b>	<b>542,473</b>
<b>Liquidity Coverage Ratio (LCR)</b>		<b>Total Adjusted Value</b>	
20	Total HQLA (after adjustments)		434,750
21	Net Cash Outflows		218,220
22	<b>LCR</b>		<b>199%</b>

\*Simple Average for all days of the reported quarter.

### 5.3.2 Net Stable Funds Ratio

The qualitative and quantitative public disclosures under this section have been prepared in accordance with the Central Bank of Kuwait (CBK) Rules and Regulations concerning Net Stable Funds Ratio for Islamic Banks licensed in the State of Kuwait, vide circular reference (2/IBS /3572015/) dated 252015/10/.

#### Qualitative disclosure on NSFR

The purpose of the Net Stable Funding Ratio ("NSFR") is to ensure that banks hold a minimum amount of stable funding based on the liquidity characteristics of their assets and activities over a one year horizon. The objective is to reduce maturity mismatches between the asset and liability items on the balance sheet and thereby reduce funding risk.

The minimum requirement on NSFR is defined as follows

$$\frac{\text{Available Amount of Stable Funding}}{\text{Required Amount of Stable Funding}} \geq 100 \%$$

"Stable funding" is defined as those types and amounts of equity and liability financing expected to be reliable sources of funds over a one-year time horizon under conditions of extended stress. The amount of Available Stable Funding (ASF) is measured based on the broad characteristics of the relative stability of the bank's funding sources, including the contractual maturity of its liabilities and the differences in the likelihood of different types of funding providers to withdraw their funding. The amount of Required Stable Funding (RSF) is measured based on the broad characteristics of the liquidity risk profile of the bank's assets and Off Balance Sheet exposures. Assets that are more liquid and more readily available to act as a source of extended liquidity in the stressed environment identified above receive lower RSF factors (and require less stable funding) than assets considered less liquid in such circumstances and, therefore, require more stable funding.

Warba Bank's strategy has been to ensure that there is adequate available stable funding to match its required stable funding at all times. In ensuring this the Bank has focused on increasing its funding from long term sources.

As of 31 December 2022, the bank's NSFR was at 103% compared to the minimum requirement of 90%. The total ASF after assigning weights (ASF Factors) was KD 2,485 Million while the RSF after applying weights was KD 2,411 Million.

**NSFR common disclosure template as at 31 December 2022**

Sr.	Item	Unweighted Values (i.e. before applying relevant factors)				Value in KWD '000s
		No specified maturity	Less than 6 months	More than 6 months and less than one year	Over one year	Total weighted value
<b>Available Stable Funding (ASF):</b>						
1	Capital					
2	Regulatory Capital	401,171	-	-	-	401,171
3	Other Capital Instruments	-	-	-	-	-
4	Retail deposits and deposits and investment accounts from small business customers:					
5	Stable deposits	-	-	-	-	-
6	Less stable deposits	-	718,894	129,092	10,397	773,585
7	Wholesale funding:					
8	Operational deposits and investment accounts	-	-	-	-	-
9	Other wholesale funding	-	2,365,352	194,510	353,060	1,309,818
10	Other liabilities:					
11	NSFR Shariah-compliant hedging contract liabilities	-	-	-	-	-
12	All other liabilities not included in the above categories	55,735	35,812	-	9,078	-
<b>13</b>	<b>Total ASF</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,484,574</b>
<b>Required Stable Funding (RSF):</b>						
14	Total NSFR Shariah-compliant high-quality liquid assets (HQLA)	474,464	-	-	-	18,782
15	Deposits and investment accounts held at other financial institutions for operational purposes	-	-	-	-	-
<b>16</b>	<b>Performing financing and securities:</b>					
17	Performing financing to financial institutions secured by Level 1 HQLA	-	-	-	-	-
18	Performing financing to financial institutions secured by non-Level 1 HQLA and unsecured performing financing to financial institutions	20,892	297,023	7,663	-	48,385
19	Performing financing to non-financial corporate clients, loans to retail and small business customers, and financing to sovereigns, central banks and PSEs, of which:	-	2,099,626	246,353	640,905	1,813,894
20	- With a risk weight of less than or equal to 35% as per the Capital Adequacy Ratio - Basel 3 guidelines	-	-	-	-	-
21	Performing residential financing, of which:	-	-	-	-	-
22	- With a risk weight of less than or equal to 35% under the CBK Capital Adequacy Ratio - Basel III Guidelines	-	-	-	-	-
23	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	-	-	-	65,943	56,052
<b>24</b>	<b>Other assets:</b>					
25	Physical traded commodities, including gold	-	-	-	-	-

Sr.	Item	Unweighted Values (i.e. before applying relevant factors)				Value in KWD '000s
		No specified maturity	Less than 6 months	More than 6 months and less than one year	Over one year	Total weighted value
26	Assets posted as initial margin for Sharī'ah-compliant hedging contracts and contributions to default funds of CCPs	-	-	-	-	-
27	NSFR Sharī'ah-compliant hedging contract assets	-	-	-	-	-
28	NSFR Sharī'ah-compliant hedging contract liabilities before deduction of variation margin posted	-	-	-	-	-
29	All other assets not included in the above categories	381,318	40,449	-	48,360	422,926
30	Off Balance Sheet Items	800,140	92,051	41,658	-	51,133
<b>31</b>	<b>Total RSF</b>	-	-	-	-	<b>2,411,171</b>
<b>32</b>	<b>NSFR (%)</b>	-	-	-	-	<b>103%</b>

#### 5.4 Profit Rate Risk

Profit rate risk arises from the changes in profit rates affecting future cash flows or the fair value of the underlying financial exposure or instrument. The Bank is susceptible to profit rate risk as value of Bank's fixed income investments and/or return on financing are inversely related to rising rates. Moreover, change in profit rates might also impact Bank's net earnings or earnings spread.

The Bank conducts stress testing and scenario analyses regularly to manage profit rate risk inherent in the balance sheet. Earnings-at-Risk analysis is conducted monthly, to determine the impact of changes in the cost of funds and yield on assets on profitability. Such analysis is also monitored by the senior management of the Bank through the Asset and Liability Management Committee (ALCO).

#### 2022 (KD'000)

Impact of 25 bps move upwards	Upto 7 Days	7 Days to 1 Month	1 to 3 months	3 to 6 months	6 months to 1 Year	Total Impact
Assets	96	153	247	88	7	591
Liabilities	110	148	205	60	21	544
<b>Net Impact</b>	<b>(14)</b>	<b>5</b>	<b>42</b>	<b>28</b>	<b>(14)</b>	<b>46</b>

#### 2022 (KD'000)

Impact of 25 bps move downwards	Upto 7 Days	7 Days to 1 Month	1 to 3 months	3 to 6 months	6 months to 1 Year	Total Impact
Assets	(96)	(153)	(247)	(88)	(7)	(591)
Liabilities	(110)	(148)	(205)	(60)	(21)	(544)
<b>Net Impact</b>	<b>14</b>	<b>(5)</b>	<b>(42)</b>	<b>(28)</b>	<b>14</b>	<b>(46)</b>

#### 2021 (KD'000)

Impact of 25 bps move upwards	Upto 7 Days	7 Days to 1 Month	1 to 3 months	3 to 6 months	6 months to 1 Year	Total Impact
Assets	875	1,233	1,732	744	48	4,633
Liabilities	(711)	(801)	(1,488)	(702)	(287)	(3,989)
<b>Net Impact</b>	<b>164</b>	<b>432</b>	<b>244</b>	<b>42</b>	<b>(239)</b>	<b>643</b>

#### 2021 (KD'000)

Impact of 25 bps move downwards	Upto 7 Days	7 Days to 1 Month	1 to 3 months	3 to 6 months	6 months to 1 Year	Total Impact
Assets	(875)	(1,233)	(1,732)	(744)	(48)	(4,633)
Liabilities	711	801	1,488	702	287	3,989
<b>Net Impact</b>	<b>(164)</b>	<b>(432)</b>	<b>(244)</b>	<b>(42)</b>	<b>239</b>	<b>(643)</b>

## 5.5 Equity Risk in the Banking Book

As of 31 December 2022, the Bank's investments in equity positions other than sukuk amounted to KD 150,089 thousand (31 December 2021: KD 134,512 thousand) as detailed below:

Investment types	2021 (KD'000)	2022 (KD'000)
Quoted equity security	16,899	<b>12,474</b>
Unquoted equity security	5,614	<b>10,497</b>
Unquoted Portfolios and Funds	98,151	<b>113,536</b>
Other unquoted investments	13,848	<b>13,582</b>
<b>Total</b>	134,512	<b>150,089</b>

All equity investments are recorded at fair value.

During the year 2022, the Bank did not record realized losses from sale of equity investments (2021: KD 1 thousand) in the income statement and recorded unrealized gains from change in fair value of the un-quoted securities amounting to KD 4,884 thousand (31 December 2021: KD 45 thousand) in the other comprehensive income.

The minimum required capital for equity investment as at 31 December 2022 was KD 10,685 thousand (31 December 2021: KD 8,993 thousand).

## 5.6 Operational Risks

Operational Risk is defined as the risk of loss arising from inadequate or failed internal processes, systems failure, human error, or from external events including losses resulting from failure to comply with Islamic Shari'a regulations. When controls fail to perform, it can have legal or regulatory implications, or lead to financial or reputational loss.

### 5.6.1 Operational Risk Frameworks

The Bank has a set of policies approved by the Board of Directors that are applied to identify, assess and supervise operational risk in addition to other types of risk relating to the banking and financial activities of the Bank.

Operational risk is managed under the Risk Management Group. This Group ensures compliance with policies and procedures to identify, assess, supervise and monitor operational risk in accordance with the Bank's Risk Management Framework.

The Bank manages operational risks in line with the Central Bank of Kuwait instructions regarding "General Guidelines for Internal Control Systems" and directives regarding "Sound Practices for the Management and Control of Operational Risks". The Bank pays special attention to operational risks that may arise from non-compliance to Islamic Sharia principles and any possible failure in fiduciary responsibilities.

The Bank has established its Business Continuity Management (BCM) Policy to meet any internal or external failures and eventualities enabling smooth functioning of the Bank's operations. The Bank has established Disaster Recovery (DR) site for its IT infrastructure, which ensures that the operational risks do not adversely impact the Bank's business.

**SIXTH: INVESTMENT ACCOUNTS**

Warba Bank receives fund from depositors through various product structures that comply with Islamic Shari'a.

The Bank receives deposits from customers as part of unrestricted Wakala investment accounts either for limited or renewable periods. Funds are invested in financing and investing activities that will achieve a targeted return.

The Bank also receives funds from depositors through unrestricted Mudarabah Agreements, where depositors grant the bank (Mudarib) the right to invest these funds against a share in profit. The Mudarib would bear the loss in case of negligence or violation of any of the terms and conditions of the Mudaraba.

Pools of Assets in which the funds are invested is determined along with the relevant costs and revenues (costs or expenses included are those that are only directly related to general pool assets, meanwhile indirect expenses as General and Administrative expenses and staff cost are not charged), based on which the net profit is determined and shared between the bank and the depositors proportionately based on each contribution to the pools and the specificity of the contractual agreements with the depositors.

Profit percentage distributed to the profit-sharing investment accounts were as follows:

**2022**

SN	Account Category	Q1	Q2	Q3	Q4
1	Saving accounts	1.157%	1.240%	1.439%	1.496%

2021

SN	Account Category	Q1	Q2	Q3	Q4
1	Saving accounts	0.972%	1.033%	1.051%	1.051%

**SEVENTH: SHARI'A REGULATIONS**

Shari'a regulations are monitored and implemented by the Internal Shari'a Audit Department based on the decisions issued and approved by the Shari'a Supervisory Board of Warba Bank. The Internal Shari'a Audit Department supervises the implementation of such regulations on daily basis and answers any Shari'a related inquiries. Part of the activities of the Internal Shari'a Audit Department includes amongst other the review of policies, procedures and documentation including contracts, forms and agreements.

The Internal Shari'a Audit Department, conducted audit on the bank various operations based on an annual audit plan covering all the banks' departments upon which a report covering the findings is reported. The Shari'a Supervisory Board accordingly represents its report to the general assembly in its annual general assembly meeting.

Shari'a Board remuneration for the year ended 31 December 2022 amounted to KD 60 thousand (31 December 2021: KD 60 thousand).

**EIGHTH: BANK'S REMUNERATION POLICIES****Board Nominations & Remunerations Committee**

The Committee is chaired by Mrs. Mai Muhalhal Al Mudhaf, and includes as members Mr. Bader Khalid Al Shalfan, Ms. Basma Hamed Al Sane, Mr. Mohammed Hamed Al Shalfan and Mr. Mohammad Abdulaziz Al Bahar. The Committee helps the Board of Directors to decide on candidates' eligibility to membership of the Board of Directors, the candidate for the position of Chief Executive Officer, his deputies and assistants. The Committee also ensures effectiveness, sound implementation and commitment of the Nominations Policy and its consistency with the Bank's objectives.

The Committee has hired an external Consultant to prepare a long-term incentive scheme for the senior management members.

The functions of the Board Nomination and Remuneration Committee with respect to the Compensation Policy (remunerations) include but are not limited to the following:

- Conduct periodic review of the policy or as recommended by the Board of Directors, give recommendations to the Board of Directors for amending / updating the policy.
- Conduct periodic assessment of the adequacy and effectiveness of the Remuneration Policy to ensure accomplishment of the declared objectives.
- Evaluate the practices under which remunerations are awarded against future revenues under uncertain timing and potentials.
- Make recommendations to the Board of Directors on the level and components of remunerations for the Chief Executive Officer, his assistants and similar Executives level at the Bank to obtain Board approval;
- Identify a system for awarding remunerations in line with the principles of sound practices in respect of awarding remunerations;
- Work closely with the Board Risk Committee at the Bank and/or the Chief Risk Officer when assessing the proposed incentives in the Remuneration Scheme.
- Review the relevant policy and procedures periodically or at least when needed to ensure meeting the established goals in light of the information reviewed by the Committee about the progress of the Remuneration Scheme.

## Compensation according to various staff categories at Warba Bank:

1. Senior Management, this category includes the CEO, deputies, assistants and key executive managers whose appointment is subject to the approval of regulatory and supervisory bodies. Fixed wages for this category include basic salaries, benefits and allowances as well as end-of-service benefits.
2. Those responsible for Financial Control and Risk employees, the remunerations paid to this category include basic salaries, benefits, allowances and end of service benefits. This category includes Financial Control, Risk Management, Compliance Department, Internal Audit and AML Unit.
3. Material Risk Takers: Total compensations paid to this category include basic salaries, benefits and allowances as well as end-of-service benefits, and this category includes Top Management, Groups and Departments Heads, with financial authorities who delegate responsibilities to their staff members but still have the ultimate responsibility and accountability for the risks taken.

Warba Bank sets a Compensation Policy that provides fair, equitable and competitive compensation for its employees; encouraging and rewarding high performance; attracting individuals of the right caliber, qualifications and experience for the positions in the Bank; and providing flexibility to adapt to business market changes and requirements in a structured and standardized manner.

The Board of Directors provides effective oversight on remuneration systems and schemes and reviews salaries structures to ensure sound implementation in close connection with the BNRC whose duties include setting the Remuneration Policy and submitting it for Board approval, conducting periodic review of the policy and providing recommendations thereon so as to ensure proper remuneration payment.

The Remuneration Policy is in line with prudent risk taking. The bonuses must be linked to the bank's medium and long-term performance, taking into account changing the components of the bonuses granted to employees to suit the long-term risks (risk time frame).

### Job Assessment:

1. Job evaluation is used to determine the fair financial value of individual functions within the Bank.
2. The elements to be taken into consideration in the job evaluation process, using the IPE methodology, are based on the following factors:
  - Impact on the organization
  - Communication (internal and external)
  - Knowledge
  - Innovation
  - Risk Environments
3. For each of these elements, the work is evaluated on a separate scale. The results of the evaluation of the Bank's functions determine the function within the relevant grade structure in line with best practices.
4. The Total Rewards Unit is responsible for job evaluation based on accurate job descriptions

No employees were awarded remunerations on signing employment contracts (sign-on awards) during 2022. (2021: No employees were awarded remunerations on signing employment contracts (sign-on awards))

The table below shows the value of remuneration paid to Senior Management:

**2022**

<b>SN</b>	<b>Total value of remuneration awards for the current fiscal year</b>	<b>Unrestricted (in KD)</b>	<b>Deferred (in KD)</b>
<b>Fixed remuneration</b>			
1	Cash-based	<b>2,000,436</b>	-
2	Shares and share-linked instruments	-	-
3	Other	<b>69,154</b>	-
<b>Variable remuneration</b>			
4	Cash-based	<b>1,148,262</b>	<b>189,371</b>
5	Shares and share-linked instruments	-	-
6	Other	<b>18,803</b>	-
<b>Total</b>		<b>3,236,655</b>	<b>189,371</b>

**2021**

<b>SN</b>	<b>Total value of remuneration awards for the current fiscal year</b>	<b>Unrestricted (in KD)</b>	<b>Deferred (in KD)</b>
<b>Fixed remuneration</b>			
1	Cash-based	1,962,844	-
2	Shares and share-linked instruments	-	-
3	Other	63,585	-
<b>Variable remuneration</b>			
4	Cash-based	1,072,825	193,066
5	Shares and share-linked instruments	-	-
6	Other	313,881	-
<b>Total</b>		<b>3,413,135</b>	<b>193,066</b>

The table below shows the value of remuneration paid to material risk takers other than the Senior Management:

2022

SN	Total value of remuneration awards for the current fiscal year	Unrestricted (in KD)	Deferred (in KD)
<b>Fixed remuneration</b>			
1	Cash-based	<b>1,703,770</b>	-
2	Shares and share-linked instruments	-	-
3	Other	<b>68,859</b>	-
<b>Variable remuneration</b>			
4	Cash-based	<b>1,017,144</b>	<b>183,640</b>
5	Shares and share-linked instruments	-	-
6	Other	<b>75,901</b>	-
<b>Total</b>		<b>2,865,674</b>	<b>183,640</b>

2021

SN	Total value of remuneration awards for the current fiscal year	Unrestricted (in KD)	Deferred (in KD)
Fixed remuneration			
1	Cash-based	1,852,494	-
2	Shares and share-linked instruments	-	-
3	Other	73,717	-
Variable remuneration			
4	Cash-based	935,983	236,815
5	Shares and share-linked instruments	-	-
6	Other	321,513	-
<b>Total</b>		<b>3,183,707</b>	<b>236,815</b>

The table below shows the value of remuneration paid to the respective employee categories:

2022

SN	Employee Categories	Number of Employees in the category	End of service paid during the year (in KD)	"Unrestricted" salaries and remunerations paid during the year (in KD)
1	Senior Management	20	136,982	3,236,655
2	Material Risk Takers	17	-	2,865,674
3	Financial & Control Functions	14	81,574	1,308,578

2021

SN	Employee Categories	Number of Employees in the category	End of service paid during the year (in KD)	"Unrestricted" salaries and remunerations paid during the year (in KD)
1	Senior Management	20	146,970	3,413,135
2	Material Risk Takers	26		3,183,707
3	Financial & Control Functions	17	99,336	1,375,864

116



# FINANCIAL STATEMENTS

**118**

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

**124**

CONSOLIDATED STATEMENT  
OF PROFIT OR LOSS

**126**

CONSOLIDATED STATEMENT  
OF CHANGES IN EQUITY

**129**

NOTES TO THE CONSOLIDATED  
FINANCIAL STATEMENTS

**123**

CONSOLIDATED STATEMENT  
OF FINANCIAL POSITION

**125**

CONSOLIDATED STATEMENT OF  
COMPREHENSIVE INCOME

**127**

CONSOLIDATED STATEMENT OF  
CASH FLOWS



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## INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF WARBA BANK K.S.C.P.

### Report on the Audit of the Consolidated Financial Statements

#### Opinion

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

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

#### Basis for Opinion

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

#### Key Audit Matters

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

#### Credit losses on financing facilities

The recognition of credit losses on cash and non-cash financing facilities ("financing facilities") is the higher of Expected Credit Loss determined under International Financial Reporting Standard 9: Financial Instruments ("IFRS 9"), according to the CBK guidelines ("ECL"), and the provision required by the CBK rules on classification of financing facilities and calculation of their provision (the "CBK rules") as disclosed in the accounting policies in Note 2.4.4 and in Note 4 to the consolidated financial statements.

**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF  
WARBA BANK K.S.C.P. (continued)  
Report on the Audit of the Consolidated Financial Statements (continued)**

**Key Audit Matters (continued)**

**Credit losses on financing facilities (continued)**

Recognition of ECL, is a complex accounting policy, which requires considerable judgement in its implementation. ECL is dependent on management's judgement in assessing the level of credit risk on initial recognition and significant increase in credit risk subsequently on the reporting date relative to its initial recognition, and classification into three stages. Furthermore, as disclosed by management, inherently judgmental modelling techniques are used to estimate ECLs which involves determining Probability of Default ("PD"), Loss Given Default ("LGD") and Exposure at Default ("EAD") which are modelled based on macroeconomic variables, and discounted to the reporting date.

On the other hand, recognition of specific provision on impaired financing facility under the CBK rules is based on the instructions prescribed by the CBK on the minimum provision to be recognised, together with any additional provision to be recognised based on management's estimate of expected cash flows related to that financing facility.

We determined that 'Credit losses on financing facilities' is a key audit matter due to the significance of financing facilities and the related estimation uncertainty and judgement applied by management in the identification of significant increase in credit risk and consequent staging of customers; the significant judgment required by management when designing future macroeconomic scenarios; forecasting macroeconomic variables and probability-weighting scenarios.

Our audit procedures include testing the design and implementation of controls over the assessment and calculation of material significant increase in credit risk (SICR) indicators and staging of customers accordingly. We also tested the effectiveness of controls over the PD, LGD and EAD models and the design of multiple future macroeconomic scenarios, the forecasting of macroeconomic variables, and the probability-weighting of these scenarios.

With respect to the ECL, we have selected samples of financing facilities outstanding, included rescheduled financing facilities, and checked the appropriateness of the Group's determination of significant increase in credit risk and the resultant basis for classification of the financing facilities into various stages. We involved our specialists to review the ECL model in terms of key data, methods and assumptions used to ensure they are in line with the requirements of IFRS 9, determined in accordance with the CBK guidelines. For a sample of financing facilities, we have checked the appropriateness of the Group's staging criteria, EAD, PD and LGD including the eligibility and value of collateral considered in the ECL models used by the Group. We have also checked the consistency of various inputs and assumptions used by the Group's management to determine ECL.

**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF  
WARBA BANK K.S.C.P. (continued)  
Report on the Audit of the Consolidated Financial Statements (continued)****Key Audit Matters (continued)****Credit losses on financing facilities (continued)**

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

**Other information included in the Group's 2022 Annual Report**

Management is responsible for the other information. Other information consists of the information included in the Group's 2022 Annual Report, other than the consolidated financial statements and our auditors' report thereon. We obtained the report of the Bank's Board of Directors, prior to the date of our auditors' report, and we expect to obtain the remaining sections of the Group's 2022 Annual Report after the date of our auditors' report.

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

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

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

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

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

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

**Auditors' Responsibilities for the Audit of the Consolidated Financial Statements**

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

**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF  
WARBA BANK K.S.C.P. (continued)  
Report on the Audit of the Consolidated Financial Statements (continued)**

**Auditors' Responsibilities for the Audit of the Consolidated Financial Statements (continued)**

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF  
WARBA BANK K.S.C.P. (continued)****Report on Other Legal and Regulatory Requirements**

Furthermore, in our opinion proper books of account have been kept by the Bank and the consolidated financial statements, together with the contents of the report of the Bank's Board of Directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Capital Adequacy Regulations and Financial Leverage Ratio Regulations issued by the CBK as stipulated in CBK Circular Nos. 2/RB, RBA/3362014/ dated 24 June 2014 and its amendments, and 2/I.B.S. 3432014/ dated 21 October 2014 and its amendments, respectively, the Companies Law No. 1 of 2016, as amended, and its executive regulations, as amended, and by the Bank's Memorandum of Incorporation and Articles of Association, as amended, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Capital Adequacy Regulations and Financial Leverage Ratio Regulations issued by the CBK as stipulated in CBK Circular Nos. 2/RB, RBA/3362014/ dated 24 June 2014 and its amendments, and 2/I.B.S. 3432014/ dated 21 October 2014 and its amendments, respectively, the Companies Law No. 1 of 2016, as amended, and its executive regulations, as amended, or of the Bank's Memorandum of Incorporation and Articles of Association, as amended, have occurred during the year ended 31 December 2022 that might have had a material effect on the business of the Bank or on its financial position.

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

**BADER A. AL-ABDULJADER**LICENCE NO. 207-A  
EY (AL AIBAN, AL OSAIMI & PARTNERS)**DR. RASHEED M. AL-QENAE**LICENSE NO. 130  
OF KPMG AL-QENAE & PARTNERS  
MEMBER FIRM OF KPMG INTERNATIONAL

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**
**As at 31 December 2022**

	Notes	2022 KD'000	2021 KD'000
<b>ASSETS</b>			
Cash and bank balances	3	146,634	79,856
Placements with banks and the CBK		278,895	437,043
Financing receivables	4	3,129,676	2,473,516
Financial assets at fair value through profit or loss	5	139,592	128,898
Financial assets at fair value through other comprehensive income	6	295,413	263,753
Investment in joint ventures	7	107,880	104,891
Investment properties	8	16,193	18,715
Other assets		69,321	55,598
Property and equipment		17,353	17,942
<b>TOTAL ASSETS</b>		<b>4,200,957</b>	<b>3,580,212</b>
<b>LIABILITIES AND EQUITY</b>			
<b>LIABILITIES</b>			
Due to banks and other financial institutions	9	792,766	512,571
Depositors' accounts	10	2,674,482	2,288,918
Sukuk issued	11	304,057	302,024
Other liabilities		55,735	60,900
<b>TOTAL LIABILITIES</b>		<b>3,827,040</b>	<b>3,164,413</b>
<b>EQUITY</b>			
Share capital	12	200,000	200,000
Share premium		80,375	80,375
Statutory reserve	12	6,803	4,777
Fair value reserve		(9,759)	1,607
Foreign currency translation reserve		(276)	(112)
Retained earnings		8,966	7,882
		286,109	294,529
Proposed dividend	12	12,000	-
<b>EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE BANK</b>		<b>298,109</b>	<b>294,529</b>
Perpetual Tier 1 Sukuk	13	75,808	121,270
<b>TOTAL EQUITY</b>		<b>373,917</b>	<b>415,799</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>4,200,957</b>	<b>3,580,212</b>

The accompanying notes 1 to 26 form an integral part of these consolidated financial statements.

**HAMAD MUSAED AL SAYER**  
CHAIRMAN

**SHAHEEN HAMAD AL GHANEM**  
CHIEF EXECUTIVE OFFICER

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS**
**For the year ended 31 December 2022**

	Notes	2022 KD'000	2021 KD'000
Placements and finance income		<b>129,302</b>	95,410
Finance costs and distribution to depositors		<b>(81,062)</b>	(48,580)
<b>Net finance income</b>		<b>48,240</b>	46,830
Net investment income	14	<b>23,721</b>	49,622
Net fee and commission income	15	<b>5,576</b>	4,035
Other income		<b>926</b>	4,264
Foreign exchange gain		<b>733</b>	2,603
<b>Net operating income</b>		<b>79,196</b>	107,354
Staff costs		<b>(22,590)</b>	(20,444)
General and administrative expenses		<b>(6,036)</b>	(4,335)
Depreciation expense		<b>(6,449)</b>	(6,031)
<b>Net operating expenses</b>		<b>(35,075)</b>	(30,810)
<b>Net operating profit before provision for impairment and credit losses</b>		<b>44,121</b>	76,544
Provision for impairment and credit losses	16	<b>(23,855)</b>	(59,757)
<b>Profit before tax and board of directors' remuneration</b>		<b>20,266</b>	16,787
Contribution to Kuwait Foundation for the Advancement of Sciences (KFAS)		<b>(182)</b>	(151)
National Labour Support Tax (NLST)		<b>(525)</b>	(435)
Zakat		<b>(205)</b>	(171)
Board of directors' remuneration		<b>(66)</b>	(66)
<b>NET PROFIT FOR THE YEAR</b>		<b>19,288</b>	15,964
<b>BASIC AND DILUTED EARNINGS PER SHARE (EPS)</b>	17	<b>7.38 fils</b>	6.02 fils

The accompanying notes 1 to 26 form an integral part of these consolidated financial statements.

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**
**For the year ended 31 December 2022**

	Notes	2022 KD'000	2021 KD'000
<b>Net profit for the year</b>		<b>19,288</b>	15,964
<b>Other comprehensive loss</b>			
Other comprehensive loss that will be reclassified subsequently to profit or loss:			
Debt instruments at fair value through other comprehensive income:			
Net change in fair value		(17,854)	(16,373)
Changes in allowance for expected credit losses	16	695	16,610
Reclassification to profit or loss	14	337	(351)
Net losses on debt instruments at fair value through other comprehensive income		(16,822)	(114)
Exchange differences on translation of foreign operations		(164)	(1,257)
Share of other comprehensive income of investment in joint venture	7	572	-
Foreign currency translation adjustment on disposal of a joint venture		-	(324)
<b>Total items that are or may be reclassified to profit or loss</b>		<b>(16,414)</b>	(1,695)
Other comprehensive income that will not be reclassified to profit or loss subsequently			
Net change in fair value of equity investments at fair value through other comprehensive income		4,884	45
<b>Total items that will not be reclassified to profit or loss</b>		<b>4,884</b>	45
<b>OTHER COMPREHENSIVE LOSS FOR THE YEAR</b>		<b>(11,530)</b>	(1,650)
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>7,758</b>	14,314

The accompanying notes 1 to 26 form an integral part of these consolidated financial statements.

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**
**For the year ended 31 December 2022**

	Share capital KD'000	Share premium KD'000	Statutory reserve KD'000	Fair value reserve KD'000	Foreign currency translation reserve KD'000	Retained earnings KD'000	Sub-total KD'000	Proposed dividend KD'000	Equity attributable to shareholders of the Bank KD'000	Perpetual Tier 1 Sukuk KD'000	Total equity KD'000
<b>As at 1 January 2022</b>	<b>200,000</b>	<b>80,375</b>	<b>4,777</b>	<b>1,607</b>	<b>(112)</b>	<b>7,882</b>	<b>294,529</b>	<b>-</b>	<b>294,529</b>	<b>121,270</b>	<b>415,799</b>
Net profit for the year	-	-	-	-	-	19,288	19,288	-	19,288	-	19,288
Other comprehensive loss	-	-	-	(11,366)	(164)	-	(11,530)	-	(11,530)	-	(11,530)
Total comprehensive (loss) income for the year	-	-	-	(11,366)	(164)	19,288	7,758	-	7,758	-	7,758
Transferred to the statutory reserve	-	-	2,026	-	-	(2,026)	-	-	-	-	-
Redemption of Perpetual Tier 1 Sukuk (Note 13)	-	-	-	-	-	-	-	-	-	(45,109)	(45,109)
Foreign currency translation from redemption of Perpetual Tier 1 Sukuk	-	-	-	-	-	353	353	-	353	(353)	-
Profit paid on Perpetual Tier 1 Sukuk (Note 13)	-	-	-	-	-	(4,531)	(4,531)	-	(4,531)	-	(4,531)
Proposed dividend (Note 12)	-	-	-	-	-	(12,000)	(12,000)	12,000	-	-	-
<b>At 31 December 2022</b>	<b>200,000</b>	<b>80,375</b>	<b>6,803</b>	<b>(9,759)</b>	<b>(276)</b>	<b>8,966</b>	<b>286,109</b>	<b>12,000</b>	<b>298,109</b>	<b>75,808</b>	<b>373,917</b>
As at 1 January 2021	157,500	40,000	3,098	1,676	1,469	(12)	203,731	-	203,731	76,363	280,094
Net profit for the year	-	-	-	-	-	15,964	15,964	-	15,964	-	15,964
Other comprehensive loss	-	-	-	(69)	(1,581)	-	(1,650)	-	(1,650)	-	(1,650)
Total comprehensive (loss) income for the year	-	-	-	(69)	(1,581)	15,964	14,314	-	14,314	-	14,314
Increase in share capital	42,500	40,375	-	-	-	-	82,875	-	82,875	-	82,875
Costs directly related to increase in share capital	-	-	-	-	-	(172)	(172)	-	(172)	-	(172)
Transferred to the statutory reserve	-	-	1,679	-	-	(1,679)	-	-	-	-	-
Issue of Perpetual Tier 1 Sukuk (Note 13)	-	-	-	-	-	-	-	-	-	75,808	75,808
Costs directly related to issue of Perpetual Tier 1 Sukuk	-	-	-	-	-	(450)	(450)	-	(450)	-	(450)
Redemption of Perpetual Tier 1 Sukuk (Note 13)	-	-	-	-	-	-	-	-	-	(30,901)	(30,901)
Profit paid on Perpetual Tier 1 Sukuk (Note 13)	-	-	-	-	-	(5,769)	(5,769)	-	(5,769)	-	(5,769)
<b>At 31 December 2021</b>	<b>200,000</b>	<b>80,375</b>	<b>4,777</b>	<b>1,607</b>	<b>(112)</b>	<b>7,882</b>	<b>294,529</b>	<b>-</b>	<b>294,529</b>	<b>121,270</b>	<b>415,799</b>

The accompanying notes 1 to 26 form an integral part of these consolidated financial statements.

**CONSOLIDATED STATEMENT OF CASH FLOWS**
**For the year ended 31 December 2022**

	Notes	2022 KD'000	2021 KD'000
<b>OPERATING ACTIVITIES</b>			
Profit before tax and board of directors' remuneration		<b>20,266</b>	16,787
<b>Adjustments for:</b>			
Net investment income	14	<b>(23,721)</b>	(49,622)
Gain on sale of property and equipment		-	(1)
Gain on de-recognition of leases		<b>161</b>	-
Provision for employees' end of service benefits		<b>1,221</b>	934
Depreciation expense		<b>6,449</b>	6,031
Provision for impairment and credit losses	16	<b>23,855</b>	59,757
		<b>28,231</b>	33,886
<b>Changes in operating assets and liabilities:</b>			
Placements with banks and the CBK		<b>(91,557)</b>	(5,510)
Financing receivables		<b>(694,463)</b>	(19,251)
Other assets		<b>(25,540)</b>	(13,497)
Due to banks and other financial institutions		<b>280,195</b>	18,216
Depositors' accounts		<b>385,564</b>	(64,536)
Other liabilities		<b>(412)</b>	11,187
Taxes paid		<b>(757)</b>	(231)
<b>Net cash flows used in operating activities</b>		<b>(118,739)</b>	(39,736)
<b>INVESTING ACTIVITIES</b>			
Purchase/capital contributions of financial assets at FVPL		<b>(30,077)</b>	(32,514)
Proceeds from sale/redemption of financial assets at FVPL		<b>19,745</b>	6,719
Purchase of financial assets at FVOCI		<b>(92,110)</b>	(110,772)
Proceeds from sale of financial assets at FVOCI		<b>54,461</b>	63,043
Additions to investment in joint ventures		<b>(27,144)</b>	(20,200)
Proceeds from sale/redemption of investment in joint ventures		<b>48,619</b>	27,705
Proceeds from sale of investment property		<b>3,179</b>	13,650
Purchase of property and equipment		<b>(2,308)</b>	(1,910)
Proceeds from sale of property and equipment		-	1
Dividends received from financial assets		<b>5,709</b>	4,145
Other investment income received		<b>614</b>	602
Distributions received from joint ventures		<b>5,502</b>	14,328

**CONSOLIDATED STATEMENT OF CASH FLOWS (continued)**

Rental income received		<b>135</b>	705
<b>Net cash flows used in investing activities</b>		<b>(13,675)</b>	(34,498)
<b>FINANCING ACTIVITIES</b>			
Net movement on Sukuk issued		<b>2,033</b>	(405)
Payment of lease liabilities		<b>(2,976)</b>	(4,319)
Proceeds from increase in share capital		-	82,875
Costs directly related to increase in share capital		-	(172)
Proceeds from issue of Perpetual Tier 1 Sukuk		-	75,808
Perpetual Tier 1 Sukuk issuing Cost		-	(450)
Redemption of Perpetual Tier 1 Sukuk		<b>(45,109)</b>	(30,901)
Profit paid to holders of Perpetual Tier 1 Sukuk	13	<b>(4,531)</b>	(5,769)
<b>Net cash flows (used in) from financing activities</b>		<b>(50,583)</b>	116,667
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(182,997)</b>	42,433
Cash and cash equivalents at 1 January		<b>485,466</b>	443,033
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER</b>	3	<b>302,469</b>	485,466
<b>Additional information on operational cash flows</b>			
Finance costs paid		<b>69,873</b>	45,794
Finance income received		<b>125,968</b>	96,527

The accompanying notes 1 to 26 form an integral part of these consolidated financial statements.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at and for the year ended 31 December 2022

### 1. CORPORATE INFORMATION

Warba Bank K.S.C.P. (the "Bank") is a Kuwaiti public shareholding company, incorporated on 17 February 2010 in the State of Kuwait by virtue of Amiri Decree No. 2892009/. The Bank is registered as an Islamic banking institution in accordance with the rules and regulations of the Central Bank of Kuwait (the "CBK") on 7 April 2010 and its shares are publicly traded on the Boursa Kuwait. The Bank's head office is located at Al-Raya Tower, Mezzanine floor 1, Omar Ibn Al-Khattab Street and its registered postal address is P.O. Box 1220, Safat 13013, State of Kuwait.

The Bank is primarily involved in corporate, retail and investment banking activities in accordance with the principles of Islamic Sharia, as approved by the Bank's Sharia Supervisory Board.

The annual general assembly meeting ("AGM") of the shareholders of the Bank held on 30 March 2022 approved the consolidated financial statements for the year ended 31 December 2021. No cash dividend or bonus shares for the year ended 31 December 2021 (31 December 2020: Nil) were proposed by the Directors and approved by the shareholders at the AGM.

The consolidated financial statements of the Bank and its wholly owned special purpose vehicles (collectively, the "Group") for the year ended 31 December 2022 were authorised for issue in accordance with a resolution of the Board of Directors on 10 January 2023. The shareholders of the Bank have the power to amend these consolidated financial statements in the AGM.

### 2.1 BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with the regulations for financial services institutions as issued by the Central Bank of Kuwait (CBK) in the State of Kuwait. These regulations, require banks and other financial institutions regulated by CBK to adopt the International Financial Reporting Standards (IFRS) as issued by International Accounting Standards Board (IASB) with the following amendments:

- Expected credit loss ("ECL") to be measured at the higher of ECL provision on financing facilities computed under IFRS 9 in accordance with CBK guidelines or the provisions as required by CBK instructions along with its consequent impact on related disclosures; and
- Recognition of modification losses on financial assets arising from payment holidays to customers as a result of COVID during the financial year ended 31 December 2020, as required by CBK circular no. 2/BS/IBS/4612020/ dated 5 July 2020. Modification losses referred to in the circular, should be recognized in retained earnings instead of profit or loss as would be required by IFRS 9. However, modification loss on financial assets arising from any other payment holidays to customers shall be recognized in profit or loss in accordance with IFRS 9. All modification losses incurred after the year ended 31 December 2020 are recognized in the consolidated statement of profit or loss. The application of the policy will result in application of different accounting presentation for modification loss in 2020 compared to other periods.

The above framework is herein after referred to as 'IFRS as adopted by CBK for use by the State of Kuwait'.

The consolidated financial statements have been prepared on a historical cost basis except for financial assets designated at fair value through profit or loss (FVTPL), debt and equity instruments at fair value through other comprehensive income (FVOCI), investment properties and forward currency swaps, all of which have been measured at fair value.

The Bank presents its statement of financial position in order of liquidity based on the Bank's intention and perceived ability to recover/settle the majority of assets/liabilities of the corresponding financial statement line item. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 20.

The consolidated financial statements are presented in Kuwaiti Dinars (KD) which is also the Group's functional currency. All values are rounded to the nearest thousand (KD '000), except when otherwise indicated.

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of these consolidated financial statements are consistent with those used in the previous financial year, except for the adoption of new standards effective as of 1 January 2022. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

### 2.2.1 New standards, interpretations, and amendments adopted by the Group

The Group applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2022 (unless otherwise stated). The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

#### Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37

An onerous contract is a contract under which the unavoidable cost of meeting the obligations under the contract (i.e., the costs that the Group cannot avoid because it has the contract) exceed the economic benefits expected to be received under it.

The amendments specify that when assessing whether a contract is onerous or loss-making, an entity needs to include costs that relate directly to a contract to provide goods or services including both incremental costs (e.g., the costs of direct labour and materials) and an allocation of costs directly related to contract activities (e.g., depreciation of equipment used to fulfil the contract and costs of contract management and supervision). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

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

#### Reference to the Conceptual Framework – Amendments to IFRS 3

The amendments replace a reference to a previous version of the IASB's Conceptual Framework with a reference to the current version issued in March 2018 without significantly changing its requirements.

The amendments add an exception to the recognition principle of IFRS 3 Business Combinations to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets or IFRIC 21 Levies, if incurred separately. The exception requires entities to apply the criteria in IAS 37 or IFRIC 21, respectively, instead of the Conceptual Framework, to determine whether a present obligation exists at the acquisition date.

The amendments also add a new paragraph to IFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date.

These amendments had no impact on the consolidated financial statements of the Group as there were no contingent assets, liabilities and contingent liabilities within the scope of these amendments arisen during the year.

#### Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16

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

These amendments had no impact on the consolidated financial statements of the Group as there were no sales of such items produced by property, plant and equipment made available for use on or after the beginning of the earliest period presented.

#### IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities

The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. There is no similar amendment proposed for IAS 39 Financial Instruments: Recognition and Measurement.

**2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)****2.2.1 New standards, interpretations, and amendments adopted by the Group (continued)****IFRS 9 Financial Instruments – Fees in the ‘10 per cent’ test for derecognition of financial liabilities (continued)**

These amendments had no impact on the consolidated financial information of the Group as there were no modifications of the Group’s financial instruments during the year.

**2.3 STANDARDS ISSUED BUT NOT YET EFFECTIVE**

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

**Definition of Accounting Estimates - Amendments to IAS 8**

In February 2021, the IASB issued amendments to IAS 8, in which it introduces a definition of ‘accounting estimates’. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted as long as this fact is disclosed.

The amendments are not expected to have a material impact on the Group.

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

In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements, in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their ‘significant’ accounting policies with a requirement to disclose their ‘material’ accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments to IAS 1 are applicable for annual periods beginning on or after 1 January 2023 with earlier application permitted. Since the amendments to the Practice Statement 2 provide non-mandatory guidance on the application of the definition of material to accounting policy information, an effective date for these amendments is not necessary.

The Group is currently assessing the impact of the amendments to determine the impact they will have on the Group’s accounting policy disclosures.

**2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****2.4.1 Basis of consolidation**

The consolidated financial statements comprise the financial statements of the Bank and its wholly owned special purpose vehicles (investees which are controlled by the Bank) as at 31 December 2022. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure to or an accrual of variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

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

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group’s voting rights and potential voting rights

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.4.1 Basis of consolidation (continued)

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

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

A change in the ownership interest of a wholly owned special purpose vehicle, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a wholly owned special purpose vehicle, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

The consolidated financial statements include the financial statements of the Bank and its wholly owned special purpose vehicles. The wholly owned special purpose vehicles of the Bank are as follows:

Name of subsidiary	Principal activities	Country of incorporation	Equity interest %	
			31 December 2022	31 December 2021
Abyat Real Estate Company L.L.C.	Real estate	Sultanate of Oman	-	100
Themar Al Omania Company L.L.C.	Real estate	Sultanate of Oman	100	100
Al Kout Holdings Limited	Real estate	Jersey	-	100
Warba Tier 1 Sukuk Limited	Financial securities	Cayman Islands	-	100
Warba Tier 1 (2) Sukuk Limited	Financial securities	Cayman Islands	100	100
Warba Advisory Ltd.	Corporate Management Services	Cayman Islands	100	100

### 2.4.2 FINANCIAL INSTRUMENTS – INITIAL RECOGNITION

#### 2.4.2.1 Date of recognition

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

#### 2.4.2.2 Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. Financial instruments are initially measured at their fair value except in the case of financial assets and liabilities recorded at FVTPL, transaction costs are added to, or subtracted from, this amount.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.4.2 Financial instruments – initial recognition (continued)

#### 2.4.2.3 Day 1 profit or loss

When the transaction price of the instrument differs from the fair value at origination and the fair value is based on a valuation technique using only inputs observable in market transactions, the Group recognises the difference between the transaction price and fair value in the investment income. In those cases where fair value is based on models for which some of the inputs are not observable, the difference between the transaction price and the fair value is deferred and is only recognised in profit or loss when the inputs become observable, or when the instrument is derecognised.

#### 2.4.2.4 Determining the classification and measurement of financial assets and liabilities

The Group has determined the classification and measurement of its financial assets as follows:

##### Cash and cash equivalents

Cash and cash equivalents as referred to in the consolidated statement of cash flows comprises cash on hand, non-restricted current accounts with central banks and placements with banks on demand or with an original maturity of three months or less.

##### Placements with banks, Financing receivables, Financial investments at amortised cost

The Bank only measures placements with banks, financing receivables and other financial investments at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and profit (SPPP) on the principal amount outstanding

The details of these conditions are outlined below.

##### Business model assessment

The Bank determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective:

- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected)
- The expected frequency, value and timing of sales are also important aspects of the Bank's assessment

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

**2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****2.4.2 Financial instruments – initial recognition (continued)****2.4.2.4 Determining the classification and measurement of financial assets and liabilities (continued)****The SPPP test**

As a second step of its classification process the Bank assesses the contractual terms of the financial asset to identify whether they meet the SPPP test.

‘Principal’ for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

The most significant elements of profit within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPP assessment, the Bank applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the profit rate is set.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and profit on the amount outstanding. In such cases, the financial asset is required to be measured at FVTPL.

**• Debt instruments at FVOCI**

The Bank applies the new category under IFRS 9 of debt instruments measured at FVOCI when both of the following conditions are met:

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets
- The contractual terms of the financial asset meet the SPPP test

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Profit returns and foreign exchange gains and losses are recognised in profit or loss in the same manner as for financial assets measured at amortised cost. The ECL calculation for Debt instruments at FVOCI is explained below. On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to profit or loss.

The ECLs for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the consolidated statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognised in OCI is recycled to the profit and loss upon derecognition of the assets.

**• Equity instruments at FVOCI**

Upon initial recognition, the Bank occasionally elects to classify irrevocably some of its equity investments as equity instruments at FVOCI when they meet the definition of Equity under IAS 32 Financial Instruments: Presentation and are not held for trading. Such classification is determined on an instrument-by-instrument basis.

Gains and losses on these equity instruments are never recycled to profit or loss. Dividends are recognised in profit or loss when the right of the payment has been established, except when the Bank benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Equity instruments at FVOCI are not subject to an impairment assessment.

**2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****2.4.2 Financial instruments – initial recognition (continued)****2.4.2.4 Determining the classification and measurement of financial assets and liabilities (continued)****Financial assets and financial liabilities at fair value through profit or loss (FVTPL) (continued)****• Financial assets and financial liabilities at fair value through profit or loss (FVTPL)**

Financial assets and financial liabilities in this category are those that are not held for trading and have been either designated by management upon initial recognition or are mandatorily required to be measured at fair value under IFRS 9. Management only designates an instrument at FVTPL upon initial recognition when one of the following criteria are met. Such designation is determined on an instrument-by-instrument basis:

- The designation eliminates, or significantly reduces, the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis; or
- The liabilities (and assets until 1 January 2018 under IAS 39) are part of a group of financial liabilities (or financial assets, or both under IAS 39), which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- The liabilities (and assets until 1 January 2018 under IAS 39) contain one or more embedded derivatives, unless they do not significantly modify the cash flows that would otherwise be required by the contract, or it is clear with little or no analysis when a similar instrument is first considered that separation of the embedded derivative(s) is prohibited

**Financial liabilities other than at fair value through profit or loss**

These financial liabilities are subsequently measured at amortised cost using the effective profit method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective profit rate.

Due to banks and other financial institutions, depositors' accounts and sukuk issued are classified as "financial liabilities other than at fair value through profit or loss".

**• Financial guarantees, letters of credit and undrawn loan commitments**

The Bank issues financial guarantees, letters of credit and loan commitments.

Financial guarantees are initially recognised in the financial statements at fair value, being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the statement of profit or loss, and from 1 January 2018 the higher of ECL under IFRS 9 according to the CBK guidelines, and the provisions required by the CBK.

The premium received is recognised in the consolidated statement of profit or loss in net fees and commission income on a straight line basis over the life of the guarantee.

**2.4.3 Financial instruments - Derecognition of financial assets and liabilities**

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

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

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 Group could be required to repay.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.4.3 Financial instruments - Derecognition of financial assets and liabilities (continued)

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same financier 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. The difference in the respective carrying amounts is recognised in the consolidated statement of profit or loss.

#### De-recognition due to substantial modification or terms and conditions

The Group derecognises a financial asset, such as financing receivables, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new finance, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognised financing receivables are classified as Stage 1 for ECL measurement purposes, unless they are deemed to be credit impaired.

When assessing whether or not to derecognise a financing receivable, amongst others, the Group considers the following factors:

- Change in currency of the financing
- Introduction of an equity instrument feature
- Change in counterparty
- If the modifications are such that, the instrument would no longer meet the SPPP criterion

If the modifications do not result in cash flows that are substantially different, they result in derecognition. Based on the change in cash flows discounted at original effective profit rate, the Group records a modification gain or loss, to the extent that an impairment loss has not already been recorded.

### 2.4.4 Impairment of financial assets

#### 2.4.4.1 Expected credit loss of financial assets under IFRS 9 according to the CBK guidelines

The Expected credit loss (ECL) model applies to financial assets measured at amortised cost, contract assets and debt instruments at FVOCI. The credit losses are based on ECL associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since initial recognition. If the financial asset meets the definition of purchased or originated credit impaired (POCI), the credit loss is based on the change in ECL over the life of the asset.

The Group measures ECL for financing receivables, non-cash credit facilities in the form of bank guarantees, letters of guarantee, documentary letters of credit, undrawn cash and non-cash credit facilities (revocable and irrevocable) (together "financing facilities"), placements with banks and investment in debt instruments measured at FVOCI.

The Group considers balances with the CBK and Sukuk issued by the CBK and the Government of Kuwait have low credit risk based on external credit ratings of the counterparties and hence ECL is considered negligible. Equity investments are not subject to ECL.

The Group considers that its cash and cash equivalents have low credit risk based on the external credit ratings of the counterparties and CBK guarantee of deposits placed with local banks.

The Group provides for credit losses on financing facilities according to the CBK guidelines and records the provision for impairment of financing facilities at the higher of ECL under IFRS 9 according to the CBK guidelines, and the provisions required by the CBK instructions.

#### Expected Credit Losses

The Group applies a three-stage approach to measure the ECL as described below:

##### Stage 1: 12-month ECL

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

**2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****2.4.4 Impairment of financial assets (continued)****2.4.4.1 Expected credit loss of financial assets under IFRS 9 according to the CBK guidelines (continued)****Expected credit loss (continued)****Stage 2: Lifetime ECL – not credit impaired**

The Group measures loss allowances at an amount equal to lifetime ECL on financial assets where there has been a significant increase in credit risk since initial recognition but are not credit impaired.

**Stage 3: Lifetime ECL – credit impaired**

The Group measures loss allowances on financial assets determined as a credit impaired based on an objective evidence on impairment at an amount equal to lifetime ECL.

Lifetime ECL is ECL that result from all possible default events over the remaining expected life of a financial instrument. The 12 month ECL is the portion of lifetime expected credit loss that result from default events that are possible within the 12 months after the reporting date. Both lifetime ECL and 12 month ECL are calculated on either an individual basis or a collective basis depending on the nature of the underlying portfolio of financial instruments.

**Determining the stage of impairment**

At each reporting date, the Group assesses whether there has been significant increase in credit risk since initial recognition by comparing the risk of default occurring over the remaining expected life from the reporting date with the risk of default at the date of initial recognition. The quantitative criteria used to determine a significant increase in credit risk is a series of relative and absolute thresholds. All financial assets that are 30 days past due are deemed to have significant increase in credit risk since initial recognition and migrated to stage 2 even if other criteria do not indicate a significant increase in credit risk.

At each reporting date, the Group also assesses whether a financial asset or group of financial assets is credit impaired. The Group considers a financial asset to be credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred or when contractual payments are 90 days past due. All credit impaired financial assets are classified as stage 3 for ECL measurement purposes. Evidence of credit impairment includes observable data about the following:

- Significant financial difficulty of the borrower or issuer
- A breach of contract such as default or past due event
- The lender having granted to the borrower a concession, that the lender would otherwise not consider, for economic or contractual reasons relating to the borrower's financial difficulty
- The disappearance of an active market for a security because of financial difficulties
- Purchase of a financial asset at a deep discount that reflects the incurred credit loss

At the reporting date, if the credit risk of a financial asset or group of financial assets has not increased significantly since initial recognition or not credit impaired, these financial assets are classified as stage 1.

**Measurement of ECL**

ECL is the probability weighted estimate of credit losses and is measured as the present value of all cash shortfalls discounted at the effective profit rate of the financial instrument. Cash shortfall represents the difference between cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive. The key elements in the measurement of ECL include probability of default ("PD"), loss given default ("LGD") and exposure at default ("EAD"). The Group estimates these elements using appropriate credit risk models taking into consideration the internal and external credit ratings of the assets, nature and value of collaterals, forward looking macroeconomic scenarios as well as other factors.

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

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

**2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.4.4 Impairment of financial assets (continued)**

**2.4.4.1 Expected credit loss of financial assets under IFRS 9 according to the CBK guidelines (continued)**

**Incorporation of forward-looking information**

The Group incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. The Group has performed historical analysis and identified the key economic variables impacting credit risk and ECL. Relevant macro-economic adjustments are applied to capture variations from economic scenarios. These reflect reasonable and supportable forecasts of future macro-economic conditions that are not captured within the base ECL calculations. Macro-economic factors taken into consideration include, but are not limited to, gross domestic product, commodity price index and equity price index and require an evaluation of both the current and forecast direction of the macro-economic cycle. Incorporating forward-looking information increases the degree of judgement required as to how changes in these macro-economic factors will affect ECL. The methodologies and assumptions including any forecasts of future economic conditions are reviewed regularly.

**Multiple forward-looking scenarios**

The Group determines its allowance for credit losses using four probability-weighted forward-looking scenarios. The Bank considers both internal and external sources of information and data in order to achieve an unbiased projections and forecasts. The Group prepares the scenarios using forecasts. The forecasts are created using internal and external models which are modified by Group as necessary to formulate a 'Baseline' view of the most probable future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. The process involves the development of two additional economic scenarios (Upturn, and Downturn) and consideration of the relative probabilities of each outcome.

The 'baseline' represents the most likely outcome and is aligned with information used by the Group for other purposes such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes. The Group has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macroeconomic variables, credit risk, and credit losses

**Renegotiated financing receivables**

In the event of a default, the Group seeks to restructure financing to customers rather than take possession of collateral. This may involve extending the payment arrangements and the agreement of new financing conditions. When the financing to customers has been renegotiated or modified but not derecognised, any impairment is measured using the original effective yield method as calculated before the modification of terms. Management continually reviews renegotiated financing to ensure that all criteria are met and that future payments are likely to occur. Management also assesses whether there has been significant increase in credit risk or the facility should be classified in stage 3.

**2.4.4.2 Provisions for credit losses in accordance with the CBK instructions**

The Group is required to calculate provisions for credit losses on financing receivables in accordance with the CBK instructions with respect to financing receivables and the calculation of provisions. Financing receivables are classified as past due when a payment has not been received on its contractual payment date or if the facility is in excess of pre-approved limits. A financing receivable is classified as past due and impaired when the profit or a principal instalment is past due for more than 90 days and if the carrying amount of the facility is greater than its estimated recoverable value. Past due and past due and impaired financing receivables are managed and monitored as irregular facilities and are classified into the following four categories which are then used to determine the provisions:

Category	Criteria	Specific provision
Watch list	Irregular for a period up to 90 days	-
Substandard	Irregular for a period of 91- 180 days	20%
Doubtful	Irregular for a period of 181- 365 days	50%
Bad	Irregular for a period exceeding 365 days	100%

The Group may also include a credit facility in one of the above categories based on management's judgement of a customer's financial and/or non-financial circumstances.

**2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****2.4.4.2 Provisions for credit losses in accordance with the CBK instructions (continued)**

Minimum general provisions of 1% on cash facilities and 0.5% on non-cash facilities are made on all applicable financing receivables (net of certain restricted categories of collateral) which are not subject to specific provisioning.

**2.4.5 Write-offs**

Financial assets are written off either partially or in their entirety only when the Bank has no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to other income.

**2.4.6 Offsetting**

Financial assets and financial liabilities are only offset and the net amount reported in the consolidated financial position when there is a legally enforceable right to set off the recognised amounts and the Group intends to settle on a net basis so as to realise the assets and liabilities simultaneously.

**2.4.7 Derivative financial instruments and hedge accounting**

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge.

The documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Group will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge effectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- There is 'an economic relationship' between the hedge item and the hedging instrument.
- The effect of the credit risk does not 'dominate the value changes' that result from that economic relationship; and
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

**Cash flow hedges**

The cash flow hedges hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability, a highly probable transaction or foreign exchange risks within an unrecognised firm commitment.

In accordance with its wider risk management, it is the Group's strategy to apply cash flow hedge accounting to keep its profit rate and foreign currency revaluation fluctuations within its established limits. Applying cash flow hedge accounting enables the Group to reduce the cash flow fluctuations arising from foreign exchange and profit rate risk on an instrument or group of instruments, or to hedge profit rate mismatches on a portfolio level from its floating liabilities including future issuances. From an accounting point of view, a cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability (such as all or some future profit payments on variable rate debt) or a highly probable forecast transaction and could affect profit or loss.

For designated and qualifying cash flow hedges, the effective portion of the cumulative gain or loss on the hedging instrument is initially recognised directly in OCI within equity (cash flow hedge reserve). The ineffective portion of the gain or loss on the hedging instrument is recognised immediately in profit or loss.

When the hedged cash flow affects the statement of profit or loss, the effective portion of the gain or loss on the hedging instrument is recorded in the corresponding income or expense line of the statement of profit or loss.

When a hedging instrument expires, is sold, terminated, exercised, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss that has been recognised in OCI at that time remains in OCI and is recognised when the hedged forecast transaction is ultimately recognised in the statement of profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in OCI is immediately transferred to the consolidated statement of profit or loss.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.4.7 Derivative financial instruments and hedge accounting (continued)

#### Cash flow hedges (continued)

To test the hedge effectiveness, the Group compares the changes in the fair value of the hedging instruments against the changes in fair value of the hedged items attributable to the hedged risk (e.g., changes in the forward exchange rates or profit rate risk).

The possible sources of ineffectiveness for cash flow hedges are generally the same as for those for fair value hedges, described above. However, for cash flow hedges, prepayment risk is less relevant, and the causes of hedging ineffectiveness arise from the changes in the timing and the amount of forecast future cash flows.

#### 2.4.8 Investments in joint ventures

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The considerations made in determining joint control are similar to those necessary to determine control over subsidiaries. The Group's investment in its joint ventures are accounted for using the equity method.

Under the equity method, the investment in joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the joint venture since the acquisition date. Goodwill relating to the joint venture is included in the carrying amount of the investment and is not tested for impairment separately.

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

The financial statements of the joint ventures are prepared with three months gap from the reporting period of the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

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

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

#### 2.4.9 Investment properties

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in profit or loss in the period in which they arise, including the corresponding tax effect. Fair values are determined based on an annual valuation performed by an accredited external independent valuer using appropriate valuation techniques.

Investment properties are derecognised either when they have been disposed of (i.e., at the date the recipient obtains control) or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in profit or loss in the period of derecognition. In determining the amount of consideration from the derecognition of investment property the Group considers the effects of variable consideration, existence of a significant financing component, non-cash consideration, and consideration payable to the buyer (if any).

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.4.10 Property and equipment

Property and equipment is stated at historical cost less accumulated depreciation and any impairment in value. 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 Group and the cost of the item can be measured reliably. All other repairs and maintenance are recognised in profit or loss as incurred.

Land is not depreciated. Depreciation of other property and equipment items is calculated using the straight-line method to allocate their cost, net of their residual values, over their estimated useful lives, as follows:

- Buildings 20- 40 years
- Furniture, fixtures and equipment 3- 5 years

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

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

### 2.4.11 Impairment of non-financial assets

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit (CGU) fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Group bases its impairment calculation on most recent budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. A long-term growth rate is calculated and applied to project future cash flows after the fifth year.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of profit or loss unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

**2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****2.4.11 Impairment of non-Financial assets (continued)**

Goodwill is tested for impairment annually as at the reporting date and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

**2.4.12 End of service indemnity**

The Group provides for end of service benefits to all of its employees as per the Kuwaiti Labor Law. The entitlement to the benefits is based upon the employee's final salary and length of service, subject to the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

**2.4.13 Revenue is recognised**

Revenue is recognised either at a point in time or over time, when (or as) the Group satisfies performance obligations by transferring the promised goods or services to its customers.

**Rental income**

The Group is the lessor in operating leases. Rental income arising from operating leases on investment property is accounted for on a straight-line basis over the lease terms.

**Fee and commission income**

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income, and other management and advisory fees.

The Group earns fee and commission income from a diverse range of financial services it provides to its customers. Fee and commission income is recognised at an amount that reflects the consideration to which the Group expects to be entitled in exchange for providing the services.

The performance obligations, as well as the timing of their satisfaction, are identified, and determined, at the inception of the contract. The Group's revenue contracts do not typically include multiple performance obligations.

When the Group provides a service to its customers, consideration is invoiced and generally due immediately upon satisfaction of a service provided at a point in time or at the end of the contract period for a service provided over time.

The Group has generally concluded that it is the principal in its revenue arrangements because it typically controls the services before transferring them to the customer.

**Finance income**

Finance income includes income from Wakala, Murabaha and Ijara investments and is calculated using EIR method.

**Dividend income**

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

**Net investment income**

Net investment income includes all gains and losses from changes in fair value and dividends.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.4.14 Government grants

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

When the Group receives grants of non-monetary assets, the asset and the grant are recorded at nominal amounts and released to profit or loss over the expected useful life of the asset, based on the pattern of consumption of the benefits of the underlying asset by equal annual instalments.

### 2.4.15 Foreign currency translation

#### Functional and presentational currency

The consolidated financial statements are presented in KD. For each entity in the group, the Bank determines the functional currency and items included in the financial statements of each entity are measured using that functional currency. The Group uses the direct method of consolidation.

#### Transactions and balances

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

Monetary assets and liabilities denominated in foreign currencies are retranslated into the functional currency at the spot rate of exchange at the reporting date. All foreign exchange differences arising on non-trading activities are taken to foreign exchange gain/(loss) in the consolidated statement of profit or loss.

Non-monetary items that are measured at historical cost in a foreign currency are translated using the spot exchange rates as at the date of recognition.

#### Group companies

On consolidation, the assets and liabilities in foreign operations are translated into KD at the spot rate of exchange prevailing at the reporting date and their income statements are translated at spot exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognised in OCI.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations, and are translated at the closing rate of exchange.

### 2.4.16 Taxation

#### National Labour Support Tax (NLST)

The Group calculates the NLST in accordance with Law No. 192000/ and the Ministry of Finance resolution No. 242006/ at 2.5% of taxable profit for the year. As per the law, cash dividends from listed companies which are subjected to NLST has to be deducted from the profit for the year.

Provision of Kuwait Foundation for the Advancement of Sciences (KFAS)

The Group calculates the contribution to KFAS at 1% of profit for the year in accordance with the modified calculation based on the Foundation's Board of Directors resolution, which states that the transfer to statutory reserve should be excluded from profit for the year when determining the contribution.

#### Zakat

Contribution to Zakat is calculated at 1% of the Group in accordance with the Ministry of Finance resolution No. 582007/ effective from 10 December 2007.

**2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****2.4.17 Segment information**

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

**2.4.18 Provisions**

Provisions are recognised when the Bank has a present obligation (legal or constructive) as a result of past events, 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. When the effect of the time value of money is material, the Bank determines the level of provision by discounting the expected cash flows at a pre-tax rate reflecting the current rates specific to the liability. The expense relating to any provision is presented in the statement of profit or loss net of any reimbursement in provision for impairment and credit losses.

**2.4.19 Contingent assets and liabilities**

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

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

**2.4.20 Fiduciary assets**

The Group provides fiduciary services that result in the holding or investing of assets on behalf of its clients. Assets held in a fiduciary capacity, unless recognition criteria are met, are not reported in the financial statements, as they are not assets of the Group (Note 25).

**2.4.21 Dividend on ordinary shares**

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Group's shareholders. Interim dividends are deducted from equity when they are declared and are no longer at the discretion of the Group.

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

**2.4.22 Sukuk issued**

Sukuk issued are financial liabilities and are initially recognised at their fair value being the issue proceeds net of transaction costs and are subsequently measured at their amortised cost using the effective profit rate method.

**2.4.23 Leases**

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

**2.4.23.1 Group as a lessee**

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

**2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****2.4.23 Leases (continued)****2.4.23.1 Group as a lessee (continued)****Right-of-use assets**

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the lease term.

The right-of-use assets are subject to impairment in line with the Group's policy as described in Note 2.4.11 - Impairment of non-financial assets.

**Lease liabilities**

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

**2.4.23.2 Group as a lessor**

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

**2.5 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS**

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures, as well as the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. In the process of applying the Group's accounting policies, management has made the following judgements and assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Existing circumstances and assumptions about future developments may change due to circumstances beyond the Group's control and are reflected in the assumptions if and when they occur. Items with the most significant effect on the amounts recognised in the consolidated financial statements with substantial management judgement and/or estimates are collated below with respect to judgements/estimates involved.

**2.5.1 SIGNIFICANT JUDGMENTS****Consolidation of wholly owned special purpose vehicles**

A wholly owned special purpose vehicle is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements. The Group consolidates the structured entities that it controls, as explained in Note 2.4.1. When making this judgement, the Group also considers voting and similar rights available to itself and other parties, who may limit the Group's ability to control, including rights to appoint, reassign or remove members of the structured entity's key management personnel who have the ability to direct the relevant activities.

**2.5 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)****2.5.1 Significant judgments (continued)****Fair value of financial instruments**

The fair value of financial instruments is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e., an exit price) regardless of whether that price is directly observable or estimated using another valuation technique. When the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of valuation models. The inputs to these

models are taken from observable markets where possible, but where this is not feasible, estimation is required in establishing fair values. Judgements and estimates include considerations of liquidity and model inputs related to items such as credit risk (both own and counterparty), funding value adjustments, correlation and volatility. For further details about determination of fair value please see Note 23.

**Hedge accounting**

The Group's hedge accounting policies include an element of judgement and estimation. Estimates of future profit rates and the general economic environment will influence the availability and timing of suitable hedged items, with an impact on the effectiveness of the hedge relationships.

**Classification of financial assets**

The Group determines the classification of financial assets based on the assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and profit.

**Classification of property**

Management decides on acquisition of a real estate property whether it should be classified as investment property or property and equipment. The Group classifies property as investment property if it is acquired to generate rental income or for capital appreciation or for an undetermined future use.

**Determining the lease term of contracts with renewal and termination options – Group as lessee**

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

The Group has several lease contracts that include extension and termination options. The Group applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customisation to the leased asset).

**2.5.2 ESTIMATION UNCERTAINTY**

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are also described in the individual notes of the related financial statement line items below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

## 2.5 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

### 2.5.2 Estimation uncertainty (continued)

#### Impairment of investment in joint ventures

Investment in joint ventures are accounted for under the equity method of accounting for associates, whereby these investments are initially stated at cost, and are adjusted thereafter for the post-acquisition change in the Group's share of the net assets of the joint ventures less any impairment losses. The Group is required to assess, at each reporting date, whether there are indications of impairment. If such indications exist, the management estimates the recoverable amount of the joint venture in order to determine the extent of the impairment loss (if any). The identification of impairment indicators and determination of the recoverable amounts require management to make significant judgements, estimates and assumptions.

#### Expected credit losses of financial instruments – as per IFRS 9 according to the CBK guidelines

The Group's ECL calculations are outputs of complex model with a number of underlying assumptions regarding the choice of variable inputs and their dependencies. Elements of the ECL model that are considered accounting judgements and estimates include:

- The Group's internal credit rating model, which assigns PDs to the individual grades;
- The Group's criterion for assessing if there has been a significant increase in credit risk so allowances for financial assets should be measured on a lifetime ECL basis and qualitative assessment;
- The segmentation of financial assets when their ECL is assessed on a collective basis;
- Development of ECL models, including various formulas and choice of inputs;
- Determination of associations between macroeconomic scenarios and, economic inputs, and the effect on PDs, EADs and LGDs; and
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

The Group has the policy to regularly review its model in the context of actual loss experience and adjust when necessary.

#### Impairment losses on financing receivables – as per CBK guidelines

The Group reviews its financing receivables on a regular basis to assess whether an impairment loss should be recorded in the consolidated statement of profit or loss. In particular, considerable judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required.

Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty.

#### Valuation of investment properties

The fair value of investment properties is determined by real estate valuation experts using recognised valuation techniques and the principles of IFRS 13 Fair Value Measurement.

Investment properties under construction are measured based on estimates prepared by independent real estate valuation experts, except where such values cannot be reliably determined. The significant methods and assumptions used by valuers in estimating the fair value of investment properties are set out in Note 8.

#### Fair value measurement

Management uses valuation techniques to determine the fair value of financial instruments (where active market quotes are not available). This involves developing estimates and assumptions consistent with how market participants would price the instrument. Management bases its assumptions on observable data as far as possible but this is not always available. In that case, management uses the best information available. Estimated fair values may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

**2.5 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)**
**2.5.2 Estimation uncertainty (continued)**
**Leases - Estimating the incremental borrowing rate**

The Group cannot readily determine the profit rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease.

The Group estimates the IBR using observable inputs (such as market profit rates) when available and is required to make certain entity-specific estimates.

**3. CASH AND CASH EQUIVALENTS**

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise the following at 31 December:

	<b>2022</b>	2021
	<b>KD'000</b>	KD'000
Cash	<b>7,845</b>	5,486
Current account with the CBK	<b>117,833</b>	59,779
Current accounts with commercial banks	<b>20,956</b>	14,591
<b>Total cash and bank balances</b>	<b>146,634</b>	79,856
Placements with the CBK whose original maturity is within 3 months	<b>114,141</b>	141,542
Placements with banks whose original maturity is within 3 months	<b>41,694</b>	264,068
<b>Total cash and cash equivalents</b>	<b>302,469</b>	485,466

Placements with banks represent placements with reputable financial institutions with appropriate credit-ratings assigned by international credit-rating agencies.

**4. FINANCING RECEIVABLES**

Financing receivables mainly comprise of facilities extended to the customers of the Group in the form of Murabaha, Ijara and Wakala contracts. Wherever necessary, financing receivables are secured by acceptable forms of collateral to mitigate the related credit risk.

	2022 KD'000	2021 KD'000
Murabaha receivables	<b>2,823,145</b>	2,215,919
Ijara receivables	<b>485,292</b>	403,955
Wakala receivables	<b>38,244</b>	38,768
Others	<b>44,072</b>	15,842
Less: deferred profit	<b>(165,664)</b>	(133,840)
Financing receivables before provision for impairment	<b>3,225,089</b>	2,540,644
Less: Provision for impairment as per CBK guidelines	<b>(95,413)</b>	(67,128)
	<b>3,129,676</b>	2,473,516

Further analysis of financing receivables, net of deferred profit, based on customer type is given below:

	2022 KD'000	2021 KD'000
Corporate	<b>1,951,420</b>	1,496,214
Individuals	<b>1,273,669</b>	1,044,430
Financing receivables before provision for impairment	<b>3,225,089</b>	2,540,644
Less: Provision for impairment as per CBK guidelines	<b>(95,413)</b>	(67,128)
	<b>3,129,676</b>	2,473,516

The available provision balance on non-cash facilities of KD 5,577 thousand (2021: KD 12,998 thousand) is included under other liabilities.

**4. FINANCING RECEIVABLES (continued)**

Movement in provision for impairment as per CBK instructions for cash and non-cash facilities is as follows:

	31 December 2022		
	Specific provision KD'000	General provision KD'000	Total KD'000
<b>Cash facilities</b>			
As at 1 January 2022	8,057	59,071	67,128
Provision charged during the year	8,522	22,123	30,645
Written off balances during the year	(2,479)	-	(2,479)
Foreign currency movement	-	119	119
At 31 December 2022	<u>14,100</u>	<u>81,313</u>	<u>95,413</u>
<b>Non-cash facilities</b>			
As at 1 January 2022	12,112	886	12,998
Provision (reversal) charged during the year	(7,642)	221	(7,421)
At 31 December 2022	<u>4,470</u>	<u>1,107</u>	<u>5,577</u>
<b>Total facilities</b>			
As at 1 January 2022	20,169	59,957	80,126
Provision charged during the year (Note 16)	880	22,344	23,224
Written off balances during the year	(2,479)	-	(2,479)
Foreign currency movement	-	119	119
At 31 December 2022	<u>18,570</u>	<u>82,420</u>	<u>100,990</u>

	31 December 2021		
	Specific provision KD'000	General provision KD'000	Total KD'000
<b>Cash facilities</b>			
As at 1 January 2021	2,487	39,689	42,176
Provision charged during the year	14,689	19,399	34,088
Written off balances during the year	(9,119)	-	(9,119)
Foreign currency movement	-	(17)	(17)
At 31 December 2021	<u>8,057</u>	<u>59,071</u>	<u>67,128</u>
<b>Non-cash facilities</b>			
As at 1 January 2021	3,634	809	4,443
Provision charged during the year	8,478	77	8,555
At 31 December 2021	<u>12,112</u>	<u>886</u>	<u>12,998</u>
<b>Total facilities</b>			
As at 1 January 2021	6,121	40,498	46,619
Provision charged during the year (Note 16)	23,167	19,476	42,643
Written off balances during the year	(9,119)	-	(9,119)
Foreign currency movement	-	(17)	(17)
At 31 December 2021	<u>20,169</u>	<u>59,957</u>	<u>80,126</u>

**4. FINANCING RECEIVABLES (continued)**

An analysis of the carrying amounts of financing receivables (cash facilities), and the corresponding ECL based on the staging criteria under IFRS 9 in accordance with CBK regulations is as follows:

	As at 31 December 2022			
	Stage 1 KD 000's	Stage 2 KD 000's	Stage 3 KD 000's	Total KD 000's
<b>Financing receivables</b>				
High	1,460,108	69,946	-	1,530,054
Standard	1,219,894	139,130	11,981	1,371,005
Past due or impaired	202,464	92,755	28,811	324,030
	<b>2,882,466</b>	<b>301,831</b>	<b>40,792</b>	<b>3,225,089</b>

	As at 31 December 2021			
	Stage 1 KD 000's	Stage 2 KD 000's	Stage 3 KD 000's	Total KD 000's
Financing receivables				
High	1,011,752	72,994	-	1,084,746
Standard	1,116,054	109,525	6,571	1,232,150
Past due or impaired	135,941	58,675	29,132	223,748
	<b>2,263,747</b>	<b>241,194</b>	<b>35,703</b>	<b>2,540,644</b>

An analysis of the changes in the ECL in relation to financing receivables (cash facilities) computed under IFRS 9 in accordance to the CBK guidelines is as follows:

	For the year ended 31 December 2022			
	Stage 1 KD 000's	Stage 2 KD 000's	Stage 3 KD 000's	Total KD 000's
ECL allowance as at 1 January 2022	21,221	9,408	14,282	44,911
Transfer from Stage 1	(2,308)	2,233	75	-
Transfer from Stage 2	3,404	(3,826)	422	-
Transfer from Stage 3	248	27	(275)	-
(Reversal) additional ECL for the year	(8,227)	2,055	5,967	(205)
Amounts written off	-	-	(2,479)	(2,479)
<b>At 31 December 2022</b>	<b>14,338</b>	<b>9,897</b>	<b>17,992</b>	<b>42,227</b>

	For the year ended 31 December 2021			
	Stage 1 KD 000's	Stage 2 KD 000's	Stage 3 KD 000's	Total KD 000's
ECL allowance as at 1 January 2021	22,138	3,641	5,027	30,806
Transfer from Stage 1	(1,672)	1,597	75	-
Transfer from Stage 2	323	(960)	637	-
Transfer from Stage 3	767	2	(769)	-
(Reversal) additional ECL for the year	(335)	5,128	18,431	23,224
Amounts written off	-	-	(9,119)	(9,119)
<b>At 31 December 2021</b>	<b>21,221</b>	<b>9,408</b>	<b>14,282</b>	<b>44,911</b>

**4. FINANCING RECEIVABLES (continued)**

An analysis of the carrying amounts of contingent liabilities and commitments (non-cash facilities), and the corresponding ECL based on the staging criteria under IFRS 9 in accordance with CBK regulations is as follows:

	As at 31 December 2022			
	Stage 1 KD 000's	Stage 2 KD 000's	Stage 3 KD 000's	Total KD 000's
<b>Non-cash facilities</b>				
High	75,825	3,700	-	79,525
Standard	101,929	39,322	-	141,251
Past due or impaired	-	-	4,504	4,504
	<b>177,754</b>	<b>43,022</b>	<b>4,504</b>	<b>225,280</b>

	As at 31 December 2021			
	Stage 1 KD 000's	Stage 2 KD 000's	Stage 3 KD 000's	Total KD 000's
Non-cash facilities				
High	65,303	4,935	-	70,238
Standard	89,729	32,301	-	122,030
Past due or impaired	-	-	3,858	3,858
	<b>155,032</b>	<b>37,236</b>	<b>3,858</b>	<b>196,126</b>

An analysis of the changes in the ECL in relation to non-cash facilities computed under IFRS 9 in accordance to the CBK guidelines is as follows:

	For the year ended 31 December 2022			
	Stage 1 KD 000's	Stage 2 KD 000's	Stage 3 KD 000's	Total KD 000's
ECL allowance as at 1 January 2022	2,804	3,170	3,854	9,828
Transfer from Stage 1	(408)	408	-	-
Transfer from Stage 2	181	(181)	-	-
(Reversal) additional ECL for the year	(510)	(710)	644	(576)
<b>At 31 December 2022</b>	<b>2,067</b>	<b>2,687</b>	<b>4,498</b>	<b>9,252</b>

	For the year ended 31 December 2021			
	Stage 1 KD 000's	Stage 2 KD 000's	Stage 3 KD 000's	Total KD 000's
ECL allowance as at 1 January 2021	4,022	2,079	3,707	9,808
Transfer from Stage 1	(204)	195	9	-
Transfer from Stage 2	-	(11)	11	-
Transfer from Stage 3	5	-	(5)	-
(Reversal) additional ECL for the year	(1,019)	907	132	20
At 31 December 2021	<b>2,804</b>	<b>3,170</b>	<b>3,854</b>	<b>9,828</b>

The expected credit losses calculated as per IFRS 9 according to the CBK guidelines amounted to KD 51,479 thousand as of 31 December 2022 (2021: KD 54,739 thousand), which is less than provisions computed as required by the CBK guidelines amounting to KD 100,990 thousand as of 31 December 2022 (2021: KD 80,126 thousand).

**5. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS**

	2022 KD'000	2021 KD'000
Equity instruments - quoted	12,474	16,898
Funds -unquoted	121,368	94,021
Other securities - unquoted	5,750	17,979
	<b>139,592</b>	128,898

The hierarchy for determining and disclosing the fair values of financial instruments by valuation techniques are presented in Note 23.

**6. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME**

	2022 KD'000	2021 KD'000
Quoted Sukuk	284,916	258,140
Unquoted equity instruments	10,497	5,613
	<b>295,413</b>	263,753

During the year ended 31 December 2022, the management has performed a review of the financial assets at fair value through other comprehensive income (Sukuk) to assess the ECL. Based on the assessment, the management has recognised ECL of KD 695 thousand (2021: KD 16,610 thousand) in the consolidated statement of profit or loss for the year (Note 16).

The hierarchy for determining and disclosing the fair values of financial instruments by valuation techniques are presented in Note 23.

Investments in debt instruments are subject to ECL. An analysis of changes in the gross carrying amount and the corresponding ECL in relation to investment in debt instruments is as follows:

	31 December 2022			
	Stage 1 KD'000	Stage 2 KD'000	Stage 3 KD'000	Total KD'000
Gross carrying amount as at 1 January 2022	224,074	34,066	-	258,140
New assets purchased (payments and assets derecognised during the year), net	29,325	(2,849)	-	26,476
Transfer between stages	4,695	(4,695)	-	-
Foreign exchange adjustments	300	-	-	300
<b>At 31 December 2022</b>	<b>258,394</b>	<b>26,522</b>	<b>-</b>	<b>284,916</b>

	31 December 2022			
	Stage 1 KD'000	Stage 2 KD'000	Stage 3 KD'000	Total KD'000
ECL allowance as at 1 January 2022	303	357	16,606	17,266
Impact due to purchase/de-recognition	124	165	-	289
Impact on year end ECL of exposures transferred between stages during the year	(137)	137	-	-
Re-measurement of ECL	78	(54)	382	406
Amounts written off	-	-	(16,988)	(16,988)
<b>At 31 December 2022</b>	<b>368</b>	<b>605</b>	<b>-</b>	<b>973</b>

**6. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (continued)**

	31 December 2021			
	Stage 1	Stage 2	Stage 3	Total
	KD'000	KD'000	KD'000	KD'000
Gross carrying amount as at 1 January 2021	222,227	9,180	105	231,512
New assets purchased (payments and assets derecognised during the year), net	25,103	17,325	(16,573)	25,855
Transfer between stages	(23,414)	6,946	16,468	-
Foreign exchange adjustments	158	615	-	773
At 31 December 2021	224,074	34,066	-	258,140

	31 December 2021			
	Stage 1	Stage 2	Stage 3	Total
	KD'000	KD'000	KD'000	KD'000
ECL allowance as at 1 January 2021	552	56	48	656
Impact due to purchase/de-recognition	190	225	-	415
Impact on year end ECL of exposures transferred between stages during the year	(5,241)	(11,365)	16,606	-
Re-measurement of ECL	4,802	11,441	(48)	16,195
At 31 December 2021	303	357	16,606	17,266

**7. INVESTMENT IN JOINT VENTURES**

The Group's interest in joint ventures is accounted for using the equity method in the consolidated financial statements. Summarised financial information of the joint ventures, based on its IFRS financial statements, and reconciliation with the carrying amount of the investment in the consolidated financial statements are set out below:

	2022	2021
	KD'000	KD'000
As at 1 January	104,891	108,240
Net disposals	(8,652)	(15,386)
Share of results (Note 14)	16,308	27,012
Distributions received	(5,502)	(14,328)
Foreign currency translation adjustment	263	(647)
Share of other comprehensive income of investment in joint venture	572	-
As at 31 December	107,880	104,891

**7. INVESTMENT IN JOINT VENTURES (continued)**

The following table illustrates summarised financial information of the Group's investment in the joint ventures:

	2022 KD'000	2021 KD'000
<b>Summarised statement of financial position of the joint ventures:</b>		
Current assets	6,292	4,576
Non-current assets	102,712	100,353
Current liabilities	(1,124)	(38)
<b>Equity</b>	<b>107,880</b>	104,891
<b>Group's share in equity</b>	<b>107,880</b>	104,891
<b>Group's carrying amount of the investment</b>	<b>107,880</b>	104,891
<b>Summarised statement of profit or loss of the joint ventures:</b>		
Revenue	16,773	27,743
Administrative and other expenses	(465)	(731)
Profit for the year	16,308	27,012
Group's share of profit for the year	16,308	27,012
Share of other comprehensive income	572	-

The joint ventures had no capital commitments as at 31 December 2022 (2021: KD Nil) and no contingent liabilities as at 31 December 2022 and 2021.

**8. INVESTMENT PROPERTIES**

	2022 KD'000	2021 KD'000
Opening balance at 1 January	18,715	30,039
Sale during the year	(2,602)	(11,290)
Fair value adjustment to investment properties (Note 14)	80	(171)
Foreign currency translation adjustment	-	137
Closing balance at 31 December	<b>16,193</b>	18,715

The fair value of investment properties is determined based on valuations performed by independent and accredited valuers with recognised and relevant professional qualification and with recent experience in locations and categories of investment properties being valued. The valuation models applied are consistent with the principles in IFRS 13 and fair value is determined using the market comparison approach considering the nature and usage of each property. Under the market comparison approach, fair value is estimated based on comparable transactions. The unit of comparison applied by the Group is the price per square meter ('sqm'). Based on these valuations, the fair value of investment properties witnessed an increase of KD 80 thousand compared to its carrying values as at 31 December 2022 (2021: decrease of KD 171 thousand).

Significant increases (decreases) in estimated price per square metre in isolation would result in a significantly higher (lower) fair value on a linear basis.

## 8. INVESTMENT PROPERTIES (continued)

The fair value of the investment properties is classified as a level 2 fair value since no significant adjustments need to be made to the prices obtained from the local markets.

Generally, a change in the assumption made for the estimated rental value is accompanied by a directionally similar change in the rent growth per annum and discount rate (and exit yield), and an opposite change in the long term vacancy rate.

	2022 KD'000	2021 KD'000
Rental income derived from investment properties	115	690
Direct operating expenses	(52)	(114)
Net rental income arising from investment properties (Note 14)	<b>63</b>	576

The Group has no restrictions on the realisability of its investment properties and no contractual obligations to either purchase, construct or develop investment properties or for repairs, maintenance and enhancements.

## 9. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

Due to banks and other financial institutions represents deposits received from banks and other financial institutions under Wakala and Murabaha contracts.

## 10. DEPOSITORS' ACCOUNTS

Depositors' accounts of the Group comprise of the following:

- **Non-investment deposits in the form of current accounts**

These deposits are not entitled to any profits nor do they bear any risk of loss as the Group guarantees to pay the related balances on demand. Accordingly, these deposits are considered Qard Hasan from depositors to the Group.

- **Investment deposits**

These include Mudaraba, Murabaha and Wakala deposits, which have fixed maturity as specified in the term of the contract except for investment saving accounts which are valid for an unlimited period.

## 11. SUKUK ISSUED

On 24 September 2019, the Bank completed the series 1 issue of unsecured Sukuk (senior debt) amounting to US\$ 500 million (KD 154 million) with a tenor of up to 5 years maturing on 24 September 2024. Such sukuk has a fixed coupon rate of 2.982% per annum, payable semi-annually in arrears. The Sukuk is listed on the Irish Stock Exchange (Euronext Dublin) and NASDAQ Dubai.

On 17 June 2020, the Bank completed the issuance of an unsecured Sukuk (senior debt) amounting to KD 150 million with a tenor of up to 5 years maturing on 17 June 2025. Such sukuk has a coupon rate of 1% per annum over the CBK discount rate, payable semi-annually in arrears. The Sukuk is listed on the Irish Stock Exchange (Euronext Dublin).

## 12. EQUITY

### Share capital

The authorised, issued, and fully paid-up share capital as at 31 December 2022 comprise of 2,000,000 thousand shares (2021: 2,000,000 thousand shares) of a par value of 100 fils each.

## 12. EQUITY (continued)

### Statutory reserve

In accordance with the Companies' Law, and the Bank's Memorandum of Incorporation and Articles of Association, a minimum of 10% of the profit for the year before contribution to KFAS, NLST, Zakat and Directors' remunerations shall be transferred to the statutory reserve. The Annual General Assembly of the Bank may resolve to discontinue such transfer when the reserve exceeds 50% of the issued share capital. The reserve may only be used to offset losses or enable the payment of a dividend up to 5% of paid-up share capital in years when profit is not sufficient for the payment of such dividend due to absence of distributable reserves. Any amounts deducted from the reserve shall be refunded when the profits in the following years suffice, unless such reserve exceeds 50% of the issued share capital.

An amount of KD 2,026 thousand was transferred to the statutory reserve during the year ended 31 December 2022 (2021: KD 1,679 thousand).

### Voluntary reserve

In accordance with the Bank's Articles of Association and Memorandum of Incorporation, a percentage is deducted for voluntary reserve based on proposal of the Board of Directors and subject to approval of the Annual General Assembly. Such transfers may be discontinued by a resolution of the ordinary general assembly upon a proposal by the Board of Directors and the CBK approval.

Based on the proposal of the Board of Directors, no transfers have been made to the voluntary reserve in the current and prior year.

### Proposed dividend

The Board of Directors recommended distribution of a cash dividend of 3 fils per share (2021: Nil) and bonus shares of 3% (2021: Nil) for the year ended 31 December 2022. The cash dividend and bonus shares, if approved by the Shareholders' Annual General Meeting, shall be payable to the shareholders after obtaining the necessary regulatory approvals.

## 13. PERPETUAL TIER 1 SUKUK

Tier 1 Sukuk is a perpetual security in respect of which there is no fixed redemption date and constitutes direct, unsecured, subordinated obligations (senior only to share capital) of the Bank subject to the terms and conditions of the Mudaraba Agreement. The net proceeds of Tier 1 Sukuk are invested by way of Mudaraba with the Bank (as Mudareb), on an unrestricted co-mingling basis, by the Bank in its general business activities carried out through the general Mudaraba pool. At the Bank's sole discretion, it may elect not to make any Mudaraba distributions expected and in such event, the Mudaraba profit will not be accumulated and the event is not considered an event of default.

The Tier 1 Sukuk issued in 2017 amounting to USD 250 million, callable in 14 March 2022, was partially redeemed on 29 November 2021 through a tender buy-back amounting to USD 101.9 million at a price of 101.42% of the nominal value. Premium paid on the tender buy-back along with the foreign exchange translation were recorded in the consolidated statement of changes in equity for the year ended 31 December 2021. On 14 March 2022, the first call date, the remaining portion of the Tier 1 Sukuk was fully redeemed by way of exercising the sukuk Call Option amounting to USD 148.1 million (KD 45.3 million) at a price of 100% of their nominal value. The Bank made the last profit payment during the year on 13 March 2022.

On 29 November 2021, the Bank, through a Sharia compliant Sukuk arrangement, issued Tier 1 Sukuk amounting to USD 250 million (KD 75.8 million). The Tier 1 Sukuk is listed on the Irish Stock Exchange and NASDAQ Dubai and callable by the Bank after five-year period ending 26 November 2026 (the "First Call Date") or any profit payment date thereafter subject to certain redemption conditions. Such Sukuk bears a profit rate of 4% per annum to be paid semi-annually in arrears until the First Call Date. After that, the expected profit rate will be reset based on the prevailing 5 years U.S Mid Swap Rate plus initial margin of 2.748% per annum. The bank made profit payments during the year on 26 May and 28 November 2022.

**14. NET INVESTMENT INCOME**

	2022 KD'000	2021 KD'000
Realised (loss) gain on sale of debt instruments at fair value through other comprehensive income	(337)	351
Realised gain on sale of financial assets at fair value through profit or loss	-	(1)
Share of results of investment in joint ventures (Note 7)	16,308	27,012
Dividend income	5,709	4,145
Net rental income from investment properties (Note 8)	63	576
Gain on sale of investment property	577	2,604
Fair value adjustment to financial assets at fair value through profit or loss	362	12,175
Fair value adjustment to investment properties (Note 8)	80	(171)
Gain on sale of a joint venture	285	2,329
Other investment income	674	602
	<b>23,721</b>	<b>49,622</b>

**15. NET FEES AND COMMISSION INCOME**

Net fees and commission income includes financing syndication fees earned on the successful completion of syndicated deals by the Group amounting to KD 1,790 thousand (2021: KD 1,815 thousand).

**16. PROVISION FOR IMPAIRMENT AND CREDIT LOSSES**

	2022 KD'000	2021 KD'000
Provision for expected credit losses for investments in Sukuk (Note 6)	695	16,610
Reversal of expected credit losses for placements with banks	(70)	(60)
Provision for impairment as per CBK guidelines on credit facilities (Note 4)	23,224	42,643
Impairment on other assets	6	564
	<b>23,855</b>	<b>59,757</b>

**17. BASIC AND DILUTED EARNINGS PER SHARE (EPS)**

Basic EPS amounts are calculated by dividing the profit for the year attributable to ordinary equity holders of the Bank adjusted for profit paid on Perpetual Tier 1 Sukuk by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is calculated by dividing the profit attributable to ordinary equity holders of the Bank by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares. As there are no dilutive instruments outstanding, basic and diluted earnings per share are identical.

	2022	2021
Net profit for the year (KD'000)	19,288	15,964
Less: profit payment on Perpetual Tier 1 Sukuk (KD'000)	(4,531)	(5,769)
	<b>14,757</b>	10,195
Weighted average number of shares outstanding ('000)	<b>2,000,000</b>	1,692,686
Basic and diluted EPS (fils)	<b>7.38</b>	6.02

**17. BASIC AND DILUTED EARNINGS PER SHARE (EPS) (continued)**

There have been no transactions involving ordinary shares between the reporting date and the date of authorisation of these consolidated financial statements which would require the restatement of EPS.

**18. RELATED PARTY DISCLOSURES**

Related parties comprise the major shareholders, board of directors, entities controlled by them or under their joint control, associates, key management personnel and their close family members. Balances with related parties arise from commercial transactions in the normal course of business. Lending to Board Members and their related parties is secured by tangible collateral in accordance with regulation of Central Bank of Kuwait.

**18.1. Remuneration of the Bank's key management personnel:**

Key management personnel are those individuals who have the authority and responsibility for planning and exercising power to directly or indirectly control the activities of the Bank and its employees. The Bank considers the members of the Board of Directors (and its sub-committees) and Executive Committee to be key management personnel for the purposes of IAS 24 Related Party Disclosures.

	<b>2022</b>	2021
	<b>KD'000</b>	KD'000
Salaries and benefits	<b>3,235</b>	3,413
End of service benefits	<b>190</b>	193
Directors' remuneration*	<b>538</b>	514
	<b>3,963</b>	4,120

\* Directors' remuneration includes special compensation for additional contributions related to participation in the executive committees in accordance with board of directors' decisions.

Board of directors' remuneration for the year ended 31 December 2022 is subject to the approval of the annual general assembly meeting (AGM).

The AGM of the shareholders of the Bank held on 30 March 2022 approved directors' remuneration for the year ended 31 December 2021 amounting to KD 66 thousand.

**18. RELATED PARTY DISCLOSURES (continued)**
**18.2 Balances and transactions with Bank's board of directors' members, key management personnel and major shareholders:**

Details of the balances of board of directors' members, executive officers and major shareholders are as follows:

	Number of BOD members, executive officers or major shareholders		Number of related parties		2022 KD'000	2021 KD'000
	2022	2021	2022	2021		
<b>Board Members</b>						
Financing facilities (secured)	1	2	-	-	5	1,634
Credit cards	1	-	-	-	-	-
Depositors' accounts	29	20	-	-	6,013	5,686
Contingent liabilities (letter of guarantees)	4	1	-	-	5,671	4
<b>Executive Officers</b>						
Financing facilities (secured)	6	4	-	-	532	360
Credit cards	3	3	-	-	19	5
Depositors' accounts	14	14	18	14	2,674	785
<b>Major Shareholders</b>						
Depositors' accounts	2	2	39	36	516,369	494,354

Outstanding balances at year-end are in the ordinary course of business. The profit rates charged to, and by, related parties are at normal commercial rates.

Details of the transactions of board of directors' members, executive officers and major shareholders are as follows:

	2022 KD'000	2021 KD'000
<b>Board Members</b>		
Placement and finance income	107	50
Net fees and commission income	48	-
Finance costs and distribution to depositors	86	3
<b>Executive Officers</b>		
Placement and finance income	8	10
Finance costs and distribution to depositors	345	190
<b>Major Shareholders</b>		
Finance costs and distribution to depositors	12,850	4,605

**19. COMMITMENTS AND CONTINGENT LIABILITIES**

	2022 KD'000	2021 KD'000
Acceptances and letters of credit	49,710	52,259
Letter of guarantees	175,570	143,867
<b>Contingent liabilities</b>	<b>225,280</b>	<b>196,126</b>
<b>Capital and other commitments</b>	<b>199,383</b>	<b>113,063</b>

## 19. COMMITMENTS AND CONTINGENT LIABILITIES (continued)

As at 31 December 2022, capital and other commitments includes irrevocable commitments to extend credit amounted to KD 128,887 thousand (2021: KD 19,671 thousand). These include commitments to extend credit which are irrevocable over the life of the facility or are revocable only in response to a material adverse change.

These credit commitments do not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded. Credit losses, if any, which may result from exposure to such commitments are not expected to be significant.

## 20. RISK MANAGEMENT

Risk is inherent in all activities of the Group and is managed through a process of ongoing identification, measurement, mitigation and monitoring, subject to risk appetite limits and other controls. This process of risk management is critical to the Group's financial health and continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Group has exposure to the following risks from financial instruments:

- Credit risk
- Market risk
- Liquidity risk
- Operational risk

In addition, there are other risk types that need to be monitored and controlled. This note presents information about the Group's exposure to each of the risks, the Group's framework of policies, models and quantification techniques and processes for identifying, measuring, mitigating, monitoring and managing risk, and the management of Group's capital.

This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. The Group is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to country risk and various operating and business risks.

### 20.1 RISK MANAGEMENT STRUCTURE

#### Board of Directors

The Board of Directors (the 'Board') has overall responsibility for the establishment and oversight of Risk Management function. The Board has established a Board Risk Committee (the 'BRC') comprising of members from the Board, to set the framework and monitor the Bank's Risks and Control related requirements covering all risk types like credit, market, liquidity risks and operational risk. The Board Risk Committee is assisted in these functions by the Chief Risk Officer.

The Board has also established a Board Audit Committee (the 'BAC'), as required by the Central Bank of Kuwait, which, amongst other functions, is also required to monitor adherence with the Group's Risk Management principles, policies and procedures, and for reviewing the adequacy of the Risk Management framework. The Board Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Group Audit Committee.

#### Risk Management Group

An independent Risk Management Group headed by the Chief Risk Officer (the 'CRO') reports to the BRC, responsible for enterprise-wide risks, to assist the Board of Directors and BRC in carrying out the risk oversight responsibility.

Risk management policies are established to identify, quantify, control, mitigate, and analyse the risks faced by the Group to set appropriate risk limits and controls and to monitor risks and ensure adherence to the risk appetite limits. Risk management policies and systems are subject to review regularly, on an ongoing basis, to reflect changes in economic environment, market conditions, products and services offered by the Group.

**20 RISK MANAGEMENT (continued)****20.2 CREDIT RISK**

Credit risk is the risk that one party to a financial instrument will fail or delay to discharge an obligation and cause the other party to incur a financial loss. This includes the risk of decline in the credit standing of the customer. While such decline does not imply default, it increases the probability of the customer defaulting. Financial instruments that create credit risk mainly includes financing receivables and commitments to extend credit and investment in debt instruments (i.e. Sukuk).

For risk management control purposes, the Group considers and consolidates all elements of credit risk exposure such as individual obligor default risk, country risk and sector risk in one measure about the riskiness of an exposure.

**Credit risk management**

The Group's Board has approved Financing and Investment policies for various business groups and investment asset types. The Board has also approved the Executive Credit and Investment Committee (the 'ECIC') Charter, which is empowered for initial screening of proposals and approval within its delegated authorities. The Board has also constituted the Board Credit and Investment Committee (the 'BCIC') which by virtue of its Charter, is the next level of authority which provides guiding principles and approves the various financing and investment proposals on behalf of the Board of the Group.

The Risk Management Group provides independent opinion and assessment of risk for every financing and investment proposal presented to the approving authorities for decision making.

The Group manages its credit facilities portfolio with the objective of ensuring that it is well diversified and it earns a level of return commensurate with the risks it assumes, at the same time, seeks to ensure the quality of the credit portfolio.

In addition, the Group endeavors to manage the credit exposure by obtaining collateral where appropriate and limiting the tenor of exposure or structures that are beneficial to the overall risk profile of the Group's credit risk exposure.

As required by the CBK, the Group has established a Provisioning Committee, at the executive level which is primarily responsible for the study and evaluation of the existing credit facilities and investments of the Group, to identify any abnormal situations and difficulties associated with a customer's position which may require the exposure to be classified as irregular, and to determine an appropriate provisioning required for impaired/potential impairment of assets and investments.

**Assessment of expected credit losses**

## Definition of default and cure

The Group considers a financial asset to be in default and therefore Stage 3 (credit impaired) for ECL calculations when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as transferring collateral (if any is held); or
- the borrower is past due more than 90 days on any material credit obligation to the Group; or
- borrower is considered as credit impaired based on qualitative assessment for internal credit risk management purposes

The Group considers exposures as defaulted when the external rating is recognized as a default grade as per the relative rating scale of the recognized rating agencies.

**20. RISK MANAGEMENT (continued)****20.2 Credit risk (continued)****Assessment of expected credit losses (continued)****Definition of default and cure (continued)**

The Group considers a variety of indicators that may indicate unlikelihood to pay as part of a qualitative assessment of whether a customer is in default. Such indicators include:

- breaches of covenants
- borrower having past due liabilities to public creditors or employees
- borrower is deceased

**Significant increase in credit risk**

The Group continuously monitors all assets subject to ECL. In order to determine whether an instrument or a portfolio of instruments is subject to 12 months ECL or life time ECL, the Group assess whether there has been a significant increase in credit risk since initial recognition. The Group applies a consistent quantitative criterion for internally and externally rated portfolio to assess significant increase in credit risk.

**Internal rating and Probability of Default (PD) estimation process**

In managing its portfolio, the Group utilises ratings and other measures and techniques which seek to take account of all aspects of perceived risk. The Group uses Moody's CreditLens (MC) as its internal credit-rating engine. The MC tool provides the ability to analyse a business and produce risk ratings. The analysis supports the usage of financial factors as well as non-financial subjective factors. The Group also uses external ratings by recognised rating agencies for externally rated portfolios.

It is the Group's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Group's rating policy. The attributable risk ratings are assessed and updated regularly.

The standard requires the use of separate PD for a 12-month duration and lifetime duration depending on the stage allocation of the obligor. A PD used for IFRS 9 should reflect the Group's estimate of the future asset quality. The through the cycle (TTC) PDs are generated from MC based on the internal/external credit ratings. The Group converts the TTC PD to a point in time (PIT) PD term structures using appropriate models and techniques.

The Group assesses the PD for its retail portfolio through behavioural scorecards implemented in the Group. The scorecards are based on logistic regression technique. This enables the evaluation of score and PD associated against each facility. Term structure of PD is based on hazard rate concept. The survival distribution used is exponential distribution. The probability distribution function of an exponentially distributed random variable is used with the hazard rate as the PD evaluated from the Behavioural scorecard.

**Incorporation of forward-looking information**

The Group considers key economic variables that are expected to have an impact on the credit risk and the ECL in order to incorporate forward looking information into the ECL models. These primarily reflect reasonable and supportable forecasts of the future macro-economic conditions. The consideration of such factors increases the degree of judgment in determination of ECL. The Group employs statistical models to incorporate macro-economic factors on historical default rates. The Group considers 3 scenarios (baseline, upside and downside) of forecasts of macro-economic data and appropriate probability weights are applied to these scenarios to derive a probability weighted outcome of expected credit loss. The management reviews the methodologies and assumptions including any forecasts of future economic conditions on a regular basis.

**Sensitivity**

The weighting of the multiple scenarios increased bank's reported allowance for credit losses for financing receivables in Stage 1 and Stage 2, relative to our base case scenario, to KD 24,265 thousand (2021: KD 30,629 thousand) from KD 21,565 thousand (2021: KD 28,378 thousand). If the Bank were to use only downside case scenario for the measurement of allowance for credit losses for financing receivables, allowance for credit losses on performing financing receivables would be KD 41,460 thousand higher than the reported allowance for credit losses as at 31 December 2022. Actual results will differ as this does not consider the migration of exposures or incorporate changes that would occur in the portfolio due to risk mitigation actions and other factors.

**20. RISK MANAGEMENT (continued)**
**20.2 Credit risk (continued)**
**Assessment of expected credit losses (continued)**
**Sensitivity (continued)**

Under current probability-weighted scenarios, if all performing financing receivables were in Stage 1, reflecting a 12-month expected loss period, the allowance for credit losses would be KD 17,711 thousand (2021: KD 25,035 thousand) lower than the reported allowance for credit losses on financing receivables.

**Maximum exposure to credit risk without taking account of any collateral**

The following table summarises the maximum exposure to credit risk for the components of the consolidated statement of financial position, including off-consolidated statement of financial position items. The maximum exposure is shown net of impairment, before the effect of mitigation through the use of master netting and collateral agreements, where applicable.

	Net maximum exposure	
	2022	2021
	KD'000	KD'000
Balances with banks	138,789	74,370
Placements with banks and the CBK	278,895	437,043
Financing receivables	3,129,676	2,473,516
Financial assets at fair value through other comprehensive income (investment in Sukuk)	284,916	258,140
Other assets	26,376	23,622
	<b>3,858,652</b>	3,266,691
Acceptances and letters of credit	49,461	52,035
Letter of guarantees	170,242	131,093
<b>Total</b>	<b>219,703</b>	183,128
<b>Total credit risk exposure</b>	<b>4,078,355</b>	3,449,819

Where financial instruments are recorded at fair value, the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could give rise in the future as a result of changes in value.

Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region or exposed to similar economic environment that would cause their ability to meet contractual obligations and be similarly impacted by changes in economic, political and/or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Group's performance to developments affecting similarly connected counterparties.

The maximum credit exposure to a single counterparty as at 31 December 2022 amounted to KD 83,031 thousand (2021: KD 81,976 thousand) before taking account of collateral.

**Risk concentrations of the maximum exposure to credit risk**

Geographical and industry sector concentrations of financial assets and off-consolidated statement of financial position items are as follows:

	2022		2021	
	Financial assets	Off-balance sheet items	Financial assets	Off-balance sheet items
	KD'000	KD'000	KD'000	KD'000
Geographic region:				
Kuwait	3,001,954	181,172	2,546,136	153,196
Other Middle East	684,488	3,120	605,153	6,222
Rest of the World	172,210	35,411	115,402	23,710
	<b>3,858,652</b>	<b>219,703</b>	3,266,691	183,128

**20. RISK MANAGEMENT (continued)**
**20.2 Credit risk (continued)**
**Risk concentrations of the maximum exposure to credit risk (continued)**

	2022		2021	
	Financial assets	Off-balance sheet items	Financial assets	Off-balance sheet items
	KD'000	KD'000	KD'000	KD'000
Industry sector:				
Banks and other financial institutions	901,060	26,384	877,267	17,538
Construction and Real Estate	1,223,059	93,696	979,958	84,572
Trading and Manufacturing	458,179	55,408	419,825	64,497
Personal	604,150	-	504,138	-
Services	243,993	42,099	203,039	15,695
Other	428,211	2,116	282,464	826
	<b>3,858,652</b>	<b>219,703</b>	<b>3,266,691</b>	<b>183,128</b>

**Credit risk mitigation**

Credit risk mitigation techniques that the Group is permitted to use are obtaining collateral where appropriate and limiting the tenor of exposure or structures that are beneficial to the Group's management of risks to an exposure.

**Credit quality of financial instruments**

For the year ended 31 December 2022, the Group classified the various credit risk exposure which are neither past due nor impaired into two categories of credit quality as under:

**High quality:** Credit exposures where the ultimate risk of financial loss from the obligor's failure to discharge its obligation is assessed to be low-to-moderate. These include exposures to entities with financial strength and risk factors indicative of capacity to repay all contractual obligations, and those exposures that are significantly collateralized with tangible securities.

**Standard quality:** All other exposures whose payment performance is fully compliant with contractual conditions and which are not impaired.

The tables below show the credit quality of assets by class and grade before deducting the provision for impairment as per the Group's credit rating system.

	Neither past due nor impaired		Past due or impaired	Total
	High quality	Standard quality	KD'000	
	KD'000	KD'000	KD'000	KD'000
<b>2022</b>				
Balances with banks	138,789	-	-	138,789
Placements with banks and the CBK	262,656	16,304	-	278,960
Financing receivables	1,530,054	1,371,005	324,030	3,225,089
Financial assets at fair value through other comprehensive income (investment in Sukuk)	172,526	112,390	-	284,916
Other assets	25,328	1,151	1,032	27,511
	<b>2,129,353</b>	<b>1,500,850</b>	<b>325,062</b>	<b>3,955,265</b>

**20. RISK MANAGEMENT (continued)**
**20.2 Credit risk (continued)**
**Credit quality of financial instruments (continued)**

	Neither past due nor impaired		Past due or impaired	Total KD'000
	High quality KD'000	Standard quality KD'000	KD'000	
2021				
Balances with banks	74,370	-	-	74,370
Placements with banks and the CBK	409,471	27,706	-	437,177
Financing receivables	1,084,746	1,232,150	223,748	2,540,644
Financial assets at fair value through other comprehensive income (investment in Sukuk)	151,526	106,614	-	258,140
Other assets	22,131	800	1,869	24,800
	<u>1,7412,244</u>	<u>1,367,270</u>	<u>225,617</u>	<u>3,335,131</u>

Disclosure of credit quality and the maximum exposure for credit risk of financing receivables per categories based on the Bank's internal credit rating system and year-end stage classification are further disclosed in Note 4.

**Ageing analysis of past due but not impaired finance facilities by class of financial assets:**

	Less than 30 days KD'000	31 to 60 days KD'000	61 to 90 days KD'000	Total KD'000
<b>2022</b>				
Financing receivables	<u>252,802</u>	<u>30,103</u>	<u>6,486</u>	<u>289,391</u>
2021				
Financing receivables	<u>189,572</u>	<u>4,964</u>	<u>1,734</u>	<u>196,270</u>

**Collaterals**

The amount and type of collaterals required depends on an assessment of the credit risk of the counterparty. Guidelines initiated by the Bank's risk management and credit committee are implemented regarding the acceptability of types of collateral and valuation parameters.

Management monitors the fair value of collateral and requests additional collateral in accordance with the underlying agreements when necessary.

The fair value of collateral that the Bank holds relating to past due or impaired finance facilities as at 31 December 2022 was KD 318,154 thousand (2021: KD 253,046 thousand). The collaterals consist of cash, securities, sukuk, letters of guarantee, real estate assets and other forms of collateral.

## 20 RISK MANAGEMENT (continued)

### 20.3 MARKET RISK

Market risk emanates from the process of fair value or future cash flows of a financial instrument which fluctuates due to changes in market prices. Market risk may arise from open positions in profit 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 or prices such as profit rates, credit spreads, foreign exchange rates and equity prices.

#### Market risk management

The Risk Management Group is responsible for development of detailed Market Risk Management framework and for the periodic review of their implementation, while it is the responsibility of the Treasury function to proactively manage and control market risk generated from various market positions in investments, financial instruments and over-the-counter deals.

The market risk framework comprises of the following elements:

- Limits for all market risk parameters and regular limits monitoring to ensure that Group does not exceed aggregate risk and concentration parameters set by the CBK limits and internal limits;
- Mark-to-market valuation based on independently published market data, and continuous review of all open positions; and
- Measuring Value-at-Risk for market sensitive positions and monitoring the same against established limits

The Group is required to comply with the guidelines and regulations of the CBK. The Market Risk policies and procedures and the market risk limits are periodically set and reviewed to ensure the implementation of the Group's market risk appetite.

#### 20.3.1 Profit rate risk

Profit rate risk arises from the changes in profit rates affecting future cash flows or the fair value of the underlying financial exposure or instrument. The Group is susceptible to profit rate risk as value of Group's fixed income investments and/or return on financing are inversely proportional to movement in market rates. Moreover, change in profit rates might also impact Group's net earnings or earnings spread. The Group is not exposed to significant profit rate risk.

#### 20.3.2 Prepayment risk

Prepayment risk is the risk that the Group will incur a financial loss because its customers and counterparties repay or request repayment earlier than expected, such as fixed rate financial exposures when profit rates fall. Due to the contractual terms of its Islamic products, the Group is not significantly exposed to prepayment risk.

#### 20.3.3 Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group is susceptible to currency risk as the Group's base currency is KD and all foreign currencies are revalued against KD. Any long or short open position in any currency exposes the Group to currency risk.

Currency risk is managed on the basis of limits determined by the CBK and a continuous assessment of the Group's open positions and current and expected exchange rate movements.

The tables below indicate the currencies to which the Group had significant exposure at 31 December on its non-trading monetary assets and liabilities and its forecasted cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the KD, with all other variables held constant, on profit or loss and equity (due to changes in fair value and foreign currency translation recognised in OCI).

**20 RISK MANAGEMENT (continued)**  
**20.3 MARKET RISK (continued)**
**20.3.3 Currency risk (continued)**

Currency	2022			2021		
	Change in currency rate	Effect on profit or loss	Effect on equity	Change in currency rate	Effect on profit or loss	Effect on equity
	%	KD'000	KD'000	%	KD'000	KD'000
USD	+1	<b>(2,602)</b>	<b>921</b>	+1	(1,880)	903
EUR	+1	<b>(188)</b>	<b>91</b>	+1	(132)	102
GBP	+1	<b>(60)</b>	<b>62</b>	+1	(186)	194

**20.3.4. Equity price risk**

Equity price risk is the risk that the fair values of equities decrease as the result of change in the levels of equity prices and/or indices and the value of individual stocks.

The Group conducts sensitivity analysis on regular intervals in order to assess the potential impact of any material change in fair value of listed equity instruments. For such investments, a five percent increase in stock prices as at 31 December 2022 would have increased equity by KD 624 thousand (2021: KD 845 thousand). An equal change in the opposite direction would have had equal, but opposite effect to the amounts shown above, on the basis that all other variables remain constant.

**20.4 Liquidity risk**

Liquidity risk arises when the Group may be unable to meet its obligations associated with its financial liabilities. Liquidity risk can be caused by market disruptions, credit downgrades or market perception, which may cause certain sources of funding to dry up immediately. To limit this risk, the Group has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of High Quality Liquid Assets (HQLA) which could be used to secure additional funding and liquidity if and when required. The Group has in place a Contingency Funding Plan (CFP) to ensure required action is implemented in the event of any liquidity contingencies. ALCO is responsible for invoking the CFP.

**Liquidity risk management**

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Risk Management Group and Treasury monitor the Group's liquidity profile daily and take appropriate steps, if required. The Group's liquidity profile is monitored on daily basis; overall assets and liabilities as well as for KD and foreign currencies (FCY), on the Group's position in terms of Statutory Liquidity Ratio (SLR) as well as Lending to Deposit Ratio (LDR) and Liquidity Coverage Rate (LCR). Treasury co-ordinates with all business groups, details of projected cash flows required or arising from potential ensuing business opportunities.

Treasury is required to maintain a portfolio of short-term liquid assets, largely made up of short-term high-quality liquid investment securities and availability of inter-bank lines at short notice, to ensure that sufficient liquidity is maintained with the Group. Treasury's liquidity management is performed with most optimisation, taking into account the maturity gaps. The daily liquidity position is monitored and regular stress testing is conducted under a variety of scenarios covering the mild and more severe market conditions. All liquidity policies are subject to review by the ALCO and approved by the BRC. Periodic liquidity profile report, including any exceptions and remedial action required/taken, is reviewed by the ALCO. The Group is governed by the liquidity limits and maturity ladder profile as mandated by the CBK regulations and the CBK approved limits.

The table below summarizes the maturity profile of the Group's assets and liabilities. The maturity profile of the assets and liabilities at the year-end are based on contractual repayment arrangement with the exception of some investments which are bucketed as per the CBK criteria.

**20. RISK MANAGEMENT (continued)**
**20.4 Liquidity risk (continued)**
**Liquidity risk management (continued)**

The maturity profile of assets and liabilities as at 31 December is as follows:

	Within 3 months KD'000	3 to 6 months KD'000	6 to 12 months KD'000	Over 1 year KD'000	Total KD'000
<b>2022</b>					
<b>Assets</b>					
Cash and balances with banks	146,634	-	-	-	146,634
Placements with banks and the CBK	237,868	41,027	-	-	278,895
Financing receivables	1,807,968	486,514	156,290	678,904	3,129,676
Financial assets at fair value through profit or loss	-	-	-	139,592	139,592
Financial assets at fair value through other comprehensive income	36,025	10,728	2,088	246,572	295,413
Investments in joint ventures	-	-	-	107,880	107,880
Investment properties	-	-	-	16,193	16,193
Other assets	22,872	866	86	45,497	69,321
Property and equipment	-	-	-	17,353	17,353
	<b>2,251,367</b>	<b>539,135</b>	<b>158,464</b>	<b>1,251,991</b>	<b>4,200,957</b>
<b>Liabilities</b>					
Due to banks and other financial institutions	598,678	48,566	6,586	138,936	792,766
Depositors' accounts	1,931,316	404,949	287,427	50,790	2,674,482
Sukuk issued	-	-	-	304,057	304,057
Other liabilities	45,548	-	-	10,187	55,735
	<b>2,575,542</b>	<b>453,515</b>	<b>294,013</b>	<b>503,970</b>	<b>3,827,040</b>
	Within 3 months KD'000	3 to 6 months KD'000	6 to 12 months KD'000	Over 1 year KD'000	Total KD'000
<b>2021</b>					
<b>Assets</b>					
Cash and balances with banks	79,856	-	-	-	79,856
Placements with banks and the CBK	437,043	-	-	-	437,043
Financing receivables	1,483,906	433,112	65,906	490,592	2,473,516
Financial assets at fair value through profit or loss	-	-	-	128,898	128,898
Financial assets at fair value through other comprehensive income	4,933	24,738	1,657	232,425	263,753
Investments in joint ventures	-	-	-	104,891	104,891
Investment properties	-	-	-	18,715	18,715
Other assets	14,205	1,034	145	40,214	55,598
Property and equipment	-	-	-	17,942	17,942
	<b>2,019,943</b>	<b>458,884</b>	<b>67,708</b>	<b>1,033,677</b>	<b>3,580,212</b>
<b>Liabilities</b>					
Due to banks and other financial institutions	358,599	45,363	48,011	60,598	512,571
Depositors' accounts	1,489,677	465,290	306,010	27,941	2,288,918
Sukuk issued	-	-	-	302,024	302,024
Other liabilities	44,024	-	-	16,876	60,900
	<b>1,892,300</b>	<b>510,653</b>	<b>354,021</b>	<b>407,439</b>	<b>3,164,413</b>

**20. RISK MANAGEMENT (continued)**  
**20.4 Liquidity risk (continued)**
**Liquidity risk management (continued)**

The table below summarises the maturity profile of the Group's financial liabilities as at 31 December based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately.

	Within 3 months KD'000	3 to 6 months KD'000	6 to 12 months KD'000	Over 1 year KD'000	Total KD'000
<b>2022</b>					
Due to banks and other financial institutions	605,239	49,523	6,813	141,673	803,248
Depositors' accounts	2,035,197	417,524	297,322	51,406	2,801,449
Sukuk issued	-	5,698	5,698	317,453	328,849
Other liabilities	45,548	-	-	10,187	55,735
	<b>2,685,984</b>	<b>472,745</b>	<b>309,833</b>	<b>520,719</b>	<b>3,989,281</b>
	Within 3 months KD'000	3 to 6 months KD'000	6 to 12 months KD'000	Over 1 year KD'000	Total KD'000
<b>2021</b>					
Due to banks and other financial institutions	290,592	45,666	48,382	129,193	513,833
Depositors' accounts	1,556,821	414,532	309,367	30,700	2,311,420
Sukuk issued	-	151,880	-	173,838	325,718
Other liabilities	44,024	-	-	16,876	60,900
	<b>1,891,437</b>	<b>612,078</b>	<b>357,749</b>	<b>350,607</b>	<b>3,211,871</b>

The table below shows the contractual expiry by maturity of the Group's contingent liabilities and commitments:

	Within 3 months KD'000	3 to 12 months KD'000	Over 1 year KD'000	Total KD'000
<b>2022</b>				
Acceptances and letters of credit	33,393	13,793	2,524	49,710
Letter of guarantees	32,645	48,895	94,030	175,570
Capital and other commitments	-	199,383	-	199,383
	<b>66,038</b>	<b>262,071</b>	<b>96,554</b>	<b>424,663</b>
	Within 3 months KD'000	3 to 12 months KD'000	Over 1 year KD'000	Total KD'000
<b>2021</b>				
Acceptances and letters of credit	32,277	15,458	4,524	52,259
Letter of guarantees	38,952	40,540	64,375	143,867
Capital and other commitments	-	113,063	-	113,063
	<b>71,229</b>	<b>169,061</b>	<b>68,899</b>	<b>309,189</b>

## 20. RISK MANAGEMENT (continued)

### 20.5 Operational risk

Operational risk is the risk of loss arising from inadequate or failed internal processes, systems failure, human error, or from external events. When controls fail to perform, it can have legal or regulatory implications, or lead to a financial or reputational loss.

#### Management of operational risk

The Group has a set of policies approved by the Board and are applied to identify, assess and supervise operational risk in addition to other types of risk relating to the banking and financial activities of the Group. Suitable operational risk procedures have been agreed with various groups and departments of the Group and implemented for effectively reporting, monitoring and controlling operational risks.

Operational risk is managed under the Risk Management Group. This group ensures compliance with policies and procedures to identify, assess, supervise and monitor operational risk as part of overall prudent and robust Risk Management Framework.

The Group manages operational risks in line with the CBK instructions regarding "General Guidelines for Internal Control Systems" and directives regarding "Sound Practices for the Management and Control of Operational Risks".

The Group has established its Business Continuity Management ("BCM") policy to meet any internal or external failures and eventualities enabling smooth functioning of the Group's operations.

The Group has established a Disaster Recovery ("DR") site for its IT infrastructure, and ensures that the operational risks from any potential disruption do not adversely impact the banking business. The Group pays special attention to operational risks that may arise from non-compliance to Sharia principles and any possible failure in fiduciary responsibilities.

## 21. SEGMENT INFORMATION

The Group's operating segments are determined based on the reports reviewed by the decision makers that are used for strategic decisions. These segments are strategic business units that offer different products and services. They are managed separately since the nature of the products and services, class of customers and marketing strategies of these segments are different.

These operating segments meet the criteria for reportable segments and are as follows:

- **Corporate** - comprising of range of banking services and investment products to corporate customers, in addition to providing commodity and real estate Murabaha finance and Ijara facilities.
- **Retail** - comprising of a diversified range of products and services to individual customers. The range includes consumer finance, credit cards, deposits and other branch related services.
- **Treasury** - comprising of Bank's funding operations management, local and international Murabaha and other Islamic financing primarily with banks and financial institutions.
- **Investment** - comprising of investment in direct equity, real estate investment, other investments, and asset management.
- **Other** - comprising of cost center assets and expenses.

Management monitors the operating segments separately for the purpose of making decisions about resource allocation and performance assessment.

**21. SEGMENT INFORMATION (continued)**

The following table presents net operating income, net profit for the year, total assets, and total liabilities information regarding the Group's reportable segments.

	Corporate KD'000	Retail KD'000	Treasury KD'000	Investment KD'000	Other KD'000	Total KD'000
<b>2022</b>						
Net operating income	47,154	14,189	(2,922)	20,775	-	79,196
Net profit (loss)	23,800	2,299	(3,330)	18,175	(21,656)	19,288
Total assets	2,522,800	620,546	602,236	394,599	60,776	4,200,957
Total liabilities	962,184	995,582	1,819,058	-	50,216	3,827,040
	Corporate KD'000	Retail KD'000	Treasury KD'000	Investment KD'000	Other KD'000	Total KD'000
<b>2021</b>						
Net operating income	42,853	15,938	138	48,425	-	107,354
Net profit (loss)	142	5,532	(292)	29,763	(19,181)	15,964
Total assets	1,968,675	518,131	682,637	360,404	50,365	3,580,212
Total liabilities	564,368	909,001	1,643,084	-	47,960	3,164,413

**22. CAPITAL MANAGEMENT**

The primary objectives of the Group's capital management are to ensure that the Group complies with regulatory capital requirements and that the Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholder value with appropriate risk level.

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may review the amount of dividend payment to shareholders or issue capital securities.

Capital adequacy and the use of regulatory capital are monitored regularly by the Group's management and governed by guidelines of Basel Committee on Banking Supervision as adopted by the CBK.

The Group follows Basel III regulations and the Group's regulatory capital and capital adequacy ratios for the year ended 31 December 2022 are calculated in accordance with the CBK Circular number 2/RB, RBA/3362014/ dated 24 June 2014 and its amendments are shown below:

	2022 KD'000	2021 KD'000
<b>Risk weighted assets</b>	<b>2,368,231</b>	2,081,752
<b>Capital required</b>	<b>272,347</b>	218,584
<b>Capital available</b>		
Common equity Tier 1 "CET1" capital	297,471	302,573
Additional Tier 1 perpetual Sukuk	75,808	121,270
Total Tier 1 capital	373,279	423,843
Total Tier 2 capital	27,892	24,308
<b>Total capital available</b>	<b>401,171</b>	448,151
CET1 capital adequacy ratio: common equity	12.56%	14.53%
Total Tier 1 capital adequacy ratio	15.76%	20.36%
Total capital adequacy ratio	16.94%	21.53%

**22. CAPITAL MANAGEMENT (continued)**

The Group's financial leverage ratio for the year ended 31 December 2022 is calculated in accordance with the CBK Circular number 2/I.B.S. 343/2014 dated 21 October 2014 and its amendments and is shown below:

	<b>2022</b>	2021
	<b>KD'000</b>	KD'000
Tier 1 capital	<b>373,279</b>	423,843
Total exposure	<b>4,498,903</b>	3,865,164
Financial leverage ratio	<b>8.30%</b>	10.97%

The disclosure relating to the capital adequacy regulations issued by the CBK as stipulated in the CBK Circular number 2/RB, RBA/336/2014 dated 24 June 2014 and its amendments and disclosures related to financial leverage ratio as stipulated in the CBK Circular number 2/I.B.S. 343/2014 dated 21 October 2014 and its amendments are included under the 'Risk Management' section in the annual report.

**23. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Financial instruments comprise financial assets and financial liabilities.

**Fair value hierarchy**

The Group uses the following hierarchy for determining and disclosing the fair values of financial instruments by valuation technique:

- **Level 1:** quoted (unadjusted) prices in an active market for identical assets and liabilities;
- **Level 2:** other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- **Level 3:** other techniques which use inputs which have a significant effect on the recorded fair value are not based on observable market data.

**23. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (continued)**
**Fair value hierarchy (continued)**

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

	Fair value measurement			
	Total	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	KD'000	KD'000	KD'000	KD'000
<b>2022</b>				
<b>Assets measured at fair value on a recurring basis</b>				
Financial assets at FVTPL				
Quoted equity instruments	12,474	12,474	-	-
Funds (unquoted)	121,368	-	-	121,368
Other securities (unquoted)	5,750	-	-	5,750
	<b>139,592</b>	<b>12,474</b>	<b>-</b>	<b>127,118</b>
Financial assets at FVOCI				
Quoted Sukuk				
- Sovereign Sukuk	171,709	171,709	-	-
- Corporate Sukuk	113,207	113,207	-	-
	<b>284,916</b>	<b>284,916</b>	<b>-</b>	<b>-</b>
Unquoted equity instruments	10,497	-	-	10,497
	<b>295,413</b>	<b>284,916</b>	<b>-</b>	<b>10,497</b>

	Fair value measurement			
	Total	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	KD'000	KD'000	KD'000	KD'000
<b>2021</b>				
<b>Assets measured at fair value on a recurring basis</b>				
Financial assets at FVTPL				
Quoted equity instruments	16,898	16,898	-	-
Funds (unquoted)	94,021	-	-	94,021
Other securities (unquoted)	17,979	-	-	17,979
	<b>128,898</b>	<b>16,898</b>	<b>-</b>	<b>112,000</b>
Financial assets at FVOCI				
Quoted Sukuk				
- Sovereign Sukuk	189,553	189,553	-	-
- Corporate Sukuk	68,587	68,587	-	-
	<b>258,140</b>	<b>258,140</b>	<b>-</b>	<b>-</b>
Unquoted equity instruments	5,613	-	-	5,613
	<b>263,753</b>	<b>258,140</b>	<b>-</b>	<b>5,613</b>

**23. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (continued)**  
**Fair value hierarchy (continued)**

**Movements in Level 3 financial instruments measured at fair value**

The following table shows a reconciliation of the opening and closing amounts of Level 3 financial instruments measured at fair value.

	At 1 January 2022 KD'000	Additions KD'000	Sales/ redemptions KD'000	Change in fair value KD'000	Exchange rate movements KD'000	At 31 December 2022 KD'000
<b>Financial assets at FVTPL</b>						
Funds (unquoted)	94,021	29,697	(7,761)	4,725	686	121,368
Other securities (unquoted)	17,979	-	(11,495)	(813)	79	5,750
	<b>112,000</b>	<b>29,697</b>	<b>(19,256)</b>	<b>3,912</b>	<b>765</b>	<b>127,118</b>
<b>Financial assets at FVOCI</b>						
Unquoted equity instruments	5,613	-	-	4,884	-	10,497
	<b>5,613</b>	<b>-</b>	<b>-</b>	<b>4,884</b>	<b>-</b>	<b>10,497</b>

**23. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (continued)**
**Movements in Level 3 financial instruments measured at fair value (continued)**

The following table shows a reconciliation of the opening and closing amount of Level 3 financial assets.

	At 1 January 2021 KD'000	Additions KD'000	Sales/ redemptions KD'000	Change in fair value KD'000	Exchange rate movements KD'000	At 31 December 2021 KD'000
<b>Financial assets at FVTPL</b>						
Funds (unquoted)	57,792	34,086	(6,660)	9,340	(537)	94,021
Other securities (unquoted)	17,557	1,153	-	(683)	(48)	17,979
	<u>75,349</u>	<u>35,239</u>	<u>(6,660)</u>	<u>8,657</u>	<u>(585)</u>	<u>112,000</u>
<b>Financial assets at FVOCI</b>						
Unquoted Sukuk	6,303	-	(6,014)	(237)	(52)	-
Unquoted equity instruments	5,538	30	-	45	-	5,613
	<u>11,841</u>	<u>30</u>	<u>(6,014)</u>	<u>(192)</u>	<u>(52)</u>	<u>5,613</u>

There were no transfers between any levels of the fair value hierarchy during 2022 or 2021.

The fair value of financial instruments classified as level 3 are, in certain circumstances, measured using valuation techniques that incorporate assumptions that are not evidenced by the prices from observable current market transactions in the same instrument and are not based on observable market data. The Group employs valuation techniques, depending on the instrument type and available market data. For example, in the absence of active market, an investment's fair value is estimated on the basis of an analysis of the investee's financial position and results, risk profile and other factors. Favourable and unfavourable changes in the value of financial instruments are determined on the basis of changes in the value of the instruments as a result of varying the levels of the unobservable parameters, quantification of which is judgmental. The management assessed that the impact on profit or loss or other comprehensive income would be immaterial if the relevant risk variables used to fair value the financial instruments classified as Level 3 were altered by 5 percent.

For other financial assets and financial liabilities carried at amortised cost, the carrying value is not significantly different from their fair value as most of these assets and liabilities are of short-term maturity or are re-priced immediately based on market movement in profit rates.

**24. DERIVATIVE FINANCIAL INSTRUMENTS**

Derivative financial instruments are financial instruments that derive their value by referring to profit rates, foreign exchange rates, index of prices or rates and credit rating or credit index. 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 consolidated statement of financial position. Positive fair value represents the cost of replacing all transactions with a fair value in the Group'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 Group's counter parties of replacing all their transactions with the Group.

The Group deals in forward foreign exchange ("Islamic derivative financial instruments") to mitigate foreign currency risk. The forward foreign exchange contracts are being used for hedging purpose.

**24. DERIVATIVE FINANCIAL INSTRUMENTS (continued)****Forward foreign exchange contracts**

Forward foreign exchange contracts are contractual agreements to buy, sell or exchange a specified financial instrument at a specific price and date in the future. Forwards are customized contracts transacted on the over the counter market and are settled on a gross basis.

The table below shows the positive and negative fair values of these instruments, which are equivalent to the market values, together with the notional amounts. The notional amount is the amount of currency swap instruments' underlying asset, reference rate or index and is the basis upon which changes in the value of these instruments are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of the credit risk.

	KD'000		
	Positive fair value	Negative fair value	Notional amount
<b>31 December 2022</b>			
Forward contracts	-	(59)	9,064
<b>31 December 2021</b>			
Forward contracts	-	(40)	9,064

All derivative contracts are fair valued based on observable market inputs and are classified as level 2.

**25. FIDUCIARY ASSETS**

The aggregate value of assets held in a trust or fiduciary capacity by the Group as at 31 December 2022 amounted to KD 144,922 thousand (2021: KD Nil).

**26. INTEREST RATE BENCHMARK REFORM – PHASE 2**

The Group has exposure to the London Interbank offered rates (LIBOR), the benchmark rate, through its financial instruments, which will be replaced as part of the fundamental reform of various major profit rate benchmarks. The Group has undertaken a project under the oversight of a cross-functional IBOR Committee to manage its transition from LIBORs to alternative reference rates. The objectives of the IBOR Committee include evaluating the extent to which assets and liabilities are referenced to LIBOR cash flows, whether such contracts need to be amended as a result of those reforms and how to manage communication about LIBOR reform with counterparties. The new contracts to be entered by the Group on or after 1st January 2022 will be based on using various alternative benchmark interest rates including certain “risk-free” rates.

Transition away from LIBORs to the risk-free or alternative “reference rate” (RFR’s) regime will affect the pricing of deposits, Islamic Financing, hedging instruments and debt securities.

**Financial assets and liabilities**

The Group’s exposure to IBOR linked financial assets and liabilities is mainly through USD LIBOR. The Group will perform transition of these contracts to RFRs through bilateral agreements not later than June 2023.

The Group’s exposure to financial assets and liabilities that are based on USD LIBOR maturing after June 2023 is KD 204,791 thousand (2021: KD 260,799 thousand) and KD 30,630 thousand (2021: KD 30,250 thousand) respectively. The Group is in discussion with the counterparties clients to effect an orderly transition of USD exposures to the relevant RFR.

**Derivatives held for hedging purposes**

The Group is required to transition USD LIBOR based derivatives not later than June 2023. The notional value of USD LIBOR derivatives designated as fair value hedges, maturing after June 2023, is KD 9,064 thousand as at 31 December 2022 (2021: KD 9,064 thousand).

# Warba's Elite for Q4 2022

## The Doers



## The Team Players



## The Ambitious



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