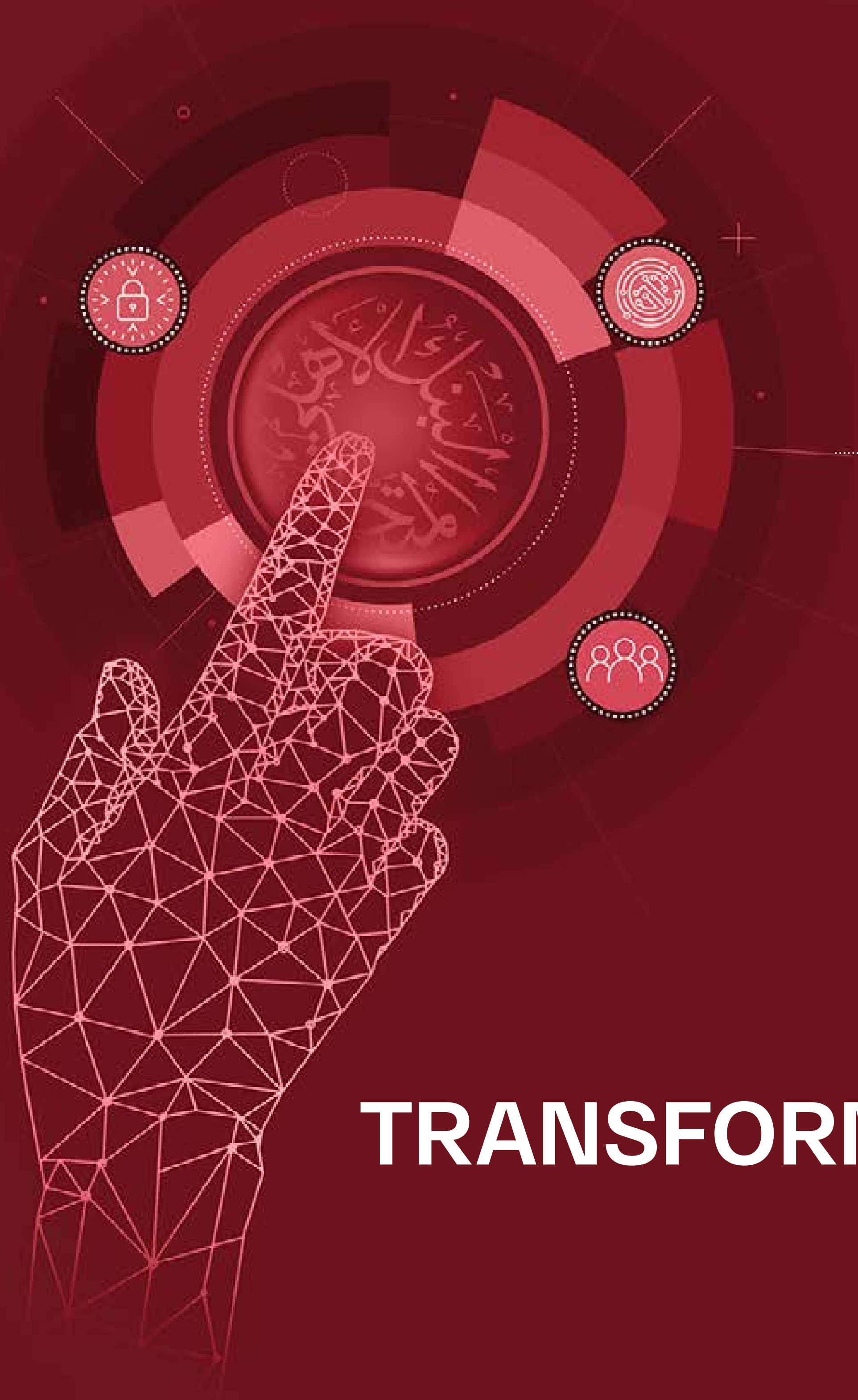


TRANSFORMATION

Annual Report 2022

البنك الأهلي المتحد
ahli united bank

CONTENTS

- BAHRAIN
- KUWAIT
- UAE
- UK
- EGYPT
- IRAQ
- OMAN
- LIBYA

TRANSFORMING TO ADDRESS CLIENTS' FUTURE NEEDS REQUIRES TECHNOLOGY INFRASTRUCTURE OF UNIMPEACHABLE SECURITY, FLAWLESS FUNCTIONING AND A HIGH DEGREE OF FLEXIBILITY.

AUB'S ACQUISITION BY KFH HAS LAID THE FOUNDATION FOR THE CREATION OF A LEADING SHARI'A COMPLIANT BANK IN THE REGIONAL AND GLOBAL BANKING SPACE AND PROVIDES A VERY SOLID PLATFORM FOR ACHIEVING THE ASPIRATIONS OF ITS COMBINED SHAREHOLDERS.

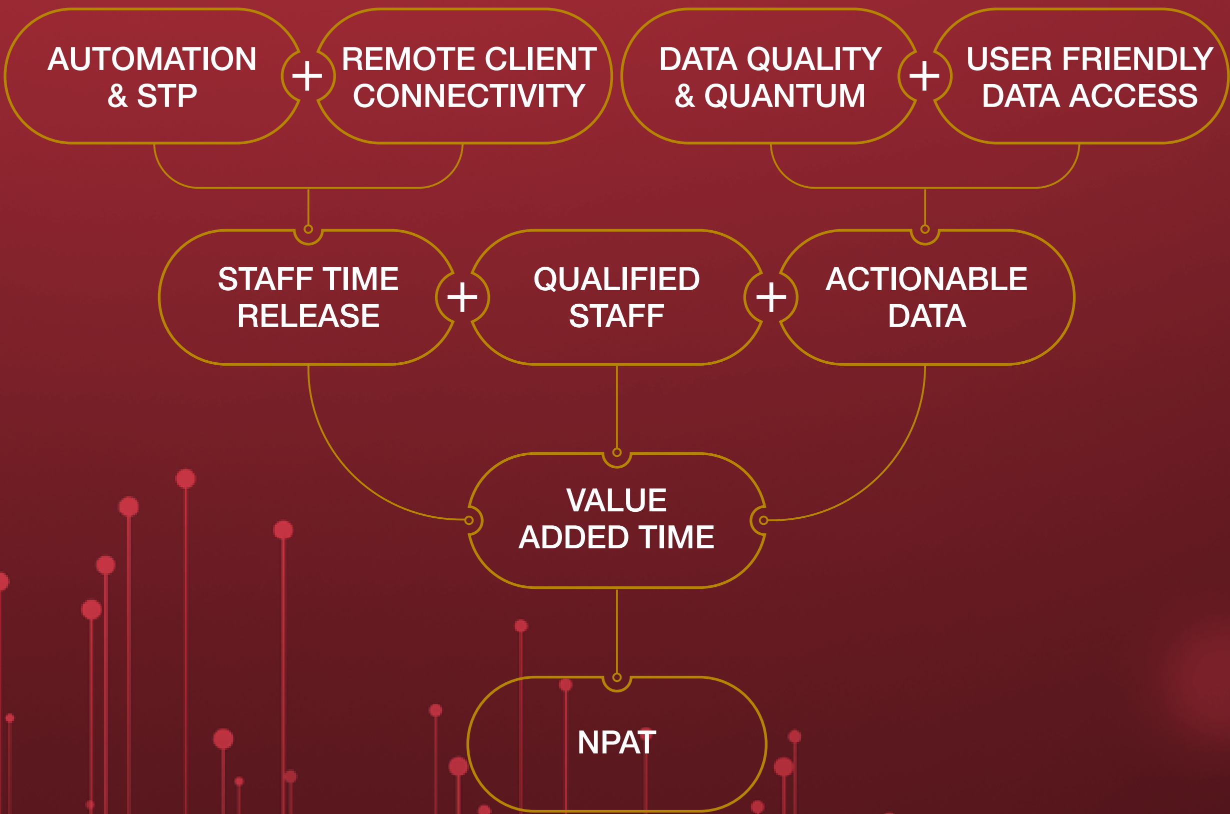
GROUP MISSION STATEMENT

TO CREATE AN UNRIVALLED ABILITY TO MEET CUSTOMER NEEDS, PROVIDE FULFILMENT AND DEVELOPMENT FOR OUR STAFF AND DELIVER OUTSTANDING SHAREHOLDER VALUE.

OBJECTIVES

- To maximise shareholder value on a sustainable basis.
- To maintain the highest international standards of corporate governance and regulatory compliance
- To maintain solid capital adequacy and liquidity ratios.
- To treat clients fairly and be their preferred banking partner.
- To ensure technological, digital and data competitiveness across all functions
- To entrench a disciplined risk and cost management culture.
- To develop a cross-cultural meritocratic management structure.
- To optimise staff development through business driven training and profit related incentive.
- To contribute to the social, economic and environmental advancement of our host countries.

VALUE ADDED TIME = NPAT



AUB OPERATING DIVISIONS

CORPORATE BANKING

This division covers all the Bank's capital-intensive activities in risk asset generation and funding regionally and internationally.

- Corporate and Trade Finance
- Commercial Property Finance
- Residential Property Finance
- Acquisition and Structured Finance
- Correspondent Banking
- Shari'a Compliant Banking

PRIVATE BANKING & WEALTH MANAGEMENT

This division generally includes all the low capital-intensive sectors of the business, offering wealth management services to individuals and institutions based on performance and a balanced product mix.

- Private Banking and Asset Management
- Real Estate Fund Management
- Shari'a Compliant Banking

RETAIL BANKING

This division covers both conventional and Shari'a Compliant individual customers' deposits, loans, overdrafts, credit cards and residential mortgages.

TREASURY AND INVESTMENTS

This division provides money market, trading and treasury services and is also responsible for the management of the Group's funding.

- Money Market Services
- Foreign Exchange Services
- Hedging and Trading Solutions
- Structured Products
- Investment Management
- Shari'a Compliant Treasury Products

RISK MANAGEMENT

This division is responsible for the identification, assessment and ongoing control of all material risks that could affect the Group's business & operations.

- Risk Management
- Legal
- Compliance

AUDIT

This division is an integral part of the control environment of the Group. The role of audit is to understand the key risks of the Bank and examine and evaluate the adequacy and effectiveness of the system of risk management and internal control in order to identify legal, regulatory or policy shortcomings.

SUPPORT SERVICES

These divisions provide back end banking services to support ongoing business activities of the Group, as well as supporting the Group's expansion through mergers and acquisitions.

- Finance
- Strategic Development
- Information Technology
- Operations
- Services
- Human Resources

As a premier regional bank present in 8 countries in the Middle East and United Kingdom, we provide our clients with international growth opportunities. Our network is constantly growing, and today we are proud to manage subsidiaries and associates across 8 countries through a network of 160 branches and 4,304 team members.

AHLI UNITED BANK IS **WELL ON COURSE** TO ACHIEVING ITS GROWTH AND REGIONAL EXPANSION OBJECTIVES.

8
COUNTRIES

160
BRANCHES

4,304
EMPLOYEES

NET PROFIT US$'000

546,102

LOANS AND ADVANCES US$'000

21,221,325

TOTAL ASSETS US$'000

41,560,972

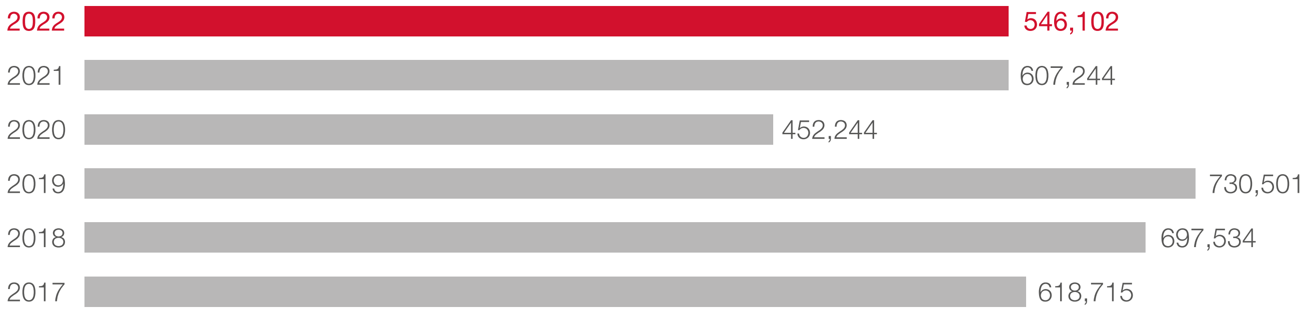
SHAREHOLDERS' EQUITY US$'000

4,375,504

OWNERSHIP IN GROUP ENTITIES

Net Profit
US$'000

546,102



Total Assets
US$'000

41,560,972

Loans and Advances
US$'000

21,221,325

Shareholder's Equity
US$'000

4,375,504

FINANCIAL HIGHLIGHTS
(Continued)

AHLI UNITED BANK B.S.C.

	US $ '000s					
	Dec 2022	Dec 2021	Dec 2020	Dec 2019	Dec 2018	Dec 2017
Net profit*	546,102	607,244	452,244	730,501	697,534	618,715
Total assets	41,560,972	41,913,370	40,071,167	40,280,051	35,507,577	33,241,885
Loans and advances	21,221,325	22,075,148	20,719,878	20,742,360	19,503,961	19,498,702
Total liabilities	35,731,573	35,995,405	35,034,809	34,918,522	30,535,569	28,353,731
Shareholders' equity	4,375,504	4,469,704	4,001,640	4,265,527	3,908,701	3,815,622
Non-controlling interest	453,895	448,261	434,718	496,002	463,307	472,532
Return on average assets (ROAA)	1.4%	1.6%	1.2%	2.1%	2.2%	2.1%
Return on average equity (ROAE)	12.3%	14.7%	10.4%	17.7%	18.1%	16.5%
Cost to income ratio	29.7%	29.5%	29.3%	28.6%	27.1%	28.8%
Financial leverage	7.4	7.3	7.9	7.3	7.0	6.6
Risk assets ratio	16.9%	17.0%	16.1%	16.4%	16.9%	17.0%
Net interest margin	2.28%	2.24%	2.06%	2.62%	2.88%	2.79%
Earnings per share (US cents)	4.5	5.1	3.8	6.2	6.0	5.3

* Attributable to Bank's equity shareholders

PRINCIPAL SUBSIDIARIES

KUWAIT: AHLI UNITED BANK K.S.C.P.

	KD '000s					
	Dec 2022	Dec 2021	Dec 2020	Dec 2019	Dec 2018	Dec 2017
Net profit	36,407	31,221	29,729	55,017	51,255	44,463
Total assets	4,711,687	4,573,435	4,369,998	4,351,404	3,913,653	3,665,579
Financing receivables	3,405,004	3,342,148	3,113,685	3,018,755	2,799,906	2,672,832
Total liabilities	4,044,527	3,925,780	3,866,795	3,835,246	3,422,251	3,197,991
Shareholders' equity	486,500	466,995	442,563	455,518	430,762	406,948
Return on average assets	0.8%	0.7%	0.7%	1.4%	1.4%	1.2%
Return on average equity	7.7%	6.9%	6.6%	12.7%	12.4%	11.4%
Cost to income ratio	41.4%	39.1%	36.6%	37.3%	30.6%	32.0%
Financial leverage	8.3	8.4	8.7	8.4	7.9	7.9
Risk assets ratio	18.4%	18.2%	15.7%	16.0%	16.6%	18.0%
Earnings per share (KD - fils)	13.0	10.9	11.7	22.9	21.3	18.3

UNITED KINGDOM: AHLI UNITED BANK (UK) PLC

	US $ '000s					
	Dec 2022	Dec 2021	Dec 2020	Dec 2019	Dec 2018	Dec 2017
Net profit	39,462	18,893	25,752	40,814	35,185	39,102
Total assets	2,837,717	2,998,843	2,828,031	3,210,261	2,909,856	2,785,254
Loans and advances	1,454,873	1,602,103	1,735,370	1,670,090	1,451,715	1,370,409
Total liabilities	2,506,008	2,674,599	2,549,641	2,911,244	2,621,474	2,493,406
Shareholders' equity	331,709	324,244	278,390	299,017	288,382	291,848
Return on average assets	1.4%	0.6%	0.8%	1.4%	1.2%	1.5%
Return on average equity	12.1%	6.6%	9.0%	14.4%	12.8%	13.8%
Cost to income ratio	35.7%	58.4%	43.6%	35.3%	44.7%	39.0%
Financial leverage	7.6	8.2	9.2	9.7	9.1	8.5
Risk assets ratio	19.9%	22.5%	19.2%	20.4%	23.6%	24.0%
Earnings per share (US cents)	19.8	9.4	12.9	20.4	17.6	19.5

FINANCIAL HIGHLIGHTS
(Continued)

PRINCIPAL SUBSIDIARIES (Continued)

IRAQ: COMMERCIAL BANK OF IRAQ P.S.C.

	IQD Millions					
	Dec 2022	Dec 2021	Dec 2020	Dec 2019	Dec 2018	Dec 2017
Net profit	11,662	13,009	35,457	6,554	10,864	10,050
Total assets	528,984	512,312	616,949	449,596	443,946	460,616
Loans and advances	13,030	27,136	18,841	11,447	11,933	10,789
Total liabilities	202,926	197,769	309,195	177,364	159,987	168,808
Shareholders' equity	326,058	314,543	307,755	272,232	283,958	291,809
Return on average assets	2.3%	2.0%	7.4%	1.5%	2.4%	2.3%
Return on average equity	3.7%	4.2%	13.0%	2.3%	3.8%	3.5%
Cost to income ratio	55.3%	61.6%	29.4%	64.1%	45.6%	52.9%
Financial leverage	0.6	0.6	1.0	0.7	0.6	0.6
Risk assets ratio *	100.8%	98.9%	73.7%	529.2%	657.6%	594.1%
Earnings per share (IQD - Fils)	46.6	52.0	141.8	26.2	43.5	40.2

*Under BASEL III from 2020.

EGYPT: AHLI UNITED BANK (EGYPT) S.A.E

	EGP '000s					
	Dec 2022	Dec 2021	Dec 2020	Dec 2019	Dec 2018	Dec 2017
Net profit	2,040,904	1,175,628	1,217,264	1,284,708	1,462,981	1,205,027
Total assets	85,712,688	64,462,686	56,362,418	47,288,176	51,488,260	46,989,288
Loans and advances	48,608,208	36,716,271	29,698,946	26,261,571	22,983,062	21,871,149
Total liabilities	75,054,281	55,288,633	48,155,980	39,626,232	44,423,636	40,477,096
Shareholders' equity	10,658,407	9,174,053	8,206,438	7,661,944	7,064,624	6,512,192
Return on average assets	2.8%	2.0%	2.4%	2.6%	2.9%	2.9%
Return on average equity	21.4%	13.9%	15.9%	18.8%	22.4%	22.0%
Cost to income ratio	20.1%	32.1%	28.0%	28.5%	19.3%	19.7%
Financial leverage	7.0	6.0	5.9	5.2	6.3	6.2
Risk assets ratio	16.2%	18.2%	19.6%	18.3%	17.0%	18.1%
Earnings per share (EGP)	3.6	2.1	2.1	2.3	2.7	2.2

PRINCIPAL ASSOCIATE

OMAN: AHLI BANK S.A.O.G.

	OMR '000s					
	Dec 2022	Dec 2021	Dec 2020	Dec 2019	Dec 2018	Dec 2017
Net profit	33,090	27,606	23,968	31,015	28,786	26,667
Total assets	3,075,466	3,052,556	2,702,477	2,518,527	2,290,414	2,014,582
Loans and advances	2,500,435	2,401,979	2,218,897	2,054,986	1,870,677	1,634,458
Total liabilities	2,614,527	2,625,559	2,314,127	2,129,332	1,931,410	1,709,755
Shareholders' equity	311,939	302,997	264,350	265,195	255,004	254,827
Return on average assets	1.1%	1.0%	0.9%	1.3%	1.3%	1.4%
Return on average equity	10.8%	9.7%	9.1%	11.9%	11.3%	10.7%
Cost to income ratio	43.9%	43.2%	42.1%	39.6%	37.4%	35.3%
Financial leverage	8.4	8.7	8.8	8.0	7.6	6.7
Risk assets ratio	16.3%	16.7%	15.7%	16.9%	17.5%	16.7%
Earnings per share (Baiza)	12.2	9.7	8.9	13.6	15.2	16.1

The Directors of Ahli United Bank B.S.C. ("AUB" or the "Bank") are pleased to submit the accompanying consolidated Financial Statements for the year ended 31 December 2022.

GENERAL OPERATING ENVIRONMENT

During 2022, the global economy faced a number of challenges arising from the Russian invasion of Ukraine and its global effects on commodity markets and supply chains; persistent inflation pressures and consequent interest rate hikes by central banks around the world; as well the slowdown in China due to Covid-19 related lockdown as authorities continued to follow a zero Covid policy. Accordingly, the World Bank has estimated that the global economic growth rate slowed down to 2.9% in 2022 as compared to 5.9% in 2021.

As per the World Bank, Middle East and North Africa (MENA) region is estimated to register a 5.7% growth in 2022 as compared to 3.7% in 2021. The improved regional growth in 2022 is primarily on account of higher oil GDP on account of the surge in global oil prices coupled with an increase in oil production vis-à-vis the previous year and due to the ongoing recovery in services from their pandemic slump.

As per the World Bank, global growth is projected to decelerate to just 1.7% in 2023 due to the continuing effects of the above-mentioned global factors. In fact, global economic growth in 2023 is projected to be among the weakest in nearly the last 3 decades except for the year of the global financial crisis in 2009 and the peak phase of the Covid-19 pandemic in 2020.

The MENA region is projected to grow at a slower pace of 3.5% in 2023 with expected decline in oil prices on account of the projected slowdown in the global economy and the continuing adverse impacts from the Russia-Ukraine war.

STRATEGIC & CORPORATE DEVELOPMENTS

- On 2 October 2022, Kuwait Finance House K.S.C.P ("KFH") completed the acquisition of 97.3% AUB shares through a share swap at an exchange ratio of 2.695 AUB shares for 1 new KFH share. Further, in accordance with Commercial Companies Law and CBB TMA guidelines, KFH exercised its squeeze out rights and completed the acquisition of the remaining 2.7% AUB shares on 20 November 2022. Accordingly, AUB is now a wholly owned subsidiary of KFH.

  The KFH acquisition is a key milestone in AUB's corporate evolution and a strong testament to AUB's superior financial performance over the past 23 years and of the stellar value accretion achieved for its shareholders. The transaction valued AUB at US$ 10.7 billion translating to an IRR of c.17.0% p.a. for AUB shareholders over the 23-year period since its establishment. This transformational transaction will create a leading Shari'a compliant bank in the regional and global banking space.
- During December 2022, AUB acquired Citibank's well established Consumer Banking business in Bahrain comprising of retail loans, credit cards, deposits and assets under management in a cash transaction. This acquisition has significantly enhanced AUB's market share in the highly profitable credit card business in Bahrain and expanded its reach into the premium and retail expatriate client segment.
- During July 2022, AUB successfully concluded a landmark US$ 1.1 billion Sustainable Murabaha Financing Facility. This transaction is a dual-tranche facility which complies with the principles of sustainability, making it the first ever funding program of its type raised by a financial institution worldwide. The facility enjoyed a very solid market reception from the investor community with significant over subscription achieved.

PERFORMANCE OVERVIEW

Despite the continued challenging operating environment and market volatility, AUB achieved very strong results in 2022. The key highlights of the AUB Group's consolidated financial performance for 2022 are given below:

- Total operating income increased by 11.5% to US$ 1,236.9 million in 2022 (2021: US$ 1,108.9 million) through a collective healthy growth in interest, investment and other income.
- Net interest income for 2022 was higher at US$ 909.1 million (2021: US$ 871.8 million), an increase of 4.3%, primarily because of increase in interest earning assets and net interest margins.
- Consolidated net profit (NPAT), attributable to the Bank's equity shareholders, of US$ 546.1 million was 10.1% lower versus US$ 607.2 million in 2021 mainly due to a one-off exceptional additional precautionary provision charge of US$ 160.2 million incurred during Q3/2022 from pre-acquisition non-consolidatable profits. Accounting rules only allow the consolidation of AUB's NPAT in to the KFH group NPAT after the effective date of the acquisition which was on 2 October 2022. All earlier YTD September 2022 AUB profits are not available for consolidation as ultimate distribution to the KFH shareholders as per applicable financial accounting standards. Excluding the above exceptional additional precautionary provision charge, the AUB Group achieved excellent financial results in 2022 with consolidated NPAT reaching to US$ 706.3 million, a 16.3% increase over the previous year NPAT and representing its second highest results since establishment.

  The exceptional precautionary provision taken in Q3/2022 assisted in recording a very low ECL charge of US$ 1.1 million in Q4/2022 and enabled the bank to achieve its highest quarterly normalized profit of US$ 203.9 million in Q4/2022 (Q4/2021: US$ 156.6 million +30.2%) since its establishment in 2000. This last quarter results has been fully consolidated by KFH in its Q4/2022 results.
- The Group maintained solid asset quality in 2022 with a gross non-performing loan (Stage 3) ratio of 1.9% (31 December 2021: 2.4%) which represents one of the lowest NPL ratio ever achieved in AUB's 23 years of history. The provision coverage ratio for Stage 3 loans was set at an extremely conservative level of 84.5% (31 December 2021: 83.1%) and is calculated on a cash provision basis excluding the value of the substantial additional non-cash (real estate and securities) assigned collaterals available against non-performing loans which totals US$ 491.2 million in value (31 December 2021: US$ 364.6 million in value). Stage 1 and Stage 2 ECL provisions for the non-impaired loans surged to 1.0% and 13.5% as at 31 December 2022 buoyed by the injection from the exceptional precautionary provisions, as compared to 0.9% and 11.4% at 31 December 2021. The 2022 year end provisions levels are well above the regional banking sector averages seen to date.

- The cost to income ratio for 2022 was at 29.7% (2021: 29.5%) reflecting AUB's continuing efforts to enhance operational efficiencies through the progressive roll-out of automation and digitization initiatives as part of the AUB Group's transformation plan.
- AUB Group's total assets marginally decreased by 0.8% to US$ 41.6 billion as at 31 December 2022 (31 December 2021: US$ 41.9 billion) mainly on account of the devaluation of Kuwaiti Dinar, British Pound and Egyptian Pound. The loans and advances portfolio as of 31 December 2022 was US$ 21.2 billion (31 December 2021: US$ 22.1 billion). The non-trading investments portfolio increased during the year to US$ 10.0 billion (31 December 2021: US$ 9.9 billion).
- The funding base was further diversified and elongated during 2022 through a number of wholesale measures:
  - Raised US$ 1.1 billion in a landmark transaction namely the world's first very successful Sustainable Murabaha Financing Facility which benefits from price reductions subject to achieving pre-set sustainability targets aligned to AUB's ESG framework.
  - Repo borrowing increased to US$ 4.4 billion as at 31 December 2022 (Dec 2021: US$ 3.8 billion) with 57% in elongated evergreen facilities with up to 9-18 months' contractual notice periods as compared to 92% in 2021.
  - Customer deposits as of 31 December 2022 were US$ 24.4 billion (31 December 2021: US$ 25.2 billion). Overall, the CASA pool as a percentage of customers' deposits slightly decreased to 32.2% as of 31 December 2022 (31 December 2021: 37.3%) mainly due to the higher interest rate environment which prompted a shift from CASA to higher yielding fixed deposits by customers.
- Return on Average Equity for 2022 was 12.3% (2021:14.7%) and Return on Average Assets stood at 1.4% for 2022 (2021: 1.6%). Without the precautionary non-recurring provision charge of US$ 160.2 million, Return on Average Equity increased to 15.4% and Return on Average Assets increased to 1.7%, well above the comparative year in 2021.

RECOGNITION

AUB Group received of a number of prestigious banking awards during the year which include the following:

Awards Provider	Name of the Awards
Euromoney	• Best Bank in Bahrain – 2022
CFI	• Best Global Network GCC Bank – 2022
Global Finance	• Best Bank in Bahrain – 2022 • Best FX provider in Bahrain – 2023 • Best Private Bank in Bahrain – 2023 • Best Trade Finance Provider – 2023 • Best Bank for Cash Management – 2023 ***Best Digital Banks 2022 awards*** • Best Online Portal / User Experience (UX Design) – 2022 • Best Integrated Corporate Banking Site – 2022 • Best Mobile Banking Application – 2022 • Best Online Investment Management Services – 2022 • Best Trade Finance Services – 2022 • Most Innovative Digital Bank – 2022 • Best Online Investment Management Services (ME) – 2022
The Asian Banker	• Best Retail Bank in Bahrain – 2022 • Best SME Bank in Bahrain – 2022
Private Banker International	• Best Private Bank of Islamic Services (Global) – 2022
MEED	• Best Private Bank in Bahrain, Kuwait, Oman & Egypt 2022
The Digital Banker	• Outstanding Transformation in Digital B2B Banking during Covid-19

DIRECTORS' AND EXECUTIVE MANAGEMENT'S REMUNERATION

First: Board of Directors' Remuneration Details: (Amounts stated in Bahraini Dinars)

Name	Fixed remunerations				Variable remunerations						
	Remunerations of the Chairman and BOD	Total allowance for attending Board and Board committee meetings	Others	Total	Remunerations of the Chairman and BOD	Incentive plans	Others	Total	End-of-service award	Aggregate Amount (Does not include expense allowance)	Expenses Allowance
First: Independent Directors:											
1. Abdulghani M.S.Y. Behbehani	34,814	34,814	-	69,628	-	-	-	-	-	69,628	-
2. Abdullah Mudhaf Al Mudhaf	32,163	32,163	-	64,326	-	-	-	-	-	64,326	-
3. Jamal Abdel Razzaq Al-Naif	31,456	31,456	-	62,912	-	-	-	-	-	62,912	-
Second: Non-Executive Directors:											
1. Wafra International Investment Co. K.S.C.C. (Meshal AbdulAziz Alothman (Chairman))	71,277	71,277	-	142,554	-	-	-	-	-	142,554	-
2. Mohammad Fouad Al-Ghanim (Deputy Chairman)	42,589	42,589	-	85,178	-	-	-	-	-	85,178	-
3. The Public Institution for Social Security (Ahmad Ghazi Al-Abduljalil)	30,749	30,749	-	61,498	-	-	-	-	-	61,498	-
4. Social Insurance Organization (Khalid Mohamed Najibi)	39,762	39,762	-	79,524	-	-	-	-	-	79,524	-
5. Mohammed Jassim Al Marzouk (Resigned from Board effective 1 June 2022)	21,030	21,030	-	42,060	-	-	-	-	-	42,060	-
Third: Executive Directors:											
1. Adel A. El-Labban – Executive (Resigned from Board effective 14 April 2022)	-	-	-	-	-	-	-	-	-	-	-
Total	**303,840**	**303,840**	**-**	**607,680**	**-**	**-**	**-**	**-**	**-**	**607,680**	**-**

Note:
All AUB Executive Directors, including Group CEO, are excluded from receiving any form of additional remuneration for their membership of or attendance at Board or Board related committee meetings at AUB or its subsidiaries / affiliates as per their specific contractual arrangements and as per the Board approved AUB Group HR Policy.

Second: Executive management remuneration details: (Amounts stated in Bahraini Dinars)

Executive Management	Total paid salaries and allowances	Total paid remuneration (Bonus)	Any other cash/ in kind remuneration for 2022	Aggregate Amount
Top 6 remunerations for executives, including CEO (Group CEO) and Senior Financial Officer (DGCEO Finance & Strategy)	1,142,657	144,940	261,001	1,548,598

APPROPRIATIONS

On the basis of the results of the Bank for the year ended 31 December 2022, the Board of Directors recommends the following appropriations for approval by the shareholders:

- Cash dividend at 2.5 US cents per share (2021: cash dividend of US cents 3.0 per share and bonus share issue of 10%)
- Transfer to statutory reserve of US$ 54.6 million
- Donations of US$ 2.0 million

CONCLUSION

In my capacity, as Deputy Chairman of the Board, it is my pleasure to thank our shareholders for their continuing support and confidence reposed in AUB in its last year as an independent financial institution. It is very important to state that our achievements, since inception of the Bank were only made possible through the guidance of our regulators, the support and trust of our clients, business partners, customers and most importantly the dedication, professionalism and resilience of our management and staff in working to ensure the continuity of superior performance and results with the highest ethical and professional standards through many challenging times including 2022.

MR. MOHAMMAD FOUAD AL-GHANIM
Deputy Chairman
2 February 2023

MR. KHALID MOHAMED NAJIBI
Director
2 February 2023

BOARD OF DIRECTORS
SINCE 22 MARCH 2023

MR. HAMAD ABDULMOHSEN AL MARZOUQ

(Non-Executive Director)

Chairman of the Board and Chairman of the Executive Committee

Director since 22 March 2023

Mr. Al Marzouq received his Master's Degree in International Finance and Business Management from Claremont Graduate University in the U.S. in 1987. He received his Bachelor's Degree in Industrial Systems Engineering from the University of Southern California in the U.S. in 1985.

Mr. Al Marzouq serves as a Board Member of Kuwait Banking Association (KBA) since 2002 and was appointed as Chairman of the Association from 2010 until 2016. Mr. Al Marzouq served as a Board Member of the Kuwait Institute of Banking Studies (KIBS) from 2003 to 2014 and the Public Authority for Applied Education and Training (PAAET) from 2007 until 2016. Mr. Al Marzouq served as a Member of the Board of Trustees of the Arab Academy for Financial and Banking Sciences from 2004 until 2009 and was a Board Member of the Union of Arab Banks from 2003 until 2010.

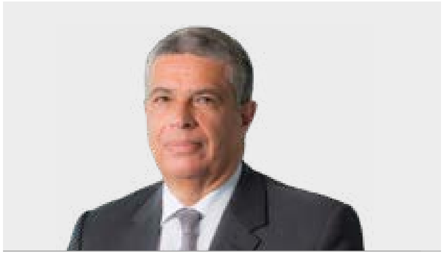
Mr. Al Marzouq has a diverse professional experience in Banking and Finance both in Kuwait and abroad spanning more than thirty six years as he has held many prominent positions in various banking, financial and regulatory institutions. Mr. Al Marzouq holds the positions of Chairman of Kuwait Finance House (Kuwait) since 2014 and Chairman of Kuwait Finance House (Turkey) since 2015. He also held the positions of Chairman of Kuwait Finance House (Bahrain) from 2015 until 2023 and Chairman of Kuwait Finance House (Malaysia) from 2015 until 2016.

Mr. Al Marzouq was Vice Chairman then Chairman and Managing Director of Ahli United Bank - Kuwait from 2001 until 2014, and was Vice Chairman of Ahli United Bank - U.K. from 1998 until 2014 and was Vice Chairman of Ahli United Bank - Egypt from 2006 until 2014. Mr. Al Marzouq served as Vice Chairman of Ahli United Bank – Bahrain from 2000 until 2014 and served as Vice Chairman of Ahli Bank - Oman from 2007 until 2014. Mr. Al Marzouq served as Vice Chairman of the Commercial Bank of Iraq from 2006 until 2014.

Mr. Al Marzouq served as a Board Member, Vice Chairman, and Chairman of Kuwait & Middle East Financial Investment Company in Kuwait from 2002 until 2013. He held the position of Vice Chairman of Middle East Financial Investment Company in the Kingdom of Saudi Arabia from 2009 until 2013 and was Vice Chairman of Ahli Bank in Qatar from 2004 until 2013.

Mr. Al Marzouq previously held several executive positions at the Central Bank of Kuwait including the position of Deputy Manager of the Technical Affairs Office in 1990. In addition, Mr. Al Marzouq served as the Deputy Manager of Financial Control Department from 1992 until 1996 and then served as Manager of Financial Control Department from 1996 until 1998. Mr. Al Marzouq commenced his professional career as an Investment Officer in the U.S. Equity Portfolios and Derivatives at the Investment Department at Kuwait Investment Company from 1987 until 1990.

36 years of experience in the financial services sector.



MR. ADEL A. EL-LABBAN

(Non-Executive Director)

Deputy Chairman of the Board and Member of the Executive Committee

Director since 22 March 2023

Holds a Masters in Economics (Highest Honors) from the American University in Cairo, 1980, Bachelors in Economics (Highest Honors) from the American University in Cairo, 1977.

Currently holds the positions of Deputy Chairman, United Bank for Commerce & Investment S.A.C., Libya; Director, Ahli United Bank (UK) PLC; and Director, Ahli United Bank K.S.C.P., Kuwait.

Formerly: Group Chief Executive Officer, Ahli United Bank B.S.C., Bahrain, from April 2022 until March 2023; Group Chief Executive Officer and Managing Director, Ahli United Bank B.S.C., Bahrain, from November 2000 until April 2022; Chief Executive Officer and Director, United Bank of Kuwait P.L.C., UK; Managing Director, Commercial International Bank, Egypt S.A.E.; Chairman, Commercial International Investment Company, Egypt; First Deputy Chairman, Ahli Bank S.A.O.G., Oman; Vice Chairman, Middle East Financial Investment Co., Saudi Arabia; Deputy Chairman, Ahli United Bank S.A.E., Egypt; Deputy Chairman, Commercial Bank of Iraq; Director, Ahli United Bank Limited, UAE; Vice President, Morgan Stanley, USA; Assistant Vice President, Arab Banking Corporation, Bahrain; Director, Bahrain Bourse, formerly Bahrain Stock Exchange; and Director, Bahrain Association of Banks, Bahrain.

44 years of experience in international and regional financial service sector.

MR. KHALID MOHAMED NAJIBI

(Independent Director)

Deputy Chairman of the Board, Chairman of the Risk Committee, Member of the Audit & Compliance Committee and Member of the Nominating, Remuneration and Corporate Governance Committee

Director since 23 April 2019

Holds a Bachelor Degree in Business Administration (with major in Finance) from BA Schiller International University, UK, 1990; Passed CPA 1993 (from The American Institute of CPA) USA.

Founding Member and Managing Director, Najibi Investment Co. B.S.C(c), Director/Co-Owner, Al Souq Group W.L.L., First Vice Chairman, Bahrain Chamber of Commerce and Industry (BCCI) (NGO), Board Member, Social Insurance Organisation (SIO), Chairman, Osool Asset Management B.S.C. (c), Chairman, Bahrain Marina Co., Board Member, Ahli United Bank (UK) PLC, Board Member, Bahrain Tourism and Exhibitions Authority (BTEA), Kingdom of Bahrain, Board Member, King Fahad Causeway Authority (KFCA), and Board Member of Arab British Chamber of Commerce (ABCC) (UK).

Formerly: Vice Chairman, Managing Director/ Chief Executive Officer, Capital Management House B.S.C. (c), Vice Chairman of Ibdar Bank, Board Member, & Chairman of Executive Committee of Bahrain Islamic Bank, Board Member of Gulf Finance House, Board Member of First Energy Bank, Board Member of QInvest Regulated by QFC in Qatar, Board Member & Member of Executive Committee of Arbah Capital Regulated by CMA in Kingdom of Saudi Arabia. Also, Board Member & Chairman of Executive Committee of Crown Industries & Bahrain Scrapmould, Board Member of Skaugen Gulf Petchem Carriers.

32 years of experience covering Investments & Real Estate development, Islamic banking both wholesale and retail.

BOARD OF DIRECTORS (Continued)
SINCE 22 MARCH 2023

MR. KHALED SALEM AL NISF

(Non-Executive Director)

Member of the Executive Committee and Member of the Risk Committee

Director since 22 March 2023

Mr. Al Nisf received his Bachelor's Degree in Finance from the College of Commerce, Economics and Political Sciences at Kuwait University in 1995. He also pursued specialized courses in Financial Statement Analysis from the Institute of International Research, in addition to several specialized courses in Islamic Banking.

Mr. Al Nisf is a Board Member of Kuwait Fnance House since 2014. In addition, Mr. Al Nisf holds the position of Board Member at Al-Shamiya Holding Company since 2016 and is a Board Member at Al Tadamon Al Kuwaitiya Holding Company since 2016.

Mr. Al Nisf held the position of Chairman of the Executive Board specialized in setting strategies and implementation at Al Nisf Group of Companies. Mr. Al Nisf has held the position of CEO at Mohamed Bin Yusuf Al Nisf & Partners Company, Al Tadamon Al Kuwaitiya Company, and Trading and Industrial Equipment Company since 2005.

Mr. Al Nisf previously held several executive positions including the position of Investment and Finance Manager at Al Nisf Companies from 1997 until 2008 and was the Administration Manager of the Company from 1995 until 1997. In addition, Mr. Al Nisf previously held the position of Deputy Chairman at the Kuwaiti Digital Computer Company from 2016 until 2019. He held the position of a Board Member at Kuwait Digital Computer Company since 2001 until March 2022.

25 years of experience in general trade, real estate investments and financial services sector .

MR. MUAD SAUD AL OSAIMI

(Non-Executive Director)

Member of the Executive Committee and Member of the Audit & Compliance Committee

Director since 22 March 2023

Mr. Al Osaimi received his Bachelor's of Science Degree in Finance from George Mason University in the U.S. in 2001, and completed an 18 months specialized training program for graduates at Kuwait Investment Authority (KIA) in 2001.

Mr. Al Osaimi was appointed as the Chairman of Kuwait Finance House - Malaysia since 2017 and Board Member of Kuwait Finance House (Kuwait) since 2014. He also served as a Board Member of numerous companies including Kuwait Gate Holding Company from 2004 until 2014, Kuwait Financial Center Company from 2008 until 2011 and Al Raya International Holding Company from 2005 until 2009.

Mr. Al Osaimi is the CEO of Faiha International Real Estate Company since 2017. He previously held the position of Deputy General Manager of Global Retail Company from 2003 until 2020. In addition, Mr. Al-Osaimi worked at the Investment Department of Aayan Leasing and Investment Company in 2002

14 years of experience in the Banking sector.

MR. HAITHAM ABDULAZIZ AL-TERKAIT

(Executive Director)

Member of the Nominating, Remuneration and Corporate Governance Committee

Director since 22 March 2023

Mr. Alterkait received his Bachelor's Degree in Mechanical Engineering Technology from Metropolitan State Colleague in U.S in 1989.

Mr. Alterkait is currently the Group Chief Information Officer at Kuwait Finance House since May 2021. In addition, Mr. Alterkait is a Board Member of International Turnkey Systems Group (ITS) since 2021.

Mr. Alterkait possesses a vast Information Technology experience, spanning more than 30 years. During his professional career, he held numerous prominent leadership roles positions including Chief Technology Officer at Warba Bank from 2012 until May 2021 and Infrastructure Services Department Manager at Kuwait Finance House from 2002 until 2012.

11 years of experience in Research Sector (Kuwait Institute for Scientific Research, and 22 years of experience in Banking Sector (KFH and Warba Bank).

BOARD OF DIRECTORS (Continued)

SINCE 22 MARCH 2023

MR. KHALED YOUSIF AL-SHAMLAN

(Executive Director)

Member of the Nominating, Remuneration and Corporate Governance Committee

Director since 22 March 2023

Mr. Al-Shamlan received his bachelor's degree in Economics from Kuwait University in 1995. Mr. Al-Shamlan successfully completed a specialized training course on Managing Strategically and Leading for Results conducted by Harvard Business School and attended numerous professional courses in Leadership, Financial Analysis and Risk Management. In addition, Mr. Al-Shamlan completed a 2-year specialized training program for graduates at Kuwait Investment Authority (KIA).

Mr. Al-Shamlan is currently Group Chief Retail and Private Banking Officer at Kuwait Finance House since March 2022. In addition, Mr. Al-Shamlan is a Board Member of KFH Capital Investment Company, a Board Member of KFH Real Estate Company and Member of the Executive Committee of the Real Estate National Portfolio – KIA, and a Board Member of the Shared Electronic Banking Company (KNET).

Mr. Al-Shamlan possesses a vast banking experience, spanning more than 25 years. During his professional career, he held numerous prominent leadership roles at Kuwait Finance House including Group General Manager Retail Banking since January 2021 until March 2022, General Manager Corporate Banking - Kuwait from 2018 until January 2021, Deputy General Manager Individual Financing from 2016 until 2017, Deputy General Manager Corporate Real Estate Financing from 2015 until 2016, Executive Manager Corporate Real Estate Financing in 2014 and Executive Manager Credit Analysis in 2013.

25 years of experience in the Banking sector.

DR. ANWAR ALI ABDULLAH AL-MUDHAF

(Independent Director)

Chairman of the Nominating, Remuneration and Corporate Governance Committee, Member of the Audit & Compliance Committee and Member of the Risk Committee

Director since 22 March 2023

Dr. Al Mudhaf holds a Ph.D. in Finance from Peter F. Drucker Graduate School of Management, Claremont Graduate University, California, U.S.A.

Currently holds the positions of Chairman of the Board of Directors and Corporate Governance Committee at Ahli United Bank K.S.C.P. and Director of the Board of Governors of the Oxford Institute for Energy Studies.

Dr. Al Mudhaf has formerly served as a Lecturer in Corporate Finance, Investment Management and Financial Institutions at Kuwait University; he was also the Chairman & CEO of Al-Razzi Holding Company , Chairman of Sama Educational Company; Chairman of the International Bank of Asia in Hong Kong; Director of the Board of Directors of the Public Institution for Social Security (PIFSS); Advisor to the Finance and Economic Affairs Committee at Kuwait's Parliament; Member of the Economic Task Force dealing with the implications of the 2008 Global Financial Crisis on Kuwait; Vice Chairman in Al Mal Investment Company, Member of the Board of Directors of the Public Authority for Applied Education. Chairman of the Board of Directors & Chairman of Board's Risk Committee of Banco ABC Brasil, Director of the Board for Arab Banking Corporation Bahrain as well as Chairman of the Nomination and Compensation Committee, member of the Credit and Risk Committee, member on the Audit Committee and member of the Strategy Committee.

He has more than 25 years of experience in banking and finance.

MR. JAMAL ABDEL RAZZAQ AL-NAIF

(Independent Director)

Chairman of the Audit & Compliance Committee, Member of the Risk Committee and Member of the Nominating, Remuneration and Corporate Governance Committee.

Director since 29 March 2018

Holds Bachelor of Science Degree in (Economics) from Bradley University, USA 1980.

Independent Director, Lakemore Partners (DIFC) Limited, Dubai. Formerly: Regional Head, Middle East, Africa & Central Asia, Pictet Asset Management, DIFC, Dubai; Managing Partner, Safanad SA DIFC, Dubai; Managing Director, Regional Head, MENA, Credit Suisse Asset Management, Dubai; Member of Credit Suisse MENA Operating Committee, Dubai; Managing Director, Regional Head MENA, Citi Alternative Investments, Citibank N.A. London; Founder and Managing Partner Al-Naif Consulting, Amman, Jordan; Head of Middle East Fixed Income Sales, Lehman Brothers, London; VP, Head of European and Middle East Sales, Head of Emerging Market Sales Europe, Member of Citibank Global Capital Markets Committee, Citibank N.A., London; VP, Head of Corporate Treasury, Gulf International Bank B.S.C., Bahrain; AVP, Middle East Currencies Trading and Head of Corporate Treasury Desk, Citibank N.A. Bahrain, Executive Trainee, Citibank N.A. Treasury, Bahrain.

42 years of experience in financial service sector.

The Bank continues its group-wide transformation initiative for delivering customer-centric data driven automated process solutions.

CONTINUING THE IMPLEMENTATION OF **DIGITALIZATION INITIATIVES,** DELIVERING CUSTOMER SERVICE ENHANCEMENTS.

MOHAMMAD FOUAD AL-GHANIM
VICE CHAIRMAN

ON BEHALF OF THE BOARD OF DIRECTORS, I AM PLEASED TO RECORD A YEAR OF RESILIENT PERFORMANCE FOR THE AUB GROUP.

The global economic landscape still bears the shadow of the Covid-19 pandemic. Although the effects were less severe internationally, China remained threatened by a recurring presence of the disease. The more sinister overhang appeared with the impact of the Ukraine/Russia conflict, disrupting oil and gas supplies across the European market and beyond. Massive social upheaval and displacement of millions of people created a heavy burden which the broader international community is working to resolve.

The World Bank estimated a slowdown in global growth projections to 2.9% in 2022, a significant decrease from 5.9% in the previous year. Conversely, The MENA region growth reflects an improvement from 3.7% in 2021 to 5.7% for 2022, as a direct consequence of the hike in oil prices, spilling over from the fallout from the Ukraine/Russia war.

Against this backdrop, the AUB Group recorded profit attributable to shareholders of US$ 546.1 million for the full year 2022, versus US$ 607.2 million in 2021, principally due to higher exceptional precautionary non-recurring provisions of US $160.2 million. Accordingly, Basic and Diluted Earnings per Share for the year of US 4.5 cents compared with US 5.1 cents, with Return on Average Equity for 2022 at 12.3%, versus 14.7% last year, and Return on Average Assets of 1.4% (2021 :1.6%). Total operating income grew 11.5% to US$ 1,236.9 million from US$ 1,108.9 in 2021, as a result of solid aggregate growth in interest, investment and other income. With the exclusion of the exceptional provisions mentioned above, AUB Group consolidated NPAT rose 16.3% from the previous year to US$ 706.3 million. The Gross NPL ratio for the Group of 1.9% compares with 2.4% in 2021, and represents the lowest NPL level ever achieved since the establishment of the AUB Group.

Successful continued transformation initiatives across the AUB Group in digitisation, operations, human resources, and structural areas, reaffirmed the Group's adherence to basic approaches to the various businesses, including customer-centricity, service efficiency and the intelligent spend philosophy.

The major structural event of the year in October, saw the completion of the Kuwait Finance House K.S.C.P. ('KFH') acquisition of 97.3% of AUB shares, with a subsequent buyout of the remaining 2.7%, rendering AUB a wholly owned subsidiary of KFH. We anticipate this transformational transaction to create a leading Sharia'a compliant institution, regionally and globally.

The acquisition in December of Citibank's Consumer Banking Business in Bahrain has added significant critical mass in the retail banking, credit cards and unsecured lending businesses of Citibank.

In the capital markets, a US$ 1.1 billion Murahaba financing facility was concluded, in a dual-tranche facility, complying with the principles of sustainability, a first ever raised by a financial institution globally.

The Group continues to attract numerous prestigious banking awards among which are Best Bank in Bahrain from Euromoney and Global Finance as well as the Best Online Investment Management Services in the Middle East by Global Finance.

As a Vice Chairman of the Board, I am pleased to record my grateful appreciation of the unstinting support, faith, and continued confidence of our shareholders and various business partners. In the several regions in which AUB serves, we are thankful for the constant guidance of our regulators. I would also like to put on record the appreciation of the years of outstanding service of Adel El-Labban as he passes on the torch of the Group CEO.

The past couple of years have presented various, differing challenges to our industry. However, thanks to the ceaseless excellent quality of service and dedication of our management and staff, the AUB Group has faced these with determination and fortitude. These excellent qualities of service are the foundations of our successes and I thank each and every one of you for your contributions.

MOHAMMAD FOUAD AL-GHANIM
VICE CHAIRMAN

AUB'S **TRANSFORMATION PLAN WITH ITS TECHNOLOGY, DATA AND HR DIMENSIONS** HAS ACHIEVED VERY SIGNIFICANT STRIDES AND HAS ESSENTIALLY ALTERED OUR ABILITY TO SERVE CLIENTS, EVALUATE RISK, PROCESS TRANSACTIONS, COLLATE DATA, AUTOMATE REPORTS ETC IN A MORE DETAILED AND STRUCTURED MANNER ACROSS THE ORGANIZATION.

ADEL A. EL-LABBAN
GROUP CHIEF EXECUTIVE OFFICER

EVERY JOURNEY HAS A BEGINNING. EVERY JOURNEY HAS AN END. AFTER LEADING THE AUB GROUP AS ITS MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER SINCE INCEPTION IN JUNE 2000, I HAVE DECIDED TO RESIGN EFFECTIVE 29 MARCH 2023.

As such, this message will be my last to the AUB shareholders who have honoured me with their trust and support over the past two decades.

I am pleased to report that in 2022, the AUB Group has continued to perform very satisfactorily despite the multiple surrounding economic and political volatilities in the region and globally as well as taking into account the normal additional pressures created by its long running acquisition saga by Kuwait Finance House (KFH) consummated in October 2022.

Operating income, the core measure of sustainable financial viability, at US$ 1,236.9 million increased by 11.5% over 2021 reaping the early benefits of increasing absolute interest rates across all currencies and of judicious asset liability management. This is a trend which is expected to continue given prevailing inflation pressures. Pre-acquisition financial planning dictated a US$ 160.2 million exceptional allocation to precautionary (Stage I & II) provisions to assist in future portfolio and profitability management. Excluding this exceptional non-recurring measure, NPAT would have increased from the announced figure of US$ 546.1 million to US$ 706.3 million, an adjusted very solid increase of 16.3% over the 2021 results. The maintenance of the cost to income ratio at 29.7%, i.e. under our long-standing internal ceiling of 30%, despite growing inflationary pressures and the escalating costs of AUB's group wide Transformation Plan (TP) is also a very creditable result and represents an important building block of our sustained financial success.

These factors, together with our new shareholding parentage, resulted in an improvement in our credit ratings with AUB being upgraded by S&P from a "stable' to "positive" outlook.

I would however like to share with you a few notes on the future in my final message:

- AUB's Transformation Plan with its technology, data and HR dimensions has achieved very significant strides and has essentially altered our ability to serve clients, evaluate risk, process transactions, collate data, automate reports etc in a more detailed and structured manner across the organization. Perhaps, most importantly, it has altered my and my colleagues' approach to addressing our job requirements in terms of risk and return potentialities.
- Our acquisition of the retail assets of Citibank NA in Bahrain, although relatively small in terms of financial quantum, has the potential and planned expectation of becoming a catalyst for transforming our retail capabilities in terms of product range and delivery. This broad based enhancement is backed by the onboarding of our new qualified and experienced colleagues previously employed at Citibank. The AUB Retail Bank, both in Bahrain and in other AUB countries will be more competitive and capable as the many generated benefits are progressively rolled out and monetized.
- Finally, the most seismic of all changes has been the finalization of the US $10.8 billion acquisition of AUB Group by KHF after an extended multi-year process. The immediate challenges of conversion and integration come with greatly expanded monetization and client acquisition opportunities and will be supported by the lower capital and financing costs of the KFH group. The creation of the global market leader in Islamic financial services will be the overriding ambition and goal of the new combined entity, including AUB, over the coming years.

In conclusion, I can only re-iterate my profound gratitude to all esteemed shareholders, directors, regulators and other counterparts who made this unique journey of AUB success possible and a source of pride to all. Special recognition and appreciation however goes, first and foremost, to my colleagues in AUB staff and management, past and present, across all countries who have been the rock around which this bank has been built. Their professionalism, resilience, dedication and ethical standards cannot be overpraised. To them, my unreserved and fullest appreciation, gratitude and affection.

Yours Sincerely,

ADEL A. EL-LABBAN
GROUP CHIEF EXECUTIVE OFFICER

TRANSFORMING BANKING
THROUGH...

SAFETY AND SECURITY

ADAPTATION OF POWERFUL SECURITY STANCES TO IMPROVE CUSTOMER EXPERIENCE AND SAFETY.

DATA PRIVACY AND SECURITY

At Ahli United Bank, we put the security and confidentiality of our client's personal information at the top of our priorities as this will enable us to provide our clients with the safest Internet Banking service without compromising on the data privacy and security of your transactions.

EXPERTS ON-HAND 24/7

Wherever you are, whatever the time, we have a dedicated team to solve all of your banking needs. With digital transformation at the center of our strategy, IT strives to adopt the latest technology to provide stable, secure, scalable and up to date technology platforms to enable the Bank become a regional leader in Islamic banking.

TRANSFORMING BANKING
THROUGH...

NEXT GEN TALENT

MEETING OUR CLIENT'S EXPECTATIONS THROUGH COLLABORATION OF HUMANS AND MODERN TECHNOLOGY.

TARGETING TOP TALENT ACROSS THE REGION

Our recruitment strategy will continue to seek out the best and brightest minds from across our regions who can work well with new technologies and also display leadership, creativity, empathy and curiosity. Employees can leverage automation and advanced analytics to provide advice to a far wider array of customers that previously would not receive such advanced solutions.

UNITED BY COMMON VALUES

Culture is important to our business, and this is demonstrated by our customer-centric and innovative banking approach. We are committed to providing performance excellence in every aspect of our customers, both individuals and corporations -whether small, medium, or large businesses- on diversified projects and opportunities to establish true value creation with an impact.

TRANSFORMING BANKING
THROUGH...

DATA
DATA
DATA

WE USE OUR DATA POOL TO ENABLE US TO DELIVER CUSTOMER-CENTRIC SOLUTIONS

IMPROVING CUSTOMER EXPERIENCE

We have always strived to service our customers with the best and latest technology available. Today, customers expect banks to be mobile-first. Since millennials form a large section of the customer base, they expect convenient and quick banking services on the go. To offer our customers the facility of 24/7 banking. We also use machine learning tools to understand customer behavior and their banking habits to keep improving the way we serve them.

PROTECTING CUSTOMER DATA

We take our responsibility for protecting customer data very seriously. Remaining vigilant against potential threats is imperative for maintaining the trust of our stakeholders. We have robust privacy and security practices in place.

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE

Good Corporate Governance practices are important in creating and sustaining shareholder value and ensuring appropriate disclosure and transparency. The Bank's Corporate Governance Policy provides the framework for the principles of effective Corporate Governance standards across the AUB Group.

The Bank's Board of Directors (the "**Board**") is committed to implementing robust Corporate Governance practices and to continually reviewing and aligning these practices with international best practices, where appropriate.

The Bank's management is committed to ensuring that procedures and processes are in place to reflect and support the Board approved Corporate Governance related policies, to ensure the highest standards of Corporate Governance throughout the AUB Group.

SHAREHOLDER INFORMATION

The Bank's shares are listed on the Bahrain Bourse and the Boursa Kuwait. In connection with the acquisition of the Bank by KFH, the Bank's shares have been suspended from trading since 18 August 2022. As at 31 December 2022, the Bank had issued 11,147,931,458 ordinary shares, each with a nominal value of US$0.25. All ordinary shares are fully paid up.

The Bank's shareholders are invited by the AUB Chairman to attend the Annual General Meeting ("AGM"). The AUB Chairman and other Directors attend the AGM and are available to answer any questions. Both, the AGM and an Extraordinary General Meeting were held on 7 April 2022.

Further to the acquisition of 100% of the issued ordinary shares of the Bank by Kuwait Finance House K.S.C.P. ("KFH"), which was completed on 20 November 2022 (97.273% of the issued ordinary shares of the Bank having been acquired by KFH on 2 October 2022), the ordinary shareholder as at 31 December 2022 is as below:

NO.	NAME / ENTITY	COUNTRY OF ORIGIN	NO. OF SHARES	% OWNERSHIP
1	Kuwait Finance House K.S.C.P. (Direct and Indirect)	Kuwait	11,147,931,458	100%

Distribution of Shares

Distribution of ordinary shares by threshold as at 31 December 2022:

THRESHOLD	NO. OF SHARES	NO. OF SHAREHOLDERS
50% and above	11,147,931,458	1
20% to 49.99%	-	-
10% to 19.99%	-	-
5% to 9.99%	-	-
TOTAL	**11,147,931,458**	**1**

Distribution of ordinary shares by nationality as at 31 December 2022:

NO.	NAME	NO. OF SHARES	% OF TOTAL SHARES
1	**KUWAIT**		
	Government & Quasi Government	-	-
	Individuals and Corporates	**11,147,931,458**	**100%**
TOTAL		**11,147,931,458**	**100%**

The Board

The composition of the Board represents an appropriate mix of professional skills and expertise. A general election for Board membership was held on 30 September 2021, for a Board term ending no later than 31 March 2024. The Board periodically reviews its composition and performance, as well as the performance of each Director. There are no female members of the Board. In compliance with the Corporate Governance requirements of the Central Bank of Bahrain ("CBB"), the Board has outlined its criteria and materiality thresholds for the definition of "Independence" in relation to Directors. The independence criteria are reassessed annually by the Board and for the year 2022, the 7 Directors comprising the Board were classified as follows:

- 4 Non-Executive Directors
- 3 Independent Directors

The classification of each Director is set out below:

DIRECTORS	CLASSIFICATION
Meshal AbdulAziz Alothman – Chairman	Non-Executive
Mohammad Fouad Al-Ghanim - Deputy Chairman	Non-Executive
Khalid Mohamed Najibi	Non-Executive
Abdulghani M.S.Y. Behbehani	Independent
Ahmad Ghazi Al-Abduljalil	Non-Executive
Abdullah Mudhaf Al Mudhaf	Independent
Jamal Abdel Razzaq Al-Naif	Independent

The CBB Rulebook Module HC-1.4.6 recommends that the Chairman of the Board should be an Independent Director. Although the AUB Chairman was classified as a Non-Executive Director due to his former position as Director General of the Public Institution for Social Security, formerly a major shareholder of the Bank, this did not compromise the Bank's high standards of Corporate Governance as the Bank follows strict policies to manage conflict of interests relating to decisions of the Board.

The Role and Responsibilities of the Board of Directors

The Board is responsible to the shareholders for creating and delivering sustainable shareholder value through the prudent management of the Bank's business.

The Board, as a whole, is collectively responsible for ensuring that an effective, comprehensive and transparent Corporate Governance framework is in place. The Board's role is to:

1. ensure adherence to prevailing laws and regulations and to best business ethics;
2. provide entrepreneurial leadership of the Bank within a framework of prudent and effective controls, which enable risk to be assessed and managed;
3. set the Bank's strategic aims, ensure that the necessary financial and human resources are in place for the Bank to meet its objectives and review management performance; and
4. set the Bank's values and standards and ensure that its obligations to its shareholders and others are understood and met.

In carrying out these responsibilities, the Board must ensure that the Bank's management strikes an appropriate balance between promoting long term growth and delivering short term objectives and have regard to what is appropriate for the Bank's business and reputation, the materiality of the financial and other risks inherent in the business and the relative costs and benefits of implementing specific controls.

All Directors must act in good faith and in a way that promotes the success of the Bank for the benefit of its shareholders as a whole. In doing so, each Director, must have regard to:

1. the likely consequences of any decision in the long term;
2. the interests of the Bank as well as the Bank's employees and shareholders;
3. the need to foster the Bank's business relationships with suppliers, customers and others;
4. the impact of the Bank's operations on the community and the environment;
5. the desirability of the Bank maintaining a reputation for high standards of business conduct; and
6. the need to act fairly as between the members of the Bank.

When carrying out their responsibilities, Directors are required to:

1. act with integrity;
2. act with due skill, care and attention;
3. observe proper standards of market conduct; and
4. deal with the regulatory authorities in an open and co-operative way and must disclose appropriately any information of which the regulator would reasonably expect notice.

Board of Directors Meetings and Attendance

The Board is required to meet at least four (4) times per year. A schedule for the Board's regular meetings is submitted to the Directors annually in advance. Additional meetings may be convened on an ad hoc basis at the invitation of the Chairman or otherwise in accordance with the provisions of the Commercial Companies Law. The Board met five (5) times during 2022.

All Directors are expected to physically attend all Board and shareholder meetings unless there are exceptional circumstances that prevent them from doing so. Directors who cannot physically attend Board meetings, may attend by video, electronic or telephone conference. Meeting papers are prepared and circulated in advance of Board meetings and include minutes of the meetings of Board Committees held since the previous Board meeting.

The Board meetings held during 2022, and attendance of each Director at each such meeting are detailed below:

DIRECTORS	MEETING DATES				
	22/2/2022	5/6/2022	28/7/2022	8/9/2022	23/11/2022
Meshal AbdulAziz Alothman	✓	✓	✓	✓	✕
Mohammad Jassim Al-Marzooq*	✓	-	-	-	-
Mohammad Fouad Al-Ghanim	✓	✓	✓	✓	✓
Khalid Mohamed Najibi	✓	✓	✓	✓	✓
Abdulghani M.S.Y. Behbehani	✓	✓	✓	✓	✓
Ahmad Ghazi Al-Abduljalil	✓	✓	✓	✓	✓
Abdullah Mudhaf Al Mudhaf	✓	✓	✓	✓	✓
Jamal Abdel Razzaq Al-Naif	✓	✓	✓	✓	✓
Adel A. El-Labban**	✓	-	-	-	-

* Mr. Mohammad Jassim Al Marzouq resigned from his position as a Member of the AUB Board with effect from 1 June 2022.
** Mr. Adel El-Labban resigned from his position as Managing Director on the AUB Board with effect from close of business on 14 April 2022.

The CBB Rulebook Module HC-1.3.4 requires individual Directors to attend at least 75% of all Board meetings held in each financial year. The attendance of all Directors at Board meetings is reported to the CBB on an annual basis. During 2022, all Directors complied with the requirements of Module HC-1.3.4.

Election and Termination of Appointment of Directors

Directors are elected for a three-year term. Elections take place in accordance with the Memorandum and Articles of Association of the Bank, the Bahrain Commercial Companies Law and the CBB Rulebook. There is no maximum age at which a Director must retire from the Board. Each Director's term of appointment terminates, pursuant to the terms of his letter of appointment and/or the provisions of applicable law.

Induction and Training of Directors

The Bank has an induction program in place, which is designed for each new Director. The induction program includes: i) an introductory pack containing, amongst other things, the AUB Group Overview, AUB Group Organisation Chart, Terms of Reference of the Board and Board Committees and key policies; ii) presentations on significant financial, strategic and risk issues; and iii) orientation meetings with key management as may be required. As a standing procedure, all continuing Directors are invited to attend orientation meetings.

Ongoing professional development for Directors was conducted during the year in accordance with the requirements of the TC Module 1.2.1. An annual comprehensive training plan in compliance with the CBB Rule Book High Level Controls Module for the AUB Board of Directors (BoD) for the continuous professional education of the BoD members is managed by Group HR through a combination of face-to-face training sessions which are based on industry relevant topics and delivered by international speakers, online learning and the dissemination of relevant industry driven articles. The training plan incorporates a blended learning methodology to comply with the CBB requirement that all Directors must continually educate themselves as to the licensee's business and corporate governance for a minimum of 15 hours annually.

Board Evaluation

Evaluations were conducted on the performance of the Board and each Director during 2022. Applying a scoring methodology proposed by professional advisors, a rating of "Excellent" was achieved for the performance of the Board and each individual Director, indicating that the Board, and the Directors on an individual level, performed in accordance with their stated roles and responsibilities during 2022.

Access to Advice and Information

Individual Directors are authorized to obtain independent legal or other professional advice at the Bank's reasonable expense whenever they judge this necessary in order to discharge their responsibilities as Directors.

Non-Executive Directors have access to, and are authorised to seek, any information they require from any employee of the Bank.

Directors' and Related Parties' Interests

No Director has entered into, either directly or indirectly, any material contract with the Bank or any of its subsidiaries, nor does any Director have any material conflict of interest with the Bank. The Directors are required to declare any conflict of interest or any potential conflict of interest that exists, or that Directors become aware of, to the Chairman of the Board and the Corporate Secretary as soon as they become aware of them. This disclosure must include all relevant material facts.

The Bank has a procedure for dealing with transactions involving Directors and related parties. Any such transaction will require the approval of the Board, with the conflicted Director abstaining.

Note 25 to the audited consolidated financial statements of the AUB Group for the year ended 31 December 2022, sets out the relevant disclosures of related party transactions.

The Terms of Reference of the Board require that all Directors, whether Non-executive or Executive, should exercise independence in their decision-making and should abstain from any decisions involving any actual or potential conflicts of interest. Should any Director have any doubts with respect to conflicts of interest or potential conflict of interest, the Director is requested to consult the Chairman of the Board, or in the case of the Chairman, the Chairman of the Audit & Compliance Committee, and in each case the Corporate Secretary prior to taking any action that might compromise the Bank.

All Directors and other Approved Persons have declared all of their interests in other enterprises or activities which were duly submitted and reviewed by the Board.

The number of ordinary shares of the Bank owned by the Directors as at 1 October 2022, being the date immediately prior to the acquisition by KFH of 97.273% of the issued ordinary shares of the Bank (with 100% of the issued ordinary shares of the Bank having been acquired by KFH on 20 November 2022), is shown below:

NO.	DIRECTORS	PURCHASED	SOLD	NO. OF SHARES AS AT 1 OCTOBER 2022
1	Meshal AbdulAziz Alothman	-	-	-
2	Mohammad Fouad Al-Ghanim	-	-	906,842
3	Khalid Mohamed Najibi	-	-	69,877
4	Abdulghani M.S.Y. Behbehani	-	-	338,974
5	Ahmad Ghazi Al-Abduljalil	-	-	-
6	Abdullah Mudhaf Al Mudhaf	-	-	38,756,132
7	Jamal Abdel Razzaq Al-Naif	-	-	-
TOTAL				**40,071,825**

* Mr. Mohammad Jassim Al Marzouq resigned from his position as a Member of the AUB Board with effect from 1 June 2022.

** Mr. Adel El-Labban resigned from his position as Managing Director on the AUB Board with effect from close of business on 14 April 2022.

Effective on and from 2 October 2022, all the shares of the Bank owned by the Directors were swapped for shares of KFH. As at 31 December 2022, none of the Directors owned any shares of the Bank.

Directors' and Related Parties' Interests (Continued)

The number of ordinary shares of the Bank owned by Senior Management and Approved Persons as at 1 October 2022, being the date immediately prior to the acquisition by KFH of 97.273% of the issued ordinary shares of the Bank (with 100% of the issued ordinary shares of the Bank having been acquired by KFH on 20 November 2022), is shown below:

NAMES	PURCHASED	SOLD	NO. OF SHARES AS OF 1 OCT 2022
Adel El Labban	-	-	-
Rajeev Gogia	-	-	-
Suvrat Saigal	-	-	185,279
David Arthur O' Loan	-	-	613
Othman Hijazi	-	-	79,405
Iman Al-Madani	-	-	-
Rogier Dolleman	-	-	-
Tom Nicholas Roger Blackwell	-	-	-
Ramachandralal Ravindranath	-	-	-
Sami Tamim	-	-	-
Jehad Al Humaidhi	-	-	-
Hala Sadek	-	40,000	2,453,704
Ayman El-Gammal	-	-	1,270,531
Vivek Kastwar	-	-	-
Faisal Alhaimus	-	-	-
Said Hathout	-	-	-

Effective on and from 2 October 2022, all the shares of the Bank owned by Senior Management and Approved Persons were swapped for shares of KFH.

Employment of Relatives

The Bank does not encourage the employment of relatives. However, under exceptional conditions and based on specific requests and needs, the Bank may decide in favour of employing relatives, on a temporary or permanent basis, subject to a comprehensive review and only in cases where there is no conflict of interest or operational risk to the Bank involved. The Board of Directors has approved a policy on the employment of relatives which is part of the HR Policy on 19 July 2016 (last reviewed and approved by the Board of Directors on 16 January 2022), which has established a recruitment committee to review the recruitment requests of relatives of Bank employees of up to the third degree and recommend the hiring of relatives of Approved Persons occupying Controlled Functions to the GCEO. Human Resources discloses to the Board of Directors on an annual basis, the names of all relatives of any Approved Persons occupying Controlled Functions, last disclosed on 22 December 2022.

The recruitment committee reviews the recruitment requests on the following considerations:

- No relatives shall work in the same business unit/department.
- No relatives shall report to each other or allowed to supervise each other.
- No relatives shall work in business units/departments which have a conflict of interest or would create an operational risk for the Bank.
- No relatives shall share a dual signature/ approval in the Bank and have dual access control to any Bank property (Physical & IT).

Material Transactions

In addition to large credit transactions that require Board approval as per the Credit Policy, the Board also approves senior unsecured medium term (greater than 1 year) funding initiatives, strategic investments decisions, as well as any other decisions which have or could have a material financial or reputational impact on the Bank.

Board Committees

The Board may, where appropriate, delegate certain of its powers to an individual Director or to a committee comprised of Directors and/ or other persons, constituted in the manner most appropriate to those tasks.

The Board has constituted a number of Board Committees, membership of which is drawn from the Directors and to which it has delegated specific responsibilities, through Terms of Reference, which are reviewed and adopted by the Board on an annual basis.

All Board Committee members are expected to attend each Committee meeting, unless there are exceptional circumstances that prevent them from doing so. Committee members who cannot physically attend a meeting may attend the meeting by video or telephone conference.

Each Board Committee has access to independent expert advice at the Bank's expense.

The Board Committees are each comprised of an appropriate mix of professional skills and expertise. The Chairman of each Board Committee periodically evaluates the performance of the Board

Committees and reports the results to the Board. The names of the Committee members and their memberships in the Board Committees and attendance at meetings held during 2022 are detailed below:

Executive Committee Meetings

MEMBERS	CLASSIFICATION	MEETING DATES			
		22/2/2022	5/6/2022	8/9/2022	23/11/2022
Meshal AbdulAziz Alothman – Chairman	Non-Executive	✓	✓	✓	×
Mohammad J. Al-Marzooq*	Non-Executive	✓	-	-	-
Mohammad F. Al-Ghanim	Non-Executive	✓	✓	✓	✓
Khalid Mohamed Najibi	Non-Executive	✓	✓	✓	✓
Adel A. El-Labban**	Executive	✓	-	-	-

* Mr. Mohammad Jassim Al Marzouq resigned from his position as a Member of the AUB Board Executive Committee with effect from 1 June 2022.

** Mr. Adel El-Labban resigned from his position his position as a Member of the AUB Board Executive Committee with effect from close of business on 14 April 2022.

Audit and Compliance Committee Meetings

MEMBERS	CLASSIFICATION	MEETING DATES			
		21/2/2022	31/5/2021	23/8/2022	21/11/2022
Abdulghani M.S.Y. Behbehani - Chairman	Independent	✓	✓	✓	✓
Ahmad G. Al-Abduljalil	Non-Executive	✓	✓	✓	✓
Abdullah M. Al Mudhaf	Independent	✓	✓	✓	✓
Jamal Abdel Razzaq Al-Naif	Independent	✓	✓	✓	✓

Nominating Committee Meetings

MEMBERS	CLASSIFICATION	MEETING DATES	
		20/04/22	20/11/22
Abdulghani M.S.Y. Behbehani - Chairman	Independent	✓	✓
Ahmad G. Al-Abduljalil	Non-Executive	✓	✓
Abdullah M. Al Mudhaf	Independent	✓	✓
Jamal Abdel Razzaq Al-Naif	Independent	✓	✓

Compensation Committee Meetings

MEMBERS	CLASSIFICATION	MEETING DATES	
		16/03/22	20/11/22
Abdullah M. Al Mudhaf - Chairman	Independent	✓	✓
Abdulghani M.S.Y. Behbehani	Independent	✓	✓
Jamal Abdel Razzaq Al-Naif	Independent	✓	✓

The principal responsibilities of the Board Committees are detailed below:

Executive Committee

The Executive Committee assists the Board in discharging the Board's responsibilities relating to matters including credit and market risk. The Executive Committee, acting for the Board of AUBUK, deputizes only in relation to credit and market risk approvals.

The Executive Committee has 3 members, comprising 3 Non-Executive Directors (including the Chairman).

Audit & Compliance Committee

The Audit and Compliance Committee is combined with the Corporate Governance Committee, and assists the Board: i) in discharging its oversight responsibilities relating to the Bank's accounting and corporate governance (including key persons dealings and market abuse practices), internal audit controls, compliance procedures, risk management systems, financial reporting functions; ii) in liaising with the Bank's external auditors and regulators in order to ensure compliance with all relevant regulatory requirements; and iii) in achieving uniformity with best market practices. The Audit and Compliance Committee carries out its principal responsibilities in respect of the Bank (as the parent company) and has oversight of the related responsibilities of the Audit and Compliance Committees of the Bank's subsidiaries and managed affiliates.

The Audit and Compliance Committee has 4 members, comprising 3 Independent Directors (including the Chairman) and 1 Non-Executive Director.

Compensation Committee

The Compensation Committee reviews the Bank's compensation and related policies and arrangements for its staff and Directors, and makes recommendations to the Board in this regard, in line with CBB guidelines and best international practice.

The Compensation Committee has 3 members, comprising 3 Independent Directors (including the Chairman).

Nominating Committee

The Nominating Committee supports the Bank's Corporate Governance, aligning it with the regulations of the CBB Rulebook and instills a best practice approach to the matters assigned to its responsibilities, at all times acting within the criteria set by the CBB Rulebook and the relevant sections of the Bahrain Commercial Companies Law, and any other applicable legislation and following a fair and balanced approach.

The principal responsibilities of the Nominating Committee include, identifying and recommending to the Board persons qualified to become a Director or other officers of the Bank considered appropriate by the Board. The Nominating Committee also oversees the Board's educational activities in the form of a formal induction program and on-going orientation activities and programs for the Directors.

The Nominating Committee has 4 members, comprising 3 Independent Directors (including the Chairman) and 1 Non-Executive Director.

Board Committee Evaluation

Evaluations of the performance of the Board Committees have been conducted. Applying a scoring methodology proposed by professional advisors. A rating of "Good" was achieved for the performance of the Executive Committee indicating that, on a majority of aspects, the Executive Committee functioned as required during 2022. A rating of "Excellent" was achieved for the performance of the Audit and Compliance Committee, the Nominating Committee and the Compensation Committee indicating that the Audit and Compliance Committee, the Nominating Committee and the Compensation Committee performed in accordance with their stated roles and responsibilities during 2022.

Senior Management

NAMES	TITLE
Adel A. El-Labban	Group CEO
Rajeev Gogia	Deputy Group CEO - Finance & Strategy
Suvrat Saigal	Deputy Group CEO - Retail Banking
David O' Loan	Deputy Group CEO - Treasury & Investment
Othman Hijazi	Deputy Group CEO – Corporate Banking
Iman Al-Madani	Deputy Group CEO – HR, Transformation and Development
Rogier Dolleman	Group Head of Audit
Sami Tamim	CEO - Ahli United Bank (UK) P.L.C.
Jehad Al Humaidhi	CEO - Ahli United Bank K.S.C.P.
Hala Sadek	CEO - Ahli United Bank (Egypt) S.A.E.
Ayman El-Gammal	CEO - United Bank for Commerce & Investment S.A.L.
Faisal Al Haimus	CEO – Commercial Bank of Iraq - Iraq
Said Hathout	CEO – Al Hilal Life & Al Hilal Takaful

Management Committees

The Board has established a management structure with clearly defined roles, responsibilities and reporting lines. The Bank's management monitors the performance of the Bank, and each of its subsidiaries, and managed affiliates on an ongoing basis and reports this performance to the Board. The monitoring of performance is carried out through regular assessments of performance trends against budget, and prior periods and peer Banks in each of the markets and collectively through AUB Group committees and sub-committees at the parent bank and its subsidiary/affiliated banks' level. Specific responsibilities, as explained below, have been delegated to each management committee, and the minutes of all management committee meetings are sent to the Audit and Compliance Committee, in order to assess the effectiveness of these committees.

Group Management Committee

The Group Management Committee (GMC) is the collective Group management forum, providing a formal framework for effective consultation and transparent decision-making by the Group CEO and senior management on cross-organisational matters. Appropriate checks and balances ensure the "four eyes" regulatory requirement is met. The Group Management Committee operates in a flexible way, with a minimum of formality and a broad mandate encompassing Group wide as well as bank and unit specific issues, as determined by the Group CEO and the other members of the Group Management Committee. It is chaired by the Group CEO and comprises of the Bank's Deputy Group CEOs and the CEO's of the subsidiary banks and managed affiliate banks.

Group Asset and Liability Committee

The Group Asset and Liability Committee (GALCO) sets, reviews and manages the liquidity, interest rate risk, market risk and funding strategy of the AUB Group and reviews and allocates capacity on the balance sheet to achieve targeted return on capital, return on asset and liquidity ratios. It is chaired by the DGCEO-Treasury & Investment and has eight other members.

Group New Product Committee

The Group New Product Committee (GNPC) has been established to review and approve new products, processes and services for Private Banking & Wealth Management, Treasury, Retail, Commercial banking and other areas of the Group. The GNPC should assess all related reputational, operational, credit, liquidity and market risk, IT, legal, AML, compliance, control, staffing and capital/profit allocation issues related to approving new products. The approval by the GNPC follows the new product or process development according to the New Product Approval and Development Procedure. It is chaired by the DGCEO – Private Banking and Wealth Management and has eight other members.

Group Information Technology and Digital Transformation Steering Committee

The Group Information Technology and Digital Transformation Steering Committee (GITDTSC) oversees all the Information Technology and Digital Transformation functions of the AUB Group. Its responsibility encompasses: strategy formulation, prioritised implementation and delivery of Information Technology (IT) and Digital Transformation (DT) projects within an acceptable, secure and standardised framework to meet the evolving conventional and Islamic banking business needs of the businesses. It is chaired by the GCEO and has twelve other members.

Group Credit & Risk Committee

The Group Credit & Risk Committee (GCRC) reviews and manages risk policies, approvals, exposures and recoveries related to credit, operational and compliance risks. It acts as a general forum for the discussion of any aspect of risk facing or which could potentially face AUB or its subsidiary and affiliated banks resulting in reputational or financial loss to the Group. It also oversees the operation of the Bahrain Risk Committee, the Group Operational & Fraud Risk Committee, the Group Special Assets Committee, the Client On-boarding & AML Committee and the Working Committee on IFRS9 impairment provisioning. It is chaired by the DGCEO-Risk, Legal & Compliance and has six other members.

Group Operational Risk Committee

Group Operational Risk Committee (GORC) is a sub-committee of the GCRC and administers the management of operational risk throughout the AUB Group. It is chaired by the DGCEO- Retail Banking and has nine other members.

Group Investment Committee

The Group Investment Committee (GIC) approves, reviews and manages AUB Group's proprietary investment portfolio of bonds, sukuks, equities and funds. It acts as a general forum for the discussion of any aspect of investment risk faced by AUB or its subsidiary and affiliated banks. It is chaired by the DGCEO Risk, Legal & Compliance and has five other members.

AUB Solo Management Committee

The Solo Management Committee (SMC) is the collective management forum of the parent bank comprising AUB Bahrain On-shore and AUB Bahrain Off-shore operations. SMC provides a formal framework for effective consultation and transparent decision-making by the senior management on cross-functional matters within the bank and also reviews the financial performance by Business Units. SMC provides a forum for a cohesive and unified approach for efficient and effective assessment of current operational and regulatory issues requiring cross functional coordination within the bank and their satisfactory and timely resolution. The SMC is chaired by the Deputy Group CEO Finance and Strategy and comprises of the Bank's other Deputy Group CEOs and Group Heads of Credit Risk, Treasury and Information Technology and Group Head of IT. Further on a quarterly basis the SMC is attended by Group Head of Audit, Group Head Human Resources and Group Head Compliance.

AUB Solo Assets and Liability Committee

AUB Solo Asset and Liability Committee (ALCO) sets, reviews and manages the liquidity, interest rate risk, market risk and funding strategy of AUB Bahrain, and reviews and allocates capacity on the balance sheet to achieve targeted return on capital, return on asset and liquidity ratios. It is chaired by the DGCEO Treasury & Investment and has ten other members.

Group Data Analytics Governance Committee

Data is one of the key strategic pillars of the AUB Group to shift towards a higher level of ingrained data insights and analytics to provide sustainable monetization opportunities and an enduring competitive edge by providing the organization with actionable (monetizable) data across all functions.

In this context, The Board of Directors has established the Data Management Department (DMD) to ensure fact-based decision making through deeper insights across all business and support lines based on a single, unified data strategy, guided by the approved BoD - Group Data Policy and Framework and by rules and processes set by the Group Data and Analytics Governance Committee (GDAGC).

The Board of Directors ("BoD") has delegated to the Data Management Department ("DMD") the implementation of this Policy. The Group Data and Analytics Governance Committee oversees this function. The Group CEO chairs the 15-member Group Data and Analytics Governance Committee.

Group Information & Cyber Security Risk Committee

The Group Information & Cyber Security Risk Committee (GICSC) is a senior level governance committee and chaired by the DGCEO-Risk, Legal and Compliance. GICSC and has been established to administer the management of Information and Cyber Security risk throughout the Ahli United Bank Group ("the Group"). The GICSC is a sub-committee of the Group Credit & Risk Committee (GCRC) and therefore falls under the responsibility of the GCRC.

Other Governance Measures

In addition to the Board and Management Committee structures, the Board of Directors has approved several AUB Group policies to ensure clarity and consistency in the operation of the AUB Group. These policies, which are communicated to staff, include Credit, Anti-money Laundering, Corporate Governance, Personal Account Dealing, Key Persons Dealings, Banking Integrity, Compliance, Legal and Human Resources policies.

Underpinning these policies is the Board approved Group Code of Business Conduct which prescribes standards of ethical business behavior and personal conduct for the Bank's Directors, its senior management (officers) and its staff.

The Board annually reviews and adopts compensation and related policies and closely monitors the implementation of these policies and processes with respect to the Bank's staff and Directors. The AUB Compensation Policy provides the remuneration framework for motivating employees and directors with financial motivation to deliver optimum Group performance. The policy aims at rewarding performance by individual contribution within a team-oriented approach, remunerating individuals who achieve personal, divisional and Group results and providing a long term incentive to performing staff.

The Banking Integrity Policy, which includes detailed policy and procedures on whistle blowing, is specifically designed to facilitate concerns raised regarding misconduct occurring within, or associated with, the AUB Group.

The Board has also adopted a Group Communications Policy. This policy sets out the authority of AUB Group employees with respect to the communication of information to third parties in the course and scope of their employment. The Bank has an open policy on communication with its stakeholders, which includes:

i. The disclosure of all relevant information to stakeholders on a timely basis in a timely manner; and

ii. (The provision of the last five years of financial data on the Bank's website.

The Bank is at all times mindful of its regulatory and statutory obligations regarding dissemination of information to its stakeholders.

The Bank provides information on all events that merit announcement, either on its website, www.ahliunited.com, Bahrain Bourse, and other forms of publications, such as press releases, the Bank's annual report and quarterly financial statements, and the Corporate Governance Policy are all published on its website.

As a supporting governance measure, the Board also relies on the ongoing reviews performed by internal and external auditors on the AUB Group's internal control functions. These reviews are conducted in order to identify any weaknesses, which then enable management to take remedial action.

AUB GROUP COMPENSATION FRAMEWORK AND GOVERNANCE

AUB's compensation framework is designed to attract, motivate and retain employees and to align their interests and direct their efforts towards achieving the short- and medium-term objectives of the AUB Group as set by the Board of Directors. Performance is measured not only on financial achievements but the effective control of all risks that is in the long-term interests of all stakeholders of the Bank.

The effective governance of the framework and the application of AUB's compensation principles is maintained through the Board of Directors, who review and approve on a regular basis, the HR policy including, the compensation and training & competency policies and oversee the implementation and administration of these policies and processes with respect to the Bank's employees and directors directly or through delegation to the Board Compensation Committee as mandated by the CBB.

The Compensation System

The compensation system represents a balanced risk-based remuneration consisting of fixed compensation for employees (Paid in the form of monthly salaries and allowances) and directors (Director Fees based on contribution and on attendance of meetings), employee benefits and of annual variable compensation for performing employees aligned to business performance and market conditions as mandated by regulators in AUB markets.

COMPONENT	KEY FEATURES
Fixed Compensation	• Rewards the capacity to hold a role/ position in a satisfactory manner through the employee displaying the required skills. • Consists of cash salary and allowances. • Payments are fixed and do not vary with performance.
Benefits	• Ensure market competitiveness and provide benefits in accordance with local market practice. • Consists of contributions to pension, social insurance, medical insurance, life insurance and health and wellness. • Contributions are fixed and do not vary with performance.
Variable Compensation	• Aims to reward collective and individual performance achieved for objectives defined at the beginning of the year and discretionary on extent to which objectives are achieved. • Consists of cash and/ or unit-based performance related compensation, paid upfront or deferred in part with deferrals subject to the concept of malus and clawback. • Payments are linked to performance standards and maintaining risk and control parameters defined by the Bank.
Others	• Short-term or Long-term incentive plans to motivate and retain employees with sustainable performance using both pre- and post- award performance measures to drive forward the Group's objectives.

The compensation system is aligned to supporting the Bank's short term and medium-term performance objectives and to controlling and reducing the full gamut of associated risks. It specifies the proportion of fixed and variable remuneration to be consistent with the Board approved Risk Framework. It defers portions of the variable compensation awards for risk taking roles of the Bank if required as per the rules of the country/ group regulator and/ or the Shareholders of the Bank.

Impact of AUB's acquisition by Kuwait Finance House K.S.C.P. ("KFH") and the consequential change in the Controllers of the Bank on deferred variable compensation.

- All issued and un-vested deferred variable compensation was fully vested during 2020 under Clause 7.1 of the MSP Rules, with the CBB, pursuant to letter dated 27 February 2020, exempting eligible Deferred Variable Compensation (MSP) participants from the six months retention of proceeds in the form of cash or shares to ensure equitable treatment of AUB Deferred Variable Compensation Plan (MSP) participants.
- The CBB, pursuant to letter dated 27 February 2020, has exempted eligible AUB Deferred Variable Compensation (MSP) participants from the six months retention of proceeds in the form of cash or shares due to the acquisition and change in control of AUB B.S.C.
- Further to the acquisition of 100% of the issued ordinary shares of the Bank by Kuwait Finance House K.S.C.P. ("KFH"), which was completed on 20 November 2022 (97.273% of the issued ordinary shares of the Bank having been acquired by KFH on 2 October 2022), as per the terms of the AUB Deferred Variable Compensation Plan (MSP), all issued and un-vested deferred variable compensation units related to deferred variable compensation in 2021 and 2022 are fully vested under Clause 7.1 of the MSP Rules, due to the change of control of the Bank, where all unvested phantom units shall immediately vest and become due and payable or exercisable, as applicable .

The Compensation Policy

The Compensation Policy is annually reviewed by the Board of Directors of each entity and Group policies by the Group Board of Directors. The Policy was last approved on 17 January 2023.The Policy incorporates the mandatory regulations issued by country/ group regulators, which are applicable to any specified group of risk-takers/ functions of the Bank. The Policy and related schemes are also approved by the shareholders of the Bank and applied to performance related employee compensation payments made for each financial year.

The policy incorporates the mandatory regulations issued by the CBB on Sound Remuneration Practices [HC-5 Remuneration of Approved Persons and Material Risk-Takers], which are applicable to Approved Persons and Material Risk-Takers whose total annual remuneration (including all benefits) is in excess of BD100,000 or equivalent. The Policy and related schemes have been approved by the shareholders of the Bank at the Annual General Meeting held on 31 March 2015 and have been applied to performance related employee compensation payments made for each financial year.

The policy outlines the basis and methodology for arriving at variable compensation, making allocations, implementing risk adjustments to compensation, the framework for compensation of risk takers, conditions for deferral, malus and claw-back clauses including compliance and disclosure requirements. Equity schemes are limited so as not to exceed an aggregate 10% of the total issued outstanding ordinary share capital of the Bank, at any given time.

Role of the Compensation Committee in Governance and oversight over Remuneration

The Board of Directors has established a Compensation Committee (the “Committee”) and has delegated certain of its powers and responsibilities to the Committee through its Terms of Reference. The primary responsibilities of the Committee are to provide effective oversight of and governance over the compensation strategy, structure and systems, to ensure that these are properly implemented. The aggregate compensation/ fees paid to the Committee members for 2022 amounted to US$15,000 (2021: US$8,000).

The Committee approves the annual aggregate amounts payable under fixed and performance related variable compensation schemes for employees. The Committee reviews and approves any material changes in employee benefits as per market trends and cost considerations and makes recommendations about any other employee matters, as brought before it. The Committee reviews compensation payable to the members of the Board of Directors and makes recommendations to the Board of Directors and in this regard, in line with applicable regulations.

The Committee further reviews and tests the Compensation Policy and framework to ensure that compensation arrangements comply with applicable regulations and to ensure that the compensation system operates as intended and that effective controls exist through testing of compensation outcomes as per the Bank’s risk framework.

Main Duties of the Compensation Committee

The Compensation Committee (the “Committee”) is vested by the Board of Directors through its Terms of Reference with the primary responsibility, inter alia, to provide effective oversight and assure governance over the compensation strategy, structure and systems, to ensure that they are properly implemented. The authority matrix for the Committee is as follows:

ACTION	APPROVED BY
a) Approve the Bank’s annual performance bonus pool funding model based on KPI and KRI adjustments.	Compensation Committee
b) Approve the Bank’s annual performance bonus based on the determined funding model amount pool.	Compensation Committee
c) Approve the criteria for performance-based distribution of the Bank’s annual performance bonus.	Compensation Committee
d) Approve the performance scores, annual increment % and annual performance bonus monthly salary multiples for Approved Persons and Material Risk Takers of the Bank	Compensation Committee
e) Approve the aggregate performance distribution, annual actual salary increments and actual performance bonus amount for the Bank.	Compensation Committee

External Consultants

Consultants are appointed on an ad hoc basis to advise the Bank on revisions to the Compensation Policy, if any and on regulations and market best practices including providing consulting advice for the deferred share/ equity-linked schemes.

Compensation of the Board of Directors

The Compensation Committee annually reviews the compensation of the Board of Directors and its related Committees to ensure compliance with the CBB Rulebook, within the relevant Commercial Companies Law requirements and the Articles of Association of the Bank. The Bank is in compliance with the CBB Rule Book HC Module 5.2.1 (c) which requires that the compensation of the Board of Directors is linked to attendance and performance. Board of Directors and its committees' compensation is pro-rated and paid on the basis of actual attendance and membership. Compensation for the Board of Directors and its related committees is submitted to the shareholders at the Annual General Meeting each year for approval.

The Bank is in compliance with its Articles of Association requiring that total compensation for Directors (excluding sitting fees) is capped at 10% of the Bank's NPAT for 2022, after all the required deductions outlined in Article 188 of the Bahrain Commercial Companies Law, 2001.

The compensation of Non-Executive Directors for 2022 does not include any performance-related elements such as shares, share options or other deferred stock-related incentive schemes, bonuses or pension benefits, in compliance with the CBB Rule Book HC Module 5.5.1.

AUB employees who represent or who are appointed by AUB to represent it at the Boards or Board Committees of its subsidiaries or affiliates are precluded from receiving any remuneration relating to their appointments, as per the terms of their employment contracts. Employees do not receive any additional remuneration for their participation in any management committees.

The Approved Persons and Material Risk Takers of the Bank do not receive remuneration, incentives, performance payments, commission, fees, shares, consideration in kind or other direct benefits of any kind from any projects or investments managed by the Bank or promoted to its customers or potential customers. This applies to all Approved Persons and Material Risk Takers including those appointed as members of the Board of any special purpose vehicles or other operating companies set up by the Bank for special projects or investments.

All Board of Directors' and related Committees' fees or other forms of compensation (except actual expenses) payable to AUB appointed Directors are fully credited to the Bank. Such directors are, however, reimbursed for reasonable and customary expenses such as communication, transportation, boarding and lodging as per the AUB HR Policy.

COMPENSATION REGULATION	COMPLIANCE BY AUB
CBB Rule Book High Level Controls Module Article No.5.2.1 (c) requires that compensation of the Board of Directors ("The BoD") is linked to attendance and performance.	AUB BoD and its related committees' compensation is pro-rated on the basis of ½ of the fees being paid on actual attendance of meetings by Directors with the remainder paid as membership compensation unrelated to attendance. • **In Compliance**
CBB Rule Book High Level Controls Module Article No.5.5.1 requires that the compensation of Non-Executive Directors does not include any performance-related elements such as shares, share options or other deferred stock-related incentive schemes, bonuses or pension benefits.	No performance related compensation is included in the compensation of AUB Non-Executive Directors. • **In Compliance**
CBB Rule Book High Level Controls Module Article No.5.5.3 requires that employees appointed as Directors on subsidiaries, associates or affiliate Boards of the bank are excluded from the compensation arrangements for Directors and shall not receive any form of compensation due to Directors. Employees shall further not be entitled to any additional compensation from their membership of or attendance at Board or related Committee meetings as a nominee or representative of the Bank.	AUB Management Directors who represent or are nominated by AUB or of any of its subsidiaries or affiliates on the Boards or their related Committees are excluded from the compensation/ fees structure as per their contractual arrangements. All Board of Directors' and related Committee fees or other terms of remuneration (except actual expenses) related to representation as AUB nominated Directors are fully credited to AUB. • **In Compliance**

Compensation of the Board of Directors (Continued)

COMPENSATION REGULATION	COMPLIANCE BY AUB
CBB Rule Book High Level Controls Module Article No.5.5.4 requires that the Compensation Committee confirms that in the years in which the Bank has not achieved profits or no dividends are paid to the shareholders, the Committee shall recommend to the Board to seek approval from the shareholders to pay any annual compensation to the Directors and to be further approved by the Ministry of Industry and Commerce.	For 2022, the recorded NPAT is US$546.1 Million (2021: US$607.2 Million) and therefore, no further approval is required from the shareholders for the payment of Director Fees and Expenses. • **In Compliance**
The Bank's Articles of Association require that total compensation for Directors (excluding sitting fees) is capped at 10% of the Bank's NPAT, after all the required deductions outlined in Article 188 of the Bahrain Commercial Companies Law, 2001 in any financial year, notwithstanding the requirements of shareholders' approval, in compliance with the CBB Rule Book High Level Controls Module Article No.5.5.2.	AUB B.S.C. Board of Director Fees & Expenses for 2022 amounts to US$ 1.612 million (2021: US$ 0.993Million) falling within the above defined limit as per the regulation and the guidelines specified by Article 188. As per the regulation and the guidelines specified by Article 188, the Board of Director fees and expenses cap for 2022 is estimated at US$ 30.9 Million (2021: US$37.8 Million) and is calculated as per below:

	US$ MILLION
NPAT for 2022	**546.1**
Less 10% transferred to Legal Reserve	(54.6)
Balance	**491.5**
Less Min. 5% Dividend to Shareholders on Issued Shares	(139.4)
Balance	**352.1**
Less interest paid for AT1 Issue attributable to AUB equity shareholders	(40.8)
Balance	**311.3**
Less transferred to Donation reserve	(2.0)
Balance	**309.3**
10% limit on Director Fees and Expenses as per law	**30.9**

- **In Compliance**

AUB Compensation Framework, Performance Bonus Pool Calculation and Risk Adjustments

Compensation decisions are made at the end of each performance year based on a combination of:

- Business performance against set objectives as per the annual operating plan.
- Risk objectives, KPI's and KRI's based on the Board approved Risk Framework.
- Compliance to AUB values, applicable regulatory guidelines and local market practices.

Key features of the compensation framework that enables AUB to achieve alignment between risk and reward include:

FRAMEWORK	KEY FEATURES
Business Performance and KPI's and KRI's	• The Compensation Committee reviews and ensures the framework linking individual performance to the Bank's performance adjusts the annual accrual of the Variable Compensation pool for the Bank based on achievement of specified Key Performance Indicators ("KPI") which reflects Bank Performance for each financial year. • The Compensation Committee reviews and ensures the Key Risk Indicators ("KRI") which reflects the compliance of the Bank as per the Board approved Risk Framework.
Performance Measures	• KPI's and KRI's measure the actual financial and operational performance against budgets and as per the Board approved Risk Framework and may include: Net Profit after Tax (NPAT)/ Return on average assets (ROAA)/ Return on average equity (ROAE) / Cost to income ratio/ Audit ratings/ Non-performing loans (NPL) as % of gross loans and/ or capital adequacy ratio. • Performance-related variable compensation at AUB aims at recognizing and rewarding employee's contribution beyond their regular job requirements, particularly those contributions that increase Bank's productivity and profitability in a prudent and sustainable manner with effective control of risk.
Performance bonus pool calculation	• The performance bonus pool is aligned to and accrued based on the Bank's short- or long-term financial performance and adjusted for compliance to the risk framework. • The Compensation Committee reviews the accrual of the performance bonus pool for the Bank and ensures it is based on the overall performance of the Bank and is accrued as a percentage of Net Profit after Tax (the "NPAT") and/ or as per the Profit-Sharing mechanism as stipulated by local laws (e.g. Egypt) for the preceding/ ongoing financial year and that the payouts are in compliance to the risk-adjusted performance as per the Board approved Risk Framework. • Fines, penalties by regulators and non-compliance to the Risk Framework results in reduction in the overall profit achievement as assessed by the Committee.
Deferral of performance bonus	• In geographies where regulations mandates that the variable performance bonus be deferred, then deferral mechanisms are followed. The CBB mandates that the variable performance bonus for Approved Persons and Material Risk-Takers whose annual salaries are BD100K (-c. US$256K) be deferred.
Malus	• Allows cancellation/ reduction of unvested deferred performance bonus awards prior to their exercise, in addition to discretionary performance bonus adjustments to businesses and individuals based on compliance to risk objectives and record of disciplinary actions under HR policy.
Clawback	• Subject to compliance with local labour laws, allows the Bank to recover paid deferred awards under specific conditions as defined in the HR policy for a period of up to 6 months after exercise.
Incentive Compensation	• The Bank operates job-linked incentive or commission-based sales plans for full-time employees as per specific campaign-related or marketing schemes under the supervision of the Compensation Committee.

Review of Performance and Compensation arrangements at AUB

The performance measurement and the compensation arrangements for all staff is reviewed and approved by the Compensation Committee each financial year and is subject to changes in total individual compensation and/ or to changes in the organizational structure and business model. The performance measurement and the compensation arrangements for designated Approved Persons and Material Risk Takers of the Bank for 2022 is reviewed and approved by the Compensation Committee and is subject to changes in total individual compensation and/ or to changes in the organizational structure and business model.

Performance assessment of regulated roles is undertaken as per the following framework:

LEVEL	AREA	BANK OBJECTIVES	FUNCTION OBJECTIVES
CEO	(Business)	100%	-
Others	(Business) (Control & Support)	60%	40%

The above performance measurement framework ensures that adequate focus is employed by staff on their core objectives with heads of business functions being measured for both the Bank's business performance and development of their respective functions, and heads of control/ support functions being measured for core control and risk objectives related to the Bank and their functions including the development of their respective functions independent of business performance targets.

The above performance measurement ensures that adequate focus is employed by personnel on their core objectives with Heads of business functions are measured for both Group business performance and development of their respective functions, and Heads of control/ support functions are measured for core control and risk objectives related to their functions and development of their respective functions independent to business performance targets.

The individual allocations of variable compensation components for the designated roles are correlated with the annual individual performance appraisal that considers the extent to which quantitative and qualitative objectives have been met. The objectives for these individuals are clearly identified and can be assessed by indicators that are known to the employee.

The qualitative objectives are tailored to the individual employee, in relation to the employee's professional activity and adapted to the position held. These objectives include the quality of risk management, the means and behaviors used to achieve results such as co-operation, teamwork and human resources management.

The performance appraisal process and the subsequent performance bonus allocation process is managed and documented by group human resources and its conclusions are submitted for approval to the Committee.

The variable compensation awarded to the Approved Persons and Material Risk-Takers is based on the Bank's short- or long-term financial performance as adjusted for all types of risk and are subject to reduction in case of the Bank's poor or negative financial performance. The compensation report for the Bank includes the regulated roles for 2022 who are Approved Persons in business lines - 7 (2021: 8), Approved Persons in control functions - 9 (2021: 13) and no other material risk takers. Other staff, Bahrain operations – 711 (2021: 630).

Compliance with Compensation Rules

i. Framework & Methodology

Group compliance to compensation rules is aligned to the primary regulator, the Central Bank of Bahrain (CBB) and applies to its subsidiaries and branches in other markets, unless divergence exists with respective local country/ market regulations.

AUB GROUP

COMPENSATION REGULATION	COMPLIANCE BY AUB
Governance	• All members of the Compensation Committee are Independent or Non-Executive Directors. • The Committee sets the principles, parameters and governance framework of the Group's Compensation Policy applicable to all employees and reviews the Bank's compliance to the Board Risk Framework.
Management of Subsidiaries/ SPV's/ Projects/ Investments	• AUB employees do not take compensation, incentives, performance payments, commission, fees, shares, consideration in kind or other direct benefits of any kind from any projects or investments managed by the Bank or promoted to its customers or potential customers. • The above rule applies also to those staff appointed as members of the Board of any special purpose vehicles or other operating companies set up by the Bank for projects or investments. • Employees of the Bank are not entitled to any additional compensation from their membership of or attendance at Board or related Committee meetings as a nominee or representative of the Bank or for their participation in any management committees.
External Review	• The Compensation Policy for Material Risk-Takers and Control functions is reviewed annually by the external auditors of the Bank and conferred to be compliant and further inspected by the CBB (last inspection occurred in April 2021) and found to be fully compliant of the regulations with no adverse findings.
Personal Hedging Strategies	• The Bank takes acknowledgements from designated Approved Persons and Material Risk Takers of the Bank in the communications on variable compensation not to use personal hedging strategies or compensation and liability-related insurance to undermine the risk alignment effects embedded in their deferred variable compensation arrangements.
Employees in Control functions are independent and are compensated based on functional objectives	• Individuals in Control functions have independent reporting lines through the functions rather than through the business. • Control functions are represented in all senior management committees. • Control functions especially key areas of Risk Management and Internal Audit have direct reporting lines to their respective Board Committees. • Performance and compensation related recommendations and inputs are taken from respective Board Committees for evaluating performance or setting compensation for heads of Control functions.
Performance Measures	• KPI's and KRI's measure the actual financial and operational performance against budgets and as per the Board approved Risk Framework and may include: Net Profit after Tax (NPAT)/ Return on average assets (ROAA)/ Return on average equity (ROAE) / Cost to income ratio/ Audit ratings/ Non-performing loans (NPL) as % of gross loans and/ or capital adequacy ratio. • Performance-related variable compensation at the Bank aims at recognizing and rewarding employee's contribution beyond their regular job requirements, particularly those contributions that increase Bank's productivity and profitability in a prudent and sustainable manner with effective control of risk.
Business Performance and KPI's and KRI's	• The Compensation Committee reviews and ensures the framework linking individual performance to the Bank's performance adjusts the annual accrual of the Variable Compensation pool for the Bank based on achievement of specified Key Performance Indicators ("KPI") which reflects Bank Performance for each financial year. • The Compensation Committee reviews and ensures the Key Risk Indicators ("KRI") which reflects the compliance of the Bank as per the Board approved Risk Framework for each financial year.

Compliance with Compensation Rules (Continued)

COMPENSATION REGULATION	COMPLIANCE BY AUB
Total performance bonus pool does not limit the Bank's ability to strengthen capital base	• Funding of the Bank's performance bonus pool is based on overall profitability of the Bank. Capital adequacy and returns to shareholders are also an important factor in calculation of the bonus pool. • Bank Performance Bonus Pool is based on evaluation of financial performance and compliance to objectives outlined in the Risk Framework.
Performance bonus adjusts for all types of current and future risks	• NPAT performance is adjusted for appropriate current and future risks. • The Committee exercises its judgement to ensure the performance bonus pool reflects the overall performance of the Group including compliance to the Board approved Risk Framework.
Performance bonus pool calculation	• The performance bonus pool is aligned to and accrued based on the Bank's short- or long-term financial performance and adjusted for compliance to the risk framework and/ or as per profit-sharing regulations set out in country regulations. • The Compensation Committee reviews the accrual of the performance bonus pool for the Bank and ensures it is based on the overall performance of the Bank and is accrued as a percentage of Net Profit after Tax (the "NPAT") for the preceding financial year and is in compliance to the risk-adjusted performance as per the Board approved Risk Framework. • Fines, penalties by regulators and non-compliance to the Risk Framework results in reduction in the overall profit achievement as assessed by the Committee.
Reduction of bonus pool	• The Compensation Committee at its discretion may propose to reduce or reduce to nil the distribution of the performance bonus pool for the Bank and each line of business and/ or the allocation pool of accrued bonus to businesses if there is a material reduction in the profitability of the Bank or the individual line of business. • The Committee shall use its discretion to determine whether the business is incurring losses due to a start-up or turnaround situation, in which case, bonus pay-out may be allowed to occur.
Review of Performance and Compensation arrangements of Approved Persons	• The performance measurement and the compensation arrangements for designated senior management and regulated roles of the Bank for each year is reviewed and approved by the Compensation Committee and is subject to changes in total individual compensation and/ or to changes in the organizational structure and business model. • The variable compensation awarded to the senior managers and risk-takers in the Bank is based on the Bank's short- or long-term financial performance as adjusted for all types of risk and are subject to reduction in case of the Bank's poor or negative financial performance.
Guaranteed/ Sign-on Bonus	• The Bank does not provide any form of guaranteed performance bonus as part of the employment offer or contract to any employee. Severance compensation (except notice period for a maximum period of 3 months) is prohibited except when the Bank provides for it as ex-gratia or as participants in a voluntary retirement of long serving staff, job redundancy or liquidation of the business or on closure of a unit.
Deferral of performance bonus	• In geographies where regulations mandates that the variable performance bonus be deferred, then deferral mechanisms are followed. • The CBB mandates that the variable performance bonus for Approved Persons and Material Risk-Takers whose annual salaries are BD100K (-c.US$256K) be deferred. • Awards of deferred variable compensation for the designated Approved Persons and Material Risk Takers of the Bank shall be reduced in case of losses by the Bank and/ or business line during the vesting period of deferred compensation awards because of Malus and/or Clawback as defined in the HR Policy.
Deferral arrangements for Approved Persons and MRT's	• For the GCEO, Approved Persons in business functions: 1. 40% of variable performance-based compensation is paid upfront in cash. 2. 60% of variable performance-based compensation is deferred. • For the Approved Persons in control and support functions: 1. 50% of variable performance-based compensation is paid upfront in cash. 2. 50% of variable performance-based compensation is deferred.

Details of Compensation paid to Members of the Board of Directors

TOTAL VALUE OF COMPENSATION FOR THE FISCAL YEAR:	2022 (AMOUNTS IN US$' 000)	2021 (AMOUNTS IN US$' 000)
Compensation for the Board of Directors and related committees	**1,612**	993
Others (Expenses for the Board)	**-**	-

Details of Compensation Paid to Employees

	2022 (AMOUNTS IN US$' 000)				
	FIXED COMPENSATION		VARIABLE COMPENSATION		TOTAL COMPENSATION
	UNRESTRICTED CASH AND ALLOWANCES	UNRESTRICTED OTHERS1	CASH	DEFERRED	
Approved persons - business lines	3,015	651	1,295	1,943	6,904
Approved persons - control	2,847	855	551	551	4,804
Other staff – Bahrain operations	33,631	7,176	10,380	0	51,187
TOTAL	**39,493**	**8,682**	**12,226**	**2,494**	**62,895**

	2021 (AMOUNTS IN US$' 000)				
	FIXED COMPENSATION		VARIABLE COMPENSATION		TOTAL COMPENSATION
	UNRESTRICTED CASH AND ALLOWANCES	UNRESTRICTED OTHERS[1]	CASH	DEFERRED	
Approved persons - business lines	2,741	753	262	393	4,149
Approved persons – control	3,544	1,033	309	244	5,130
Other staff – Bahrain operations	34,651	6,157	7,444	-	48,252
TOTAL	40,936	7,943	8,015	637	57,531

[1] Others include direct charges such as social security contributions, end of service indemnity accrual charges, life insurance and medical premiums, club memberships, house lease rentals, school fees, vacation air fare, fair value charges for the employee share purchase program and indirect employee expenses such as training, recruitment, Government levies and other costs. These tables include employees in service for part of the year.

Deferred Variable Compensation Arrangements

AWARDS	2022				
	CASH	UNITS		OTHERS	TOTAL
	(US$' 000)	NOS.	(US$' 000)	(US$' 000)	(US$' 000)
Opening balance	-	-	637	-	637
Awarded during the year	-	-	2,494	-	2,494
Vested during the year	-	-	3,131	-	3,131
Risk Adjustments	-	-	-	-	-
Closing balance	-	-	-	-	-

AWARDS	2021				
	CASH	UNITS		OTHERS	TOTAL
	(US$' 000)	NOS.	(US$' 000)	(US$' 000)	(US$' 000)
Opening balance	-	-	-	-	-
Awarded during the year	-	-	637	-	637
Vested during the year	-	-	-	-	-
Risk Adjustments	-	-	-	-	-
Closing balance	-	-	637	-	637

Corporate Banking

During 2022, the operating environment was marked by uncertainty from geopolitical tensions, continued supply chain disruption and financial market volatility. The inflationary spike observed towards the end of 2021 continued throughout 2022, eroding purchasing power, leading to quantitative tightening and higher interest rates. The domestic and regional macroeconomic backdrop was underpinned by high oil prices, the recovery of key economic sectors, and ongoing structural government reforms.

Against this background, Corporate Banking Group delivered positive financial results, benefitting from prudent business management, diversification, and its client-centric business model. Corporate Banking Group year-on-year net profit grew by 19.2% to USD 242.1 million. Growth in Net Interest Income and total Operating Income were achieved as a result of improved loan and deposit mix, coupled with higher interest rates. Overall, growth in profitability was driven by strong underlying business momentum, cautious credit and risk policies, and strategic progress of the Group Transformation strategy.

Total Assets stood at USD 16.43 billion, an annual decrease of 4%, mainly from account adjustments related to currency devaluation. However, new lending to corporates continued to offset substantial contractual repayments and loan maturities during the year.

In a challenging year, Corporate Banking continued its focus on improving funding cost by growing CASA balances and increasing its liability base, through the establishment of new strategic relationships with new-to-bank clients and further enhancing the banking relationships with existing customers through offering clients recurring Transaction Banking products.

Over the past two years, Corporate Banking implemented the Group Transformation Program, underpinned by a strategic agenda of digitising the corporate banking value chain across product groups and client segments to deliver sustainable growth and to create productivity and efficiency gains.

The key pillars of the Corporate Transformation Program, the Customer First and User Experience were implemented through continuous delivery and improvement, by adopting agile development methods. Corporate Banking is in a position of strength, having achieved market leadership status in corporate digital and transaction banking services in its core markets. The strategic importance of these investments was particularly evident, with 64% growth in transaction values, and 24% growth in transaction volumes conducted through the digital channels. During the year, Transaction Banking launched many innovative products and solutions, such as virtual accounts management; the enhanced trade finance portal; supply chain financing; and the online Fx portal with a total of more than 100 additional features and enhancements in the Corporate Net Banking portal B2B.

Technology transformation has enabled Corporate Banking to deliver multichannel access to clients, increased customer touch points, significantly reducing cost-to-serve and improving customer experience, and most importantly, providing a better understanding of client transaction behaviours, while A-Z automation of processes led to faster processing times and reduced error rates. Technology transformation has resulted in significant revenue opportunities as evident by the 47% increase in average credit balances across the Group.

During the year, Corporate Banking launched an internally developed and fully digitised corporate credit approval process by using electronic forms containing auto-correct and error detection functions for enhanced information capture. The electronic credit approval workflows portal cut down on physical interactions and eliminated multiple iterations of the application process. The result was reduced amounts of processing, and shorter cycle times from preparation of credit application to credit disbursements. In addition, digitisation of credit and other internal processes freed up time for the staff to deepen relationships with clients and less time spent on administrative tasks.

Continuation of the Technology transformation will permit leverage of the cutting-edge Advanced Analytics platform to drive sustainable growth by analysing data to generate business insights and thus improve decision making. The Bank is making strategic investments with the implementation of Predictive and Prescriptive analytical models to bolster its analytics capabilities and innovation.

The economic outlook for 2023 presents headwinds for the Banks' asset quality, business volumes, and financing conditions amid geopolitical tensions, the slowdown in economic activity and potential liquidity crunch. Challenged by higher borrowing costs, private sector companies are focusing on building liquidity buffers and reduction in discretionary free cash flows amid persistent inflation and possible recession in the key Global markets.

Despite higher uncertainty, the Corporate Banking group enters 2023 on a solid footing, with strategic focus to strengthen revenue-generation capabilities through greater specialisation, enhanced cross-selling, and by making analytical capability a core competence across all functions.

Retail Banking

2022 witnessed a historic, sharp rise in interest rates. This prompted a shift in consumer deposits towards higher yielding products as the rate differentials between CASA and Fixed deposits expanded. AUB was able to navigate this shift successfully with robust deposit growth in Bahrain, Kuwait and Egypt. Apart from its industry leading MyHassad program, the deposit growth was driven by the launch of several initiatives including the EDGE program, Female savings accounts, USD CDs in Egypt and Step-up deposits in Bahrain.

The acquisition of Citibank's Retail business and its employees in Bahrain was a critical element in evolving AUB's transformation and growth strategy. The acquisition has allowed AUB to build market leading processes and products which will allow it to offer superior services to the erstwhile Citi customer and to provide a platform for future growth.

On the Asset side, higher rates and the end of the Deferral program in Bahrain had an impact on Unsecured lending growth. However, Mortgage growth was robust and two new mortgage financing solutions were introduced in Bahrain - Mazaya 2.0 and Tasheel programs in cooperation with Eskan Bank. Loan growth in Egypt was extremely high driven by an increase in our Loan sales force and the launch of several new products including Auto Loans and a range of secured loans.

As part of the Transformation program, we have, using A-Z methodology, digitized our key processes end-to-end. The deployment of the Retail Loan Origination system allows us to process Loan and Credit Card applications fully digitally which includes fully automated instant decisioning. Our customer on-boarding platform has been rolled-out to our branch network in Bahrain to deliver paperless account opening via I-pads. We launched instant card issuance in Egypt.

Capitalizing on the acceleration of digital payments and e-commerce adoption in the GCC, we have build significant digital payment capabilities at Point of Sale with ApplePay in Bahrain and Kuwait, peer to peer with Wallet payments and in international payments with instant payment alternatives to SWIFT.

We continue to offer a host of new services on our Mobile and Internet Banking platforms. Recognizing that simply offering more functionality is not enough, we are now working on a revamp of our User Interfaces and digital journeys to ensure that our digital interactions are the best in the industry.

Our Customer Relationship management system was rolled out in 2022 significantly changing the customer experience in our branches. Key customer requests can now be processed digitally and instantaneously.

To further evolve towards a full service 24x7 branch, we launched our Market leading Interactive Teller Machines and Digital Kiosks in a specially designed Digital zone to allow our customers the freedom to be able to perform Branch transactions at any time of the day. These, and many other innovations, were showcased in our new flagship Adliya branch.

2023 objectives will include the migration of the Citi Portfolio of both liabilities and assets including cards onto AUB books; continuation to improve penetration of the Social Housing scheme and the introduction of new products; the launch of a fully-fledged Loyalty Program to revamp the current Pearl Reward program; empowerment of AUB clients at self-service touchpoints by doubling the mobile/internet banking channel features; and relaunching the user experience.

Treasury

2022 was defined by volatility as a function of aggressive monetary tightening, with the Fed increasing rates by a total of 4.25% and the Central Bank of Bahrain following suit, along with most GCC central banks. This volatility was further exacerbated by ongoing supply chain and energy shocks, China's strict zero-covid policy, persistent inflation, and looming recession fears which sent the markets tumbling.The Russia-Ukraine conflict had multiple effects on the global markets. Oil prices attracted sharp volatility as supplies from Russia into Europe became a political lever. Furthermore, as a response to concerted international economic sanctions put in place after the invasion of Ukraine, Russia defaulted partly on its USD-denominated debt, despite having an extensive amount of cash to fulfil its obligations.

The OPEC+ reduced production for the second consecutive time by 2 million barrels per day, the largest reduction since Covid-19. The upward surge of fluctuations in the oil price provided an unexpected windfall bonus to Bahrain and others in the GCC due to the uncertainty of future demand. This, coupled with the recovery in non-oil sectors such as consumer and hospitality, contributed to post-COVID economic growth in Bahrain.

Liquidity was one of the main strategic focus areas in 2022. The goal was to develop a more robust, diversified, and efficient funding base. Treasury maintained a healthy and strong balance sheet structure compliant with regulatory requirements, as well as optimising profitability for shareholder value. In addition to the plain vanilla products, AUB continued to provide innovative structured investment products and hedging solutions. Transition from LIBOR was also a key focus in 2022. AUB set a Group-wide framework to transition LIBOR-linked products and to have the appropriate system upgrades and operations procedures.

The department finalized 18 transformation projects in 2022, aimed towards improving staff and customer experience, enhancing the efficiency of the end-to-end process, reducing both time and risk, and lastly, protecting and enhancing profit margins. The transformation journey will continue in 2023, focusing on technology, data, and human resources.

In 2022, AUB secured a dual tranche USD1.1 billion ESG Islamic financing facility. The pricing of the facility was linked to three Key Performance Indicators (KPIs), relating to green financing, social housing financing and governance integration, with each KPI based on specific Sustainability Performance Targets. Additionally, the department also successfully repaid USD 450 mio bilats term financing throughout the year.

Looking ahead to 2023, economies will continue to face several challenges such as geopolitical uncertainties, inflation, and tightened economic conditions. The Fed's tone remains hawkish in spite of signs that the labour market and inflation are easing. FOMC members expect rates to rise to a range of 5.00% to possibly 5.25% during 2023, indicating another hike or so. For the GCC countries with currencies pegged to the dollar, their Central Banks will probably

Treasury (Continued)

reflect the same trend. The resultant continued rise in interest rates could increase the Bank's cost of funding, but the recovering economy will also mean new financing opportunities in the market at the currently high levels. The Bank's balance sheet restructuring done in 2021-2022, where the Bank secured long term financing at favorable levels, will also cushion the impact on the cost of funding. The strength of AUB's funding structure and optimal deployment of liquidity puts the Bank in a position to navigate headwinds, if any. Although the balance sheet is in excellent shape, Treasury will continue to look beyond lending for revenue and growth and incorporate ESG/ sustainability as an AUB core value. As the Fed nears the end of its tightening cycle, the Bank's interest rate risk in the banking book is well managed, while seeking any profitable opportunities that may present themselves. Focus will remain on optimising liquidity and the balance sheet to ensure high shareholder values while continuing to develop hedging solutions, investment opportunities, and provide market updates on a regular basis.

Finally, the KFH acquisition creates an opportunity for AUB to expand its Shariah-compliant activities, products and solutions. A key strategic focus of the department will be to convert existing conventional banking assets, liabilities, and products into Shariah-compliance.

Private Banking & Wealth Management

Investors globally faced one of the most challenging years in 2022. Following the post pandemic recovery in 2021, rising demand and continued supply side issues resulted in inflation proving more resilient than anticipated, rising to highs that have not been experienced in decades. Central Banks aggressively raised rates to slow its progress, led by the U.S. Federal Reserve's 425 basis points aggregate hikes in 2022 to 4.5%, and financial markets responded accordingly.

Global equity markets that entered the year with extended valuations suffered significantly in the face of this elevated inflation, the aggressive global rate hiking cycle, compounded by the war in Ukraine and economic challenges in China. Unusually, both stocks and bonds suffered big losses in 2022 with one of the worst years ever for a diversified balanced portfolio and the worst performance since the Global Financial Crisis in 2008, whereas cash, commodities, and oil generated positive returns. The dollar continued its upward march gaining 8%, whilst most other global equity and fixed income asset classes fell by more than 10%, with few investors achieving positive returns.

Despite the extremely challenging macro environment, Private Banking grew its operating income by 10.7% to $71.5m in 2022, driven by strong net interest income growth, given the rising interest rate backdrop. The division demonstrated robust balance sheet growth with Private Banking clients across the Group taking advantage of rising interest rates, with cash and deposits increasing by 19% to $4.72 billion, whilst the loan book showed positive growth in most jurisdictions in local currency terms, but fell by 3.2% in USD terms to $2.04 billion, with sterling denominated lending in particular negatively impacted by the 12% fall in GBP in 2022.

The strategy of Private Banking & Wealth Management continued to be client focused, providing world class services and products from its local and international jurisdictions, whilst continuing to transition to a flexible business model in which it can serve all its client needs without the need to be physically present in the office. This has been aided by the implementation of the transformation plan across the Bank.

During the year, Private Banking launched an online investment portal allowing clients to have a comprehensive view of their portfolios with it, and to initiate investment subscriptions and redemptions via mobile and internet. The department also launched a digital portal for relationship managers providing them with easy access to client portfolios and in turn helping them to enhance their service to clients.

Private Banking's client focused approach, wealth management offerings and quality of relationship management have been acknowledged by leading institutions and it is honoured to have received several prestigious awards in 2022:

- Best Islamic Private Bank Globally from Private Banker International.
- MEED MENA Banking excellence awards for the best Private Bank in Bahrain, Egypt, Kuwait & Oman.
- The Banker/PWM award for the Best Private Bank in Bahrain & Kuwait.
- Award from Euromoney for the Best Private Bank in Bahrain.
- Global Finance award for the Best Private Bank in Bahrain.

The biggest challenge to the operating environment is the continued volatility due to tightening of global monetary conditions due to tapering and interest rate hikes by the major Central Banks to control inflation, as well as concerns over US growth stalling and the US and other developed markets falling into recession in the latter part of 2023. The current environment provides an opportunity for clients to benefit from attractive interest rates on deposits, higher yields on fixed income securities, as well as to protect the downside via structured investments and to consider alternative investment asset classes to lower portfolio volatility. Ongoing volatility in equity markets following double digit declines in 2022 will also provide more interesting entry points for those investors willing to take on greater risk.

On a medium to long term basis, there is a clear opportunity to become a fully hybrid Private Bank that can provide onshore and offshore banking and investment services in digital and physical modes across its key locations.

During the year, Private Banking launched a number of structured investment products linked to diverse underlying financial instruments including currencies, funds, equity stocks and indices. It also revamped its mutual fund offering by adding new funds to complement its existing range and to enhance the asset classes and investment themes available to its clients.

Private Banking & Wealth Management (Continued)

Focus continues on transformation initiatives to make processes efficient to improve service delivery to clients for the remainder of 2023 and beyond. In order to achieve this, Private Banking is prioritising the development of a best-in-class digital portal to provide a single bank portal capable of accessing multiple services, by consolidating all existing customer touch points with a flagship client delivery channel – Exclusive, thereby allowing more clients to be served remotely, with faster access and improved security. Leverage will continue from the class leading platforms developed within the AUB Group, as well as digitising the internal relationship manager platform and processes to improve front-office effectiveness and efficiency. This will be achieved by automating processes A-Z through digitisation and re-engineering of processes to maximise efficiencies, reducing time spent on administrative tasks, enabling relationship managers to focus on deepening client delivery and servicing.

The core strategy for Private Banking & Wealth Management will continue to have a clear focus on its strengths of excellence in service delivery and advice, which will enable the growth of clients' assets, liabilities, and AUM base overall. In terms of product solutions, the focus is to enhance and strengthen Islamic investment solutions by offering GCC/MENA fixed income and equity portfolios, as well as expanding its real estate investment offering. In addition, the aim is to add Islamic ETFs to the product suite and to increase the range of Islamic funds and structured investments. At the same time, attractive yields on deposits will be offered, whilst supporting clients with their liquidity requirements.

Private Banking will continue to leverage its global presence and cross-jurisdictional capabilities to provide clients with frictionless service capabilities to enhance the services and solutions available to its clients. Collaboration with other divisions of the Group, in particular Corporate Banking, Premium Banking and Treasury will allow a broadening of the services provided to these important stakeholders and underlying clients.

This will mean Private Banking's valued clients will continue to benefit from the investment offerings and services provided by the department and its partner firms to both preserve and grow their wealth for the future.

Group Information Technology

The Group Information Technology department had a primary focus on delivering a transformation program in 2022. The department made multiple new initiatives and enhancements to existing applications to smoothly transfer Citibank's retail business to AUB. The Internet Banking/Mobile Banking applications received significant technical and functional upgrades and added new digital features to meet and exceed customer expectations.

The IT department supported business growth by implementing new systems such as the Virtual Account Management and Supply Chain Management Solution. Critical solutions, such as the Fraud Management Solution, Collection Management Solution, Intelligent Corporate Data File (ICDF), and Electronic Credit Application Memo (eCAM) were also implemented successfully.

In the Retail Banking digital channels, efficiency in digital onboarding saw TAT time reduced to 15 minutes with real-time integration with the E-KYC chain. Automated loan processing for auto loans, personal loans, and mortgages in both conventional and Islamic products were rolled out in Egypt and Bahrain to speed up loan processing and reduce operational time. Retail Banking also improved its digital capabilities for internet and mobile banking of retail clients.

An advanced channel for Private Banking has been implemented to allow customers to view and execute their wealth investments online. The new mobile banking platform has been deployed to the UK, CBIQ, and UBCI, resulting in improved performance and better customer experience.

In the Business Flexibility program, the IT department has enhanced remote work capabilities by expanding the use of Microsoft-based collaboration tools, and a revamp of the core infrastructure components is in progress to achieve higher resilience in AUB's systems.

As part of the Data and Analytics Strategy, a large amount of data was ingested from internal and external sources into the Enterprise Data Warehouse (EDW). A Hybrid On-Premise Data Lake has been established to enable structured, unstructured, and real-time data ingestion to the EDW that will act as the single source of truth for the ingested data. In addition, a Group Analytics Platform was implemented based on SAS Viya, which allows development of various analytical models using a rapid exploration, testing, development, and continuous learning methodology.

Group email gateway and mailboxes were migrated to the cloud, providing scalability, improved uptime, improved security and simplified administration across the organisation. A digital signature solution was also rolled out to Bahrain, UK, and Egypt, eliminating paperwork and enhancing collaboration between departments for documentation approvals and digital distribution.

The off-site ATM automatic network failover between Batelco and STC has been completed for Bahrain. The LIBOR project required significant changes to the Trade Finance application and the SWIFT system.

With the rise of inflation and interest rates globally, organisations have started to pivot towards sustainable and cost-effective solutions. The Bank is well positioned to leverage its transformation investments to bring in desired efficiencies in the areas of cost, efforts, and time. A shift in customer behavior will be seen, with the rise of digital payments and digital ways of interacting with financial institutions. The Bank is well positioned to use its Data and Analytics platform to utilize insights and advanced analytics to arrive at new opportunities and approaches to improve NPAT across the Group. The newly acquired Citibank portfolio also allows further leverage analytics to maximize customer-centric engagement that will drive the next wave of growth in the Retail Banking business.

Group Information Technology (Continued)

Information Technology Group - Key highlights during 2022

Business Continuity

The IT group enhanced IT redundancy and improved the technology infrastructure for higher capacity and improved recovery. This was done to ensure that AUB's critical IT systems remain operational even during unforeseen circumstances.

Disaster Recovery

The IT group improved recovery efforts by automating critical systems on secondary infrastructure. Additionally, emergency personnel and entities executives are now able to communicate and coordinate tactical support and services in the event of a major disaster.

Transformation Projects

Multiple transformation projects were completed to add new functions, products, and features. This allowed departments to perform their business operations more efficiently and deliver quality and timely services to AUB customers.

Data Collection and Enrichment

The IT group collected and ingested high-quality data from across the Group's source systems and enriched it with valuable external datasets. This allowed for better decision-making and improved overall business performance.

Platform Capabilities

The IT group established platform capabilities to enable real-time and unstructured/semi-structured data ingestion through the HOPDL (Hybrid On-Premise Data Lake). This enabled AUB to process data faster and make better use of it.

Reporting Data Marts and Dashboards

The IT group introduced new reporting data marts and dashboards, including the Treasury Long-term Investment Dashboard, the IT Asset Efficiency and Utilisation, Audit and Infosec Reporting Data Marts. These were created to support the business and enable better tracking of key performance indicators.

Data Governance and Protection

The IT group embedded data governance and protection to ensure that AUB meets applicable laws, regulations, and compliance best practices and standards. This was done to ensure that AUB's data is secure and protected from unauthorized access or breaches.

Compliance

AUB continuously strives to improve the level of compliance in all its activities. The Bank has an independent Compliance function and reports to the Audit and Compliance Committee. The Compliance function acts as a focal point for all regulatory compliance and for adapting best practice compliance principles. The Compliance Department has the responsibility to monitor and, on a regular basis, to assess the adequacy and effectiveness of the measures and procedures put in place and the actions taken to address any deficiencies in the Bank's compliance with its obligations; and to advise and assist the relevant persons responsible for carrying out regulated activities to comply with the stated obligations under the regulatory system.

Implementing appropriate systems, processes and controls to combat Anti-money laundering and terrorist financing activities form an important activity of the AML Unit within the compliance function. AUB has deployed a risk based automated transaction monitoring system and implemented relevant procedures and controls to facilitate appropriate monitoring and detection mechanism. AUB also has appropriate AML and Compliance policies and monitoring programs. These policies and monitoring programs are reviewed and updated annually and approved by the Board of Directors. The Bank's anti-money laundering measures are regularly audited by the internal auditors who report to the Audit & Compliance Committee of the Board. Additionally, the Bank's anti-money laundering measures are audited by independent external auditors every year and their report is submitted to the CBB. The Central Bank also performs periodic inspections of the Bank's compliance with anti-money laundering regulations.

It is the Bank's policy to set standards for customer protection by maintaining the quality of its customer service and measuring the delivery of service against these standards. The Bank has established a Quality Assurance policy, which is reviewed and approved by the Board of Directors. Quality Assurance policy seeks to attain excellence in customer protection bearing in mind regional benchmarks and any applicable regulatory framework in respective jurisdictions. Overall client acquisition and retention is a key goal through attainment/maintenance of high customer service standards set by the Bank on an on-going basis thereby contributing to the Bank's goal of sustainable profit growth.

Risk Management

Risk management involves the identification, analysis, evaluation, acceptance and management of all financial and non-financial risks that could have a negative impact on the Group's performance and reputation. The Risk management function provides oversight and advice on the Board approved risk appetite and strategy, development and maintenance of a support system for management of risks through procedures and training.

The major risks associated with AUB's business are credit risk, market risk (which includes foreign exchange, interest rate and equity price risk), liquidity risk, operational risk and reputational risk. AUB's risk management policies have been developed to:

- identify and analyse these risks,
- set appropriate risk limits and controls,
- measure, monitor and report the risks against approved limits.

While risks that are inherent in the banking business cannot be completely eliminated, the risk management function aims to effectively manage these risks within the tolerance levels approved by the Board while earning competitive returns commensurate to the degree of risk assumed. Risk is evaluated based on the potential impact on income and capital, taking into consideration changes in political, economic and market conditions, and the idiosyncratic factors that impact the risk exposures.

The risk management function relies on the competence, experience and dedication of its professional staff, sound risk management policies and procedures, and ongoing investment in technology and training.

The Board of Directors approves at least annually the Bank's key Risk Management policies based on reviews and recommendations of the risk management function and the relevant management committees. The risk management processes are subject to additional scrutiny by independent internal and external auditors, and the Bank's regulators which help further strengthen the risk management practices.

The risk management and control process is based on detailed policies and procedures that encompass:

- business line accountability for all risks taken. Each business line is responsible for developing a plan that includes adequate risk/return parameters, as well as risk acceptance criteria;
- a risk function that understands, monitors and independently controls each risk exposure ensuring that the appropriate approvals are obtained and a uniform risk management standard, including objective risk measurement, has been correctly applied to all risk exposures;
- product and business policies, which are clearly understood, monitored and are in line with the overall Board approved risk framework;
- the ongoing assessment of the portfolio against various risk parameters; and
- an integrated limits structure that permits management to monitor, control and assume exposures within approved tolerances.

Credit Risk

Credit risk is the risk of financial loss due to the failure of a counterparty to perform its obligations according to agreed terms. It arises principally from lending, trade finance and treasury activities. The credit process is consistent for all forms of credit risk to a single obligor. Overall exposure is evaluated on an ongoing basis to ensure a broad diversification of credit risk. Potential concentrations by country, product, industry, and risk rating are regularly reviewed to avoid excessive exposure and ensure a broad diversification.

Credit risk within the Group is actively managed by a rigorous process from initiation to approval to disbursement. All dayto-day management is in accordance with well-defined credit policies and procedures (CP&P) that detail all credit approval requirements and are designed to identify at an early stage, exposures which require close monitoring. Specific impairment provisions are made against credit exposures where whole or a portion of the credit is considered doubtful of recovery.

If an asset is assessed to be irrecoverable, a mandatory writeoff takes place. This is conducted by a risk management process, which is completely independent in reporting terms from the asset generating departments.

Risk rating of individual counterparties plays an important role in the approval and maintenance of credit limits. The risk rating process ensures that the quality of the credit portfolio of the Bank is maintained at the highest possible level and stays within Board approved risk limits. The CP&P includes a robust risk rating system developed by a leading international rating agency, which provides a credit rating for each individual credit based on an extensive set of financial and non-financial parameters. This risk rating system has been validated and calibrated to meet the requirements of Expected Credit Loss computation under IFRS 9. The Group has implemented the necessary automated systems, quantitative models and governance processes to be compliant with IFRS 9.

The risk management function categorizes the credit portfolio by level of risk to monitor the credit quality and to be able to assess the pricing and aid in the prompt identification of problem exposures. Management of material problem exposures is vested with Remedial Management in the respective Group operating entities, all of which report to the Group Risk Management function.

In addition to the Group Risk Management function, credit risk is overseen by the Group Risk Committee (GRC) which is vested with the overall day-to-day responsibility for all matters relating to Group credit risk. The GRC responsibilities include the following:

- formulation and implementation of credit policies and monitoring compliance,
- act as a credit approval authority for credits within its delegated limits,
- recommend to the Executive Committee all policy changes related to credit risk as well as credits falling outside its discretion,
- determine appropriate pricing and security guidelines for all risk asset products,
- review the ongoing risk profile of the Group as a whole and by individual products, business sectors and countries
- ensure the adequacy of specific and collective impairment provisions and make appropriate recommendations to the Executive Committee.

Risk Management (Continued)

Market Risk

Market risk is the risk that adverse movements in market risk factors including foreign exchange rates, interest rates, credit spreads, commodity prices and equity prices will reduce the Group's income or the value of its portfolios.

Given the Group's ongoing low risk strategy, aggregate market risk levels are low relative to the size of the Bank's balance sheet. A robust control process incorporating well defined limits is applied to effectively manage market risks and monitor daily position limits and stop losses. The Group utilizes Value at-Risk (VaR) models to estimate potential losses that may arise from adverse market movements in addition to other quantitative and qualitative risk management techniques.

The Group calculates VaR using a one-day holding period at a confidence level of 99%, which takes into account the actual correlations observed historically between different markets and rates. VaR limits are delegated by the Board to the Group Asset and Liability Committee (GALCO) and subdelegated to the ALCO of the Group's subsidiaries.

The Group recognizes that VaR is based on the assumption of normal market conditions and that certain market shocks can result in losses greater than anticipated. Therefore, supplementary risk management techniques such as stress testing form a core part of the Group's risk control processes.

Liquidity Risk

Liquidity risk is the risk that the Group does not have sufficient financial resources to meet its obligations as they fall due, or will have to do so at an excessive cost. It is measured by estimating the Group's potential liquidity and funding requirements under different stress scenarios.

The Group's liquidity management policies and procedures are designed to ensure that funds are available under all circumstances to meet the funding requirements of the Group not only under adverse conditions but at sufficient levels to capitalize on opportunities for business expansion. Prudent liquidity controls ensure access to liquidity without unexpected cost effects. Liquidity projections based on both normal and stressed scenarios are performed regularly. The control framework also provides for the maintenance of a prudential buffer of liquid, marketable assets and an adequately diversified deposit base in terms of maturity profile and number of counter parties.

The Group Risk Management function continuously monitors liquidity risk and actively manages the balance sheet to control liquidity. The treasury function at each subsidiary manages this risk with monitoring by the Risk Management department and oversight by its Assets and Liabilities Committee (ALCO). At the Group level, the liquidity risk is managed by the GALCO, which is vested with the overall day-to-day responsibility for all matters relating to Group liquidity.

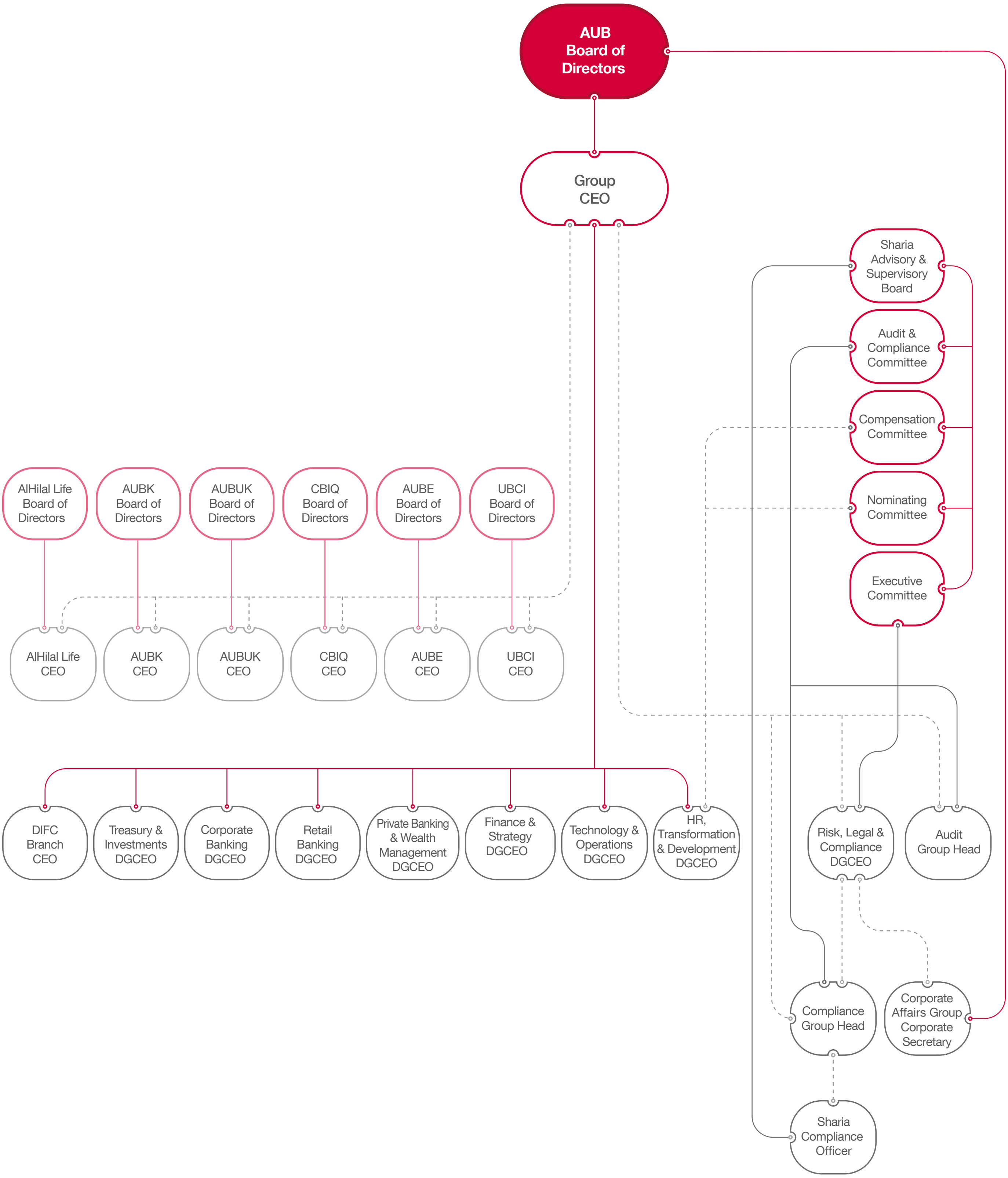
Operational Risk

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

Operational risk is managed by the Group Operational Risk Committee (GORC). The Group has adopted an ongoing Operational Risk Self-Assessment (ORSA) process. Assessments are made of the operational risks identified within each function of the Bank and these are reviewed regularly to monitor significant changes and the adequacy of controls. Operational risk incident and loss data is collected and reported to senior management on a regular basis. The Group also collates and reviews various key risk indicators (KRIs) to facilitate detection of deficiencies or potential failures in controls and procedures.

The Group's independent audit function regularly evaluates operational procedures and advises senior management and the Board of any potential problems. Additionally, the Group maintains adequate insurance coverage and business continuity contingency plans utilizing offsite data storage and backup systems. The Group has also adopted a Flexible Business Management approach to business continuity and disaster recovery with the aim of continuing to conduct business as usual to the extent possible on a remote basis even under diverse scenarios of unavailability of premises, infrastructure or resources, with scalability for any duration of time. The adequacy of the Bank's business continuity plans is confirmed by a programme of regular testing with oversight being provided by GORC.

GROUP MANAGEMENT ORGANIZATION STRUCTURE



GROUP MANAGEMENT

AHMED SOUD ALKHARJI

Group Chief Executive Officer

Current positions

Director, KFH Capital Investment Company, Kuwait; Director, Kuwait Finance House (Malaysia) Berhad, Malaysia; Director, Kuwait Turkish Participation Bank, Turkey.

Former positions

Group Chief Corporate Banking Officer, Kuwait Finance House, Kuwait; Acting Group CEO, Kuwait Finance House Group, Kuwait; Chief Executive Officer & Managing Director, Kuwait Finance House (Malaysia) Berhad, Malaysia; Deputy General Manager – Structured Finance, Kuwait Finance House, Kuwait; Deputy General Manager – Structured Finance & FIs – International Banking, Kuwait Finance House, Kuwait; Senior Vice President – Investment Banking, Liquidity Management House for Investment, Kuwait; Head of Investment Banking Department, Kuwait Turkish Participation Bank, Turkey; Senior Investment Manager – International Investment Department, Kuwait Finance House Kuwait. He also held positions in Central Bank of Kuwait, Burgan Bank and Merril Lynch, California. Holds a Bachelor of Science in Finance and Banking (Honors) from Kuwait University and a Master of Business Administration from University of San Diego, California, USA.

(Total years of experience: 24 years)

RAJEEV GOGIA

Deputy Group Chief Executive Officer – Finance and Strategy

Deputy Chairman, Al Ahli Real Estate Company W.L.L, Bahrain; Director, Ahli United Bank S.A.O.G., Oman; Former: Group Head of Strategic Development, Ahli United Bank B.S.C., Bahrain; Director, Ahli United Bank (Egypt) SAE; Director Ahli United Bank S.A.O.G., Oman; Director, Ahli United Bank K.S.P.C., Kuwait; Director, Kuwait & Middle East Financial Investment Company K.S.P.C.; Director, Al Hilal Life B.S.C.(c) and Al Hilal Takaful B.S.C.(c), Bahrain, Senior Division Head – Strategic Development, National Bank of Dubai, UAE.

Held various positions in the consulting and advisory practice of KPMG UAE and in a financial institution in India. Associate Member of the Institute of Chartered Accountants of India (Rank holder).

(Total years of experience: 25 years)

SUVRAT SAIGAL

Deputy Group Chief Executive Officer – Retail Banking

Director, Ahli United Bank K.S.C.P., Kuwait; Director, Al Hilal Life B.S.C.(c) & Al Hilal Takaful B.S.C.(c), Bahrain. Former: Head of Mass Segment and Products, First Abu Dhabi Bank, UAE; Head of Global Retail, National Bank of Abu Dhabi, UAE; Head of Consumer Banking, Barclays, India; Head of Strategy, Marketing & Consumer Experience, Citibank, Australia; Citibanking Head, Asia Pacific, Citibank N.A., Singapore; Cards Head, Citibank N.A., Japan. Held various management positions with Citibank in Singapore, USA, India and Saudi Arabia. Holds a Bachelor of Engineering from Delhi College of Engineering, India.

(Total years of experience: 33 years)

DAVID O' LOAN

Deputy Group Chief Executive Officer - Treasury and Investments

Director, Ahli United Bank UK, Director; Ahli United Bank K.S.C.P., Kuwait. Former: Group Treasurer for J. Sainsbury Plc, UK; Deputy Group Treasurer, RBS Group, UK; Senior Vice President, Swiss Re Asset Management, Switzerland; Investment Director, Standard Life Investments, UK; Head of Treasury, BGB (Ireland) plc, Ireland; Manager, Citibank N.A, Ireland. Fellow of the Association of Chartered Certified Accountants, holds a Master of Science degree in Treasury & Investment from Dublin City University and an MBA from University of Edinburgh.

(Total years of experience: 29 years)

OTHMAN HIJAZI

Deputy Group Chief Executive Officer – Corporate Banking

Vice Chairman, Commercial Bank of Iraq; Director, Ahli United Bank K.S.C.P., Kuwait; Director, Al Hilal Life B.S.C.(c) and Al Hilal Takaful B.S.C.(c), Bahrain; Director, Al Ahli Real Estate Company WLL, Bahrain; Director, MEFIC Capital, Saudi Arabia; Director, Waqf Fund, Bahrain; Director, Property Company One & Two Ltd, UK. Former: Group Head – Corporate Banking, Ahli United Bank B.S.C., Bahrain; Executive Director International Corporates – Origination and Customers Coverage – Saudi and Kuwait Markets, Standard Chartered Bank, UAE; Executive Director – Head of Local Corporate Business – Origination and Customer Coverage – Sharjah and Northern Emirates, Standard Chartered Bank, UAE; Senior Relationship Manager – Business Banking Group, Abu Dhabi Commercial Bank, UAE; Relationship Manager, Commercial Bank International, UAE. Holds a Masters in Finance from University of Western Sydney, Australia.

(Total years of experience: 29 years)

IMAN AL-MADANI

Deputy Group Chief Executive Officer – HR, Transformation and Development

Director, Ahli United Bank S.A.E., Egypt, Former Group Head of Human Resources & Development; Ahli United Bank B.S.C., Bahrain; Head of Human Resources, Bank of Kuwait & Middle East (BKME). Former Assistant General Manager Human Resources, Burgan Bank, Kuwait. Certified Corporate Governance Officer (CCGO) from the London Business School. Holds a Bachelor of Science in Mathematics from the University of Denver, USA and an Associate of Science Degree in Data Processing & Computer Programming , Lane College, Oregon State, USA.

(Total years of experience: 39 years)

SAMIH ABUTALEB

Deputy Group Chief Executive Officer – Technology & Operations

Previously: Acting Group Head of Information Technology, Operations, and Administration, Ahli United Bank B.S.C, Bahrain; Group Head of Information Technology, Ahli United Bank B.S.C, Bahrain; Group Head of Digital Transformation, Ahli United Bank B.S.C, Bahrain; Director of Digital Transformation – Digital Office, Al Hilal Bank, UAE; Vice President – Group Digital Office, Emirates NBD, UAE; Head of Agile Delivery – Group IT, Emirates NBD, UAE; Senior Integration Specialist, TIBCO/MENA eSolutions, UAE; Software Engineer, Turah Center for Computer Research, Jordan.

Holds a bachelor's degree in computer science & engineering from Zarka University in Jordan and Master of Information Technology Management from University of Wollongong, Australia. Also holds a mini-MBA, Executive Management Leadership Program, from Harvard Business School, USA.

(Total years of experience: 23 years)

ROGIER DOLLEMAN

Group Head – Internal Audit

Former: Audit Head Business Management, SABB, KSA; Head of Audit, Alawwal Investment Company, KSA; Senior Audit Executive, National Commercial Bank- Jeddah, KSA; Head of Internal Audit, ING Bank AS, Turkey; Regional Head of Audit, ING Commercial Banking, Singapore; Audit Manager, ING Bank N.V., the Netherlands; Senior Auditor, ING Insurance and ING Investment Management, the Netherlands; Financial Auditor, PwC International, the Netherlands. Holds a Post-Master's degree RAZ (Dutch CPA) from NIVRA-Nyenrode Business University, the Netherlands and a Master's degree in Auditing & Assurance from Nyenrode University, the Netherlands.

(Total years of experience: 23 years)

SAMI TAMIM

Chief Executive Officer – AUBUK

Director, Arab Bankers Association, UK. Formerly: Deputy CEO – Private Banking and Wealth Management, Ahli United Bank (UK) PLC; Executive Director, UBS, London; Director, Citibank, UK; Senior Vice President, Coutts Bank, Geneva; Managing Director, Bank of Beirut, UK; Head of Private Banking, Saudi American Bank, UK. Holds a Bachelor Degree in Economics from the American University of Beirut and is a Chartered Wealth Manager and Fellow of the Chartered Institute for Securities & Investment, London.

(Total years of experience: 38 years)

JEHAD AL-HUMAIDHI

Chief Executive Officer – Ahli United Bank, Kuwait

Vice Chairman, Al Hilal Life B.S.C.(c) & Al Hilal Takaful B.S.C.(c), Bahrain; Vice Chairman, Shared Electronic Banking Services Company (K-NET), Kuwait. Former: Vice Chairman, Credit Information Network Company (Ci Net), Kuwait; Director, The Central Agency for Information Technology, Kuwait; Director, Gulf Custody Company, Kuwait; DCEO - Banking Support, Ahli United Bank K.S.C.P; Senior General Manager of IT & Operations, Ahli United Bank K.S.C.P, Kuwait. Held various managerial positions in Ahli United Bank Kuwait. Holds a BSC Mathematics from Kuwait University and minor in Economics.

(Total years of experience: 38)

HALA SADEK

Chief Executive Officer & Board Member - Ahli United Bank, Egypt

Director, Ahli United Bank Egypt S.A.E; Director, United Bank for Commerce and Investment , Libya; Director, Federation of Egyptian Banks "FEB", Egypt; Former Acting CEO & Board Member, Ahli United Bank Egypt S.A.E; Former Senior Deputy CEO-Risk, Finance & Operations-Executive Director, Ahli United Bank Egypt S.A.E.; Former Senior General Manager-Head of Risk Management, Ahli United Bank Egypt S.A.E; Former Head of Risk Asset Management Group, Commercial International Bank, Egypt; Former Assistant General Manager-Corporate Banking Group, Commercial International Bank, Egypt. Holds a Bachelor degree in Economics from Faculty of Economics & Political Science - Cairo University, Egypt.

(Total years of experience: 34)

AYMAN EL GAMMAL

Chief Executive Officer – United Bank for Commerce & Investment, Libya

Former Assistant Managing Director and Head of Investments, National Investment Bank, Egypt, Former Managing Director, Asset Management - Private Equity, NAEEM Holdings, Egypt, Former Managing Director, EFG Hermes Private Equity, Egypt, Former Executive Director, Commercial International Investment Company, Former Assistant General Manager, Commercial International Bank (CIB), Egypt. Former board member in various companies and banks representing employers' investments. Holds a BA in Business from Cairo University, Egypt.

(Total years of experience: 39 years)

BASSAM JABER

Chief Executive Officer (Acting) CBIQ Iraq PSC

Former: Deputy Chief Executive Officer CBIQ Iraq PSC, Head – Corporate Banking, United Bank for Commerce & Investment S.A.C., Libya; Customer Relationship Manager/ Team Leader, Bank of Jordan, Amman; Customer Relationship Supervisor/ Corporate, Arab Bank, Jordan. Holds a Master's degree in Accounting & Finance from Hashemite University, Jordan.

(Total years of experience: 29 years)

SAID HATHOUT

Chief Executive Officer – Al Hilal Life & Al Hilal Takaful

Former Chief Operating Officer, Al Hilal Life B.S.C.(c) and Al Hilal Takaful B.S.C.(c), Bahrain; Former Operations and IT Director, Al Hilal Life B.S.C.(c) and Al Hilal Takaful B.S.C.(c), Bahrain; Former Regional Operations Director, ACE Life Insurance Company, Former Chief Operations Officer, ACE Life Insurance Company Egypt; Former Life Administration Manager, Arabia Insurance Company S.A.L.; Lebanon. Holds a Master's Degree in Business Administration and a Bachelor Degree in Business Marketing from the Lebanese American University in Lebanon.

(Total years of experience: 25 years)

CONTACT DETAILS

AHLI UNITED BANK B.S.C.

Bldg. 2495, Road 2832, Al Seef District 428
P.O. Box 2424, Manama
Kingdom of Bahrain

Telephone: +973 17 585 858
Facsimile: +973 17 580 569
Email: info@ahliunited.com
www.ahliunited.com

COMMERCIAL BANK OF IRAQ P.S.C.

Al Sadoon Street, Baghdad, Iraq
Telephone: +964 7830164484
+964 7818834366
Email: cb.iraq@cbiq.com.iq

AHLI UNITED BANK (UK) PLC

35 Portman Square, London W1H 6LR
United Kingdom
Telephone: +44 (0) 20 7487 6500
Facsimile: +44 (0) 20 7487 6808
Email: info.aubuk@ahliunited.com
www.ahliunited.com

AHLI UNITED BANK (EGYPT) S.A.E.

81 El-Tesseen Street
Sector A, Fifth Settlement
Cairo, Egypt
Telephone: +20 2 22499500
+20 2 22499900
+20 2 22499700
Facsimile: +20 2 26135160
Email: egypt.callcenter@ahliunited.com
www.ahliunited.com

AHLI UNITED BANK K.S.C.P.

P.O. Box 71 Safat , 12168, Kuwait
Telephone: +965 1802000
Facsimile: +965 22461430
Customer Service: +965 1812000 / +965 22467711
Email: Hayakom@ahliunited.com
www.ahliunited.com.kw

UNITED BANK FOR COMMERCE & INVESTMENT S.A.L.

Gumhouria Street - Mansoura District
Tripoli, Libya
Telephone: +218 213345602/3
Facsimile: +218 0213345601
Email: info@ubci-libya.com
www.ubci-libya.com

AHLI UNITED BANK B.S.C. (DIFC BRANCH)

1402 Al Fattan Currency House
Tower 2, 14th floor, P.O. Box 507055
DIFC, Dubai, UAE
Telephone: +971 4 563 8777
Facsimile: +971 4 563 8780
Email: aubl.info@ahliunited.com
www.ahliunited.com

AL HILAL LIFE B.S.C. (c)

17th Floor, Office 1701/1702, Bldg 470, Road 1010
Sanabis 410, P.O.Box 5832, Manama
Kingdom of Bahrain
Telephone: +973 17 589 800
www.alhilal.life

CONSOLIDATED FINANCIAL STATEMENTS

CONTENTS

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF AHLI UNITED BANK B.S.C.

Building a better working world

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

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

Report on the Audit of the Consolidated Financial Statements

Opinion

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

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

Basis for opinion

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

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 for the year ended 31 December 2022. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

<table>
<tr><th colspan="2">1. Expected Credit Loss on loans and advances</th></tr>
<tr><th>Key audit matter</th><th>How our audit addressed the key audit matter</th></tr>
<tr><td>The process for estimating Expected Credit Loss ("ECL") on credit risk associated with loans and advances in accordance with IFRS 9 Financial Instruments ("IFRS 9") is significant and complex. The management's determination of ECL required application of a significant level of judgment and estimation uncertainty, which may materially change the estimates in future periods.

The Group exercises significant judgment using subjective assumptions when determining both the timing and the amounts of the ECL for loans and advances. Due to the complexity of the requirements under IFRS 9, the significance of judgments and estimations applied in the ECL calculations and the Group's exposure to loans and advances which form a major portion of the Group's assets, the audit of ECL for loans and advances is a key area of focus.

As at 31 December 2022, the Group's gross loans and advances amounted to US$ 22,172 million and the related ECL amounted to US$ 951 million.

Refer to the accounting policies, disclosures of loans and advances and credit risk management in notes 2, 7 and 32 to the consolidated financial statements.</td><td>Our approach included testing the controls associated with the relevant processes for estimating the ECL and performing substantive procedures on such estimates. We involved our internal specialists where their specific expertise was required.

Our key audit procedures focused on the following:
• We obtained an understanding of the design and tested the operating effectiveness of relevant controls over the ECL model, including model build and approval, ongoing monitoring / validation, model governance and mathematical accuracy. We have also checked completeness of the data used in the ECL calculation.
• We assessed:
o the Group's ECL policy including determination of the significant increase in credit risk and consequent staging criteria with the requirements of IFRS 9 and regulatory guidelines;
o the significant modelling and macroeconomic assumptions, including evaluation of forward-looking information and scenarios against the requirements of the Group's ECL policy; and
o the basis of determination of the management overlays
• We reviewed a sample of credit files and performed procedures to assess:
o timely identification of exposures with a significant increase in credit risk and appropriateness of the staging;
o the process of collateral valuation; and
o ECL recalculation
• We considered the adequacy of the disclosures in the consolidated financial statements in relation to ECL for loans and advances as per the applicable financial reporting standards</td></tr>
</table>

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

Key audit matters (continued)

2. Impairment of goodwill	
Key audit matter	**How our audit addressed the key audit matter**
Goodwill is allocated to cash generating units ("CGUs") for the purpose of impairment testing. Goodwill impairment testing of CGUs relies on estimates of value-in-use based on estimated future cash flows. Subjectivity is typically highest for those CGUs where headroom between value-in-use and carrying value is limited and where the value in use is most sensitive to estimates of future cash flows. Due to the subjectivity involved in computing recoverable amounts and the significance of the Group's recognised goodwill of US$ 475 million as at 31 December 2022, this audit area is considered a key audit risk. Refer to the critical accounting estimates and judgments and disclosures of goodwill in note 2, and allocation of goodwill to CGUs in note 13 to the consolidated financial statements.	We obtained an understanding of management's processes for determining the recoverable amount for annual goodwill impairment testing. Our audit procedures included the assessment of reasonableness of key inputs, such as the discount rates and growth rates, by comparison to externally available industry, economic and financial data and the Group's own historical data and performance. With the assistance of our internal valuation specialists, we formed an independent range of key assumptions used in a sample of impairment assessment, with reference to the relevant industry and market valuation considerations and derived a range of values using our assumptions and other qualitative risk factors. We compared these ranges with the management's assumptions and discussed our results with management. We considered the adequacy of the disclosures in the consolidated financial statements in relation to goodwill impairment.

Other information included in the Group's 2022 Annual Report

Other information consists of the information included in the Group's 2022 Annual Report, other than the consolidated financial statements and our auditor's report thereon. The Board of Directors is responsible for the other information. Prior to the date of this auditor's report, we obtained the Board of Directors' report which forms part of the annual report, and the remaining sections of the annual report are expected to be made available to us after that date.

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

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

Responsibilities of the Board of Directors for the consolidated financial statements

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

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

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

Auditor's responsibilities for the audit of the consolidated financial statements

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

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

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

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

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

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

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

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

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

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

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

We also provide the Audit and Compliance Committee 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 the Audit and Compliance Committee, 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 auditor's 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.

Report on Other Legal and Regulatory Requirements

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

a) the Bank has maintained proper accounting records and the consolidated financial statements are in agreement therewith;

b) the financial information contained in the Report of the Board of Directors is consistent with the consolidated financial statements;

c) we are not aware of any violations of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 1 and applicable provisions of Volume 6) and CBB directives, regulations and associated resolutions, rules and procedures of the Bahrain Bourse or the terms of the Bank's memorandum and articles of association during the year ended 31 December 2022 that might have had a material adverse effect on the business of the Bank or on its consolidated financial position; and

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

The partner in charge of the audit resulting in this independent auditor's report is Nader Rahimi.

Ernst + Young

Partner's registration no. 115
2 February 2023
Manama, Kingdom of Bahrain

CONSOLIDATED STATEMENT OF INCOME

For the Year Ended 31 December 2022

	Note	2022 US$ '000	2021 US$ '000
Interest income	3a	**1,729,456**	1,348,252
Interest expense	3b	**820,332**	476,463
Net interest income		**909,124**	871,789
Fees and commissions - net	4	**107,940**	104,386
Trading income	5	**36,255**	34,750
Investment and other income		**149,087**	62,620
Share of results from associates	9	**34,485**	35,383
Fees and other income		**327,767**	237,139
OPERATING INCOME		**1,236,891**	1,108,928
Provision for credit losses and others	7g	**231,294**	122,350
NET OPERATING INCOME		**1,005,597**	986,578
Staff costs		**186,318**	175,357
Depreciation		**35,388**	34,624
Other operating expenses		**146,138**	117,025
OPERATING EXPENSES		**367,844**	327,006
PROFIT BEFORE TAX AND ZAKAT		**637,753**	659,572
Tax expense and zakat	22	**55,456**	21,641
NET PROFIT FOR THE YEAR		**582,297**	637,931
Net profit attributable to non-controlling interests		**36,195**	30,687
NET PROFIT ATTRIBUTABLE TO THE OWNERS OF THE BANK		**546,102**	607,244
EARNINGS PER SHARE ATTRIBUTABLE TO THE OWNERS OF THE BANK FOR THE YEAR:			
Basic and diluted earnings per ordinary share (US cents)	23	**4.5**	**5.1**

Mohammad Al-Ghanim
Deputy Chairman

Khalid Mohamed Najibi
Director

Adel A. El-Labban
Group Chief Executive Officer

The attached notes 1 to 43 form part of these consolidated financial statements

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the Year Ended 31 December 2022

	2022 US$ '000	2021 US$ '000
Net profit for the year	**582,297**	637,931
Other Comprehensive Income (OCI)		
Items that will not be reclassified subsequently to consolidated statement of income		
Net change in fair value of equity investments measured at fair value through OCI	**(5,262)**	8,081
Net change in pension fund revaluation reserve (note 21 (h))	**(17,605)**	28,080
Net change in property revaluation reserve	**2,887**	353
Items that may be reclassified subsequently to consolidated statement of income		
Foreign currency translation adjustments	**(302,121)**	(1,826)
Net change in fair value of debt instruments measured at fair value through OCI	**(16,006)**	(5,621)
Transfer to consolidated statement of income on sale of debt instruments measured at fair value through OCI	**(3,757)**	(6,474)
Net change in fair value of cash flow hedges	**41,358**	12,352
Other comprehensive (loss) / income for the year	**(300,506)**	34,945
Total comprehensive income for the year	**281,791**	672,876
Total comprehensive income attributable to non-controlling interests	**20,587**	31,621
Total comprehensive income attributable to the owners of the Bank	**261,204**	641,255

The attached notes 1 to 43 form part of these consolidated financial statements

CONSOLIDATED BALANCE SHEET

At 31 December 2022

	Note	2022 US$ '000	2021 US$ '000
ASSETS			
Cash and balances with central banks	6a	**1,643,192**	1,819,841
Treasury bills and deposits with central banks	6b	**2,340,304**	1,731,698
Deposits with banks		**3,467,846**	4,116,647
Loans and advances	7	**21,221,325**	22,075,148
Non-trading investments	8	**9,955,597**	9,923,294
Investment in associates	9	**350,958**	343,076
Investment properties	10	**189,065**	188,648
Interest receivable, derivative and other assets	11	**1,557,338**	916,200
Premises and equipment	12	**325,302**	311,929
Goodwill and other intangible assets	13	**510,045**	486,889
TOTAL ASSETS		**41,560,972**	41,913,370
LIABILITIES AND EQUITY			
LIABILITIES			
Deposits from banks	14	**4,077,229**	4,638,973
Borrowings under repurchase agreements	15	**4,359,845**	3,775,499
Customers' deposits	16	**24,393,349**	25,203,941
Term borrowings	17	**1,778,323**	1,088,822
Interest payable, derivative and other liabilities	18	**1,113,365**	1,278,187
Subordinated liabilities	19	**9,462**	9,983
TOTAL LIABILITIES		**35,731,573**	35,995,405
EQUITY			
Ordinary share capital	20b	**2,786,983**	2,533,621
Reserves		**1,588,521**	1,936,083
Equity attributable to the owners of the Bank		**4,375,504**	4,469,704
Perpetual Tier 1 Capital Securities and Sukuk	20c	**1,000,000**	1,000,000
Non-controlling interests		**453,895**	448,261
TOTAL EQUITY		**5,829,399**	5,917,965
TOTAL LIABILITIES AND EQUITY		**41,560,972**	41,913,370

Mohammad Al-Ghanim	**Khalid Mohamed Najibi**	**Adel A. El-Labban**
Deputy Chairman	Director	Group Chief Executive Officer

The attached notes 1 to 43 form part of these consolidated financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Year Ended 31 December 2022

	Note	2022 US$ '000	2021 US$ '000
OPERATING ACTIVITIES			
Profit before tax and zakat		**637,753**	659,572
Adjustments for:			
Depreciation		**35,388**	34,624
Investment and other income		**(53,720)**	(43,740)
Provision for credit losses and others	7g	**231,294**	122,350
Share of results from associates	9	**(34,485)**	(35,383)
Operating profit before changes in operating assets and liabilities		**816,230**	737,423
Changes in:			
Mandatory reserve deposits with central banks		**(243,419)**	(147,367)
Treasury bills and deposits with central banks		**(97,388)**	596,982
Deposits with banks		**1,570,436**	(931,067)
Loans and advances		**836,002**	(1,493,647)
Interest receivable, derivative and other assets		**(29,981)**	(27,769)
Deposits from banks		**(561,744)**	420,556
Borrowings under repurchase agreements		**584,346**	157,430
Customers' deposits		**(992,162)**	21,356
Interest payable, derivative and other liabilities		**(82,908)**	(8,852)
Net cash flows generated from / (used in) operations		**1,799,412**	(674,955)
Income tax and zakat paid		**(33,572)**	(37,757)
Net cash flows from / (used in) operating activities		**1,765,840**	(712,712)
INVESTING ACTIVITIES			
Purchase of non-trading investments and others		**(3,588,613)**	(3,080,132)
Proceeds from sale or redemption of non-trading investments		**2,541,851**	2,342,681
Additional investment in subsidiary		**-**	(8,609)
Right subscription in an associate		**-**	(27,545)
Net decrease in investment properties		**-**	151
Net increase in premises and equipment		**(49,382)**	(50,820)
Dividends received from associates		**13,293**	8,862
Net cash flows used in investing activities		**(1,082,851)**	(815,412)
FINANCING ACTIVITIES			
Additional Perpetual Tier 1 Capital Securities issued	20c	**-**	600,000
Redemption of Perpetual Tier 1 Capital Securities	20c	**-**	(200,000)
Expenses related to Perpetual Tier 1 Sukuk issued and others		**-**	(1,191)
Distribution on Perpetual Tier 1 Capital Securities and sukuk	21j	**(46,606)**	(45,215)
Repayment of term debt	17	**(350,000)**	-
Additional term borrowings	17	**1,094,462**	926,700
Dividends and other appropriations paid		**(304,034)**	(119,005)
Dividends paid to non-controlling interests		**(8,837)**	(842)
Net cash flows from financing activities		**384,985**	1,160,447
NET CHANGE IN CASH AND CASH EQUIVALENTS		**1,067,974**	(367,677)
Net foreign exchange difference		**(48,409)**	204
Cash and cash equivalents at 1 January		**2,609,526**	2,976,999
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	24	**3,629,091**	2,609,526
Additional cash flow information:			
Interest received		**1,700,662**	1,311,850
Interest paid		**769,267**	466,502

The attached notes 1 to 43 form part of these consolidated financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the Year Ended 31 December 2022

	Attributable to the owners of the Bank										
		Reserves									
	Ordinary share capital US$ '000	Share premium US$ '000	Statutory reserve US$ '000	Retained earnings US$ '000	Proposed appro-priations US$ '000	Other reserves [Note 21(h)] US$ '000	Total reserves US$'000	Equity attributable to the owners US$'000	Perpetual Tier 1 Capital Securities and Sukuk US$ '000	Non-controlling interests US$'000	Total US$'000
Balance at 1 January 2022	2,533,621	752,538	765,479	600,122	306,034	(488,090)	1,936,083	4,469,704	1,000,000	448,261	5,917,965
Distribution on Perpetual Tier 1 Capital Securities [note 21(j)]	-	-	-	(23,356)	-	-	(23,356)	(23,356)	-	-	(23,356)
Distribution related to Perpetual Tier 1 Sukuk [note 21(j)]	-	-	-	(17,410)	-	-	(17,410)	(17,410)	-	(5,840)	(23,250)
Ordinary share dividend paid [note 21(i)]	-	-	-	-	(304,034)	-	(304,034)	(304,034)	-	-	(304,034)
Dividends of subsidiaries	-	-	-	-	-	-	-	-	-	(8,837)	(8,837)
Donations	-	-	-	-	(2,000)	-	(2,000)	(2,000)	-	-	(2,000)
Bonus shares issued	253,362	-	-	(253,362)	-	-	(253,362)	-	-	-	-
Transfer from OCI reserve on sale of equity investments	-	-	-	(155)	-	-	(155)	(155)	-	-	(155)
Movement in associates	-	-	-	(8,460)	-	-	(8,460)	(8,460)	-	-	(8,460)
Movement in subsidiaries	-	11	-	-	-	-	11	11	-	(276)	(265)
Total comprehensive income for the year	-	-	-	546,102	-	(284,898)	261,204	261,204	-	20,587	281,791
Transfer to statutory reserve [note 21(c)]	-	-	54,610	(54,610)	-	-	-	-	-	-	-
Proposed dividend on ordinary shares [note 21(i)]	-	-	-	(278,698)	278,698	-	-	-	-	-	-
Proposed donations	-	-	-	(2,000)	2,000	-	-	-	-	-	-
Balance at 31 December 2022	**2,786,983**	**752,549**	**820,089**	**508,173**	**280,698**	**(772,988)**	**1,588,521**	**4,375,504**	**1,000,000**	**453,895**	**5,829,399**

The attached notes 1 to 43 form part of these consolidated financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)

For the Year Ended 31 December 2022

	Attributable to the owners of the Bank										
		Reserves									
	Ordinary share capital US$ '000	Share premium US$ '000	Statutory reserve US$ '000	Retained earnings US$ '000	Proposed appro-priations US$ '000	Other reserves [Note 21(h)] US$ '000	Total reserves US$'000	Equity attributable to the owners US$'000	Perpetual Tier 1 Capital Securities and Sukuk US$ '000	Non-controlling interests US$'000	Total US$'000
Balance at 1 January 2021	2,412,972	753,063	704,755	530,302	122,649	(522,101)	1,588,668	4,001,640	600,000	434,718	5,036,358
Distribution on Perpetual Tier 1 Capital Securities [note 21(j)]	-	-	-	(23,356)	-	-	(23,356)	(23,356)	-	-	(23,356)
Distribution related to Perpetual Tier 1 Sukuk [note 21(j)]	-	-	-	(16,363)	-	-	(16,363)	(16,363)	-	(5,496)	(21,859)
Ordinary share dividend paid	-	-	-	-	(120,649)	-	(120,649)	(120,649)	-	-	(120,649)
Dividends of subsidiary	-	-	-	-	-	-	-	-	-	(842)	(842)
Donations	-	-	-	-	(2,000)	-	(2,000)	(2,000)	-	-	(2,000)
Bonus shares issued	120,649	-	-	(120,649)	-	-	(120,649)	-	-	-	-
Arising on additional acquisition in a subsidiary	-	(525)	-	-	-	-	(525)	(525)	-	(11,333)	(11,858)
Perpetual Tier 1 Sukuk issued [note 20(c)]	-	-	-	-	-	-	-	-	600,000	-	600,000
Perpetual Tier 1 Sukuk redemption [note 20(c)]	-	-	-	-	-	-	-	-	(200,000)	-	(200,000)
Expenses related to issuance of Perpetual Tier 1 Sukuk and others	-	-	-	(891)	-	-	(891)	(891)	-	(300)	(1,191)
Transfer from OCI reserve on sale of equity investments	-	-	-	1,412	-	-	1,412	1,412	-	-	1,412
Movement in associates	-	-	-	(8,457)	-	-	(8,457)	(8,457)	-	-	(8,457)
Movement in subsidiaries	-	-	-	(2,362)	-	-	(2,362)	(2,362)	-	(107)	(2,469)
Total comprehensive income for the year	-	-	-	607,244	-	34,011	641,255	641,255	-	31,621	672,876
Transfer to statutory reserve [note 21(c)]	-	-	60,724	(60,724)	-	-	-	-	-	-	-
Proposed dividend on ordinary shares [note 21(i)]	-	-	-	(304,034)	304,034	-	-	-	-	-	-
Proposed donations	-	-	-	(2,000)	2,000	-	-	-	-	-	-
Balance at 31 December 2021	2,533,621	752,538	765,479	600,122	306,034	(488,090)	1,936,083	4,469,704	1,000,000	448,261	5,917,965

The attached notes 1 to 43 form part of these consolidated financial statements

1. CORPORATE INFORMATION

The Ahli United Bank B.S.C. ("AUB" or "the Bank") was incorporated in the Kingdom of Bahrain on 31 May 2000 originally as a closed company and changed on 12 July 2000 to a public shareholding company by Amiri Decree number 16/2000. The Bank and its subsidiaries as detailed in note 2.3 (collectively known as "the Group") are engaged in retail, commercial, Islamic and investment banking business, global fund management and private banking services through branches in the Kingdom of Bahrain, the State of Kuwait, the Arab Republic of Egypt, Republic of Iraq, the United Kingdom and an overseas branch in Dubai International Financial Centre (DIFC). It also operates through its associates in Libya and in the Sultanate of Oman. The Bank operates under a retail banking license issued by the Central Bank of Bahrain (the "CBB"). The Bank also engages in life insurance business through its subsidiary, Al Hilal Life B.S.C. (c). The Bank's registered office is located at Building 2495, Road 2832, Al Seef District 428, Kingdom of Bahrain.

Pursuant to acquisition of AUB by Kuwait Finance House K.S.C.P. ("KFH") effective 2 October 2022, KFH is the Parent Company and AUB is 100% subsidiary of KFH as on 31 December 2022. KFH is a public shareholding company incorporated in the State of Kuwait on 23 March 1977 and listed in the Boursa Kuwait and Bahrain Bourse. KFH is regulated and supervised by Central Bank of Kuwait.

The consolidated financial statements for the year ended 31 December 2022 were authorised for issue in accordance with a resolution of the Board of Directors dated 2 February 2023.

2. ACCOUNTING POLICIES

2.1 Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis as modified for the re-measurement at fair value of freehold land included in "Premises and equipment", certain financial instruments [as detailed in note 2.7(c)] and all derivative financial instruments. In addition, as detailed in note 2.7(h)(i), carrying values of recognised assets that are designated as hedged items in fair value hedges are adjusted to the extent of the fair value attributable to the risk being hedged. The consolidated financial statements are presented in United States Dollars, which is also the Bank's functional currency and all values are rounded-off to the nearest thousands, unless otherwise indicated.

2.2 Framework and statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by International Accounting Standards Board (IASB) and in conformity with the Bahrain Commercial Companies Law and the Central Bank of Bahrain and Financial Institutions Law. The comparative information included in the 31 December 2021 consolidated financial statements were reported in accordance with the IFRS modified by CBB. The transition from “IFRS modified by CBB” to IFRS as issued by IASB has not resulted in any material changes to the previously reported numbers in the consolidated financial statements for the year ended 31 December 2021.

2.3 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at and for the years ended 31 December 2022 and 2021. The results of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Control is achieved where the Group is exposed, or has rights, to variable returns from its involvement from its investee and has the ability to affect those returns through its power over the investee. The Group re-assesses whether or not it controls an investee if facts and circumstances indicates that there are any change to elements of control. The financial statements of the subsidiaries are prepared for the same reporting year as the Bank, using consistent accounting policies. Adjustments are made to the consolidated financial statements to bring into line any dissimilar accounting policies that may exist. Changes in parent's ownership interest in a subsidiary that do not result in loss of control are treated as transactions between equity holders and are reported in equity.

All material intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in full upon consolidation. The Group does not have significant restrictions on its ability to access or use its assets and settle its liabilities.

The following are the Bank's principal subsidiaries:

Name	Incorporated in	Group's nominal holding 2022	2021
Ahli United Bank (U.K.) PLC ("AUBUK")	United Kingdom	**100.0%**	100.0%
Ahli United Bank K.S.C.P. ("AUBK")*	State of Kuwait	**67.3%**	67.3%
Ahli United Bank (Egypt) S.A.E. ("AUBE")	Arab Republic of Egypt	**95.7%**	95.7%
Commercial Bank of Iraq P.S.C. ("CBIQ")	Republic of Iraq	**80.3%**	80.3%
Al Ahli Real Estate Company W.L.L. ("AREC")	Kingdom of Bahrain	**100.0%**	100.0%
Al Hilal Life B.S.C. (c) ("AHL")	Kingdom of Bahrain	**100.0%**	100.0%

* Effective holding 74.9% (2021: 74.9%).

2. ACCOUNTING POLICIES (continued)

2.4 New standards and amendments effective for the year

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in previous year, except for the items below.

- 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. This amendment had no material impact on the consolidated financial statements of the Group as there were no significant modifications of the Group's financial instruments during the year.

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

2.5 New standards, amendments and interpretations issued but not yet effective

The 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.

- IFRS 17 Insurance Contracts

  In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers and comparable to stakeholders. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

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

  IFRS 17 is effective for reporting periods beginning on or after 1 January 2023, with comparative figures. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. The Group is ready to adopt this standard on the effective date and there are no significant impact on the Group's financial statements.

- 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 not expected to have a significant impact on the Group's financial statements.

2.6 Significant accounting judgements and estimates

The preparation of the consolidated financial statements requires management to make judgements and estimates that affect the reported amounts of income, expenses, assets, liabilities, the accompanying disclosures and 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.

The most significant uses of judgement and estimates applied in the preparation of these consolidated financial statements are as follows:

i) Business model

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

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

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

2. ACCOUNTING POLICIES (continued)

2.6 Significant accounting judgements and estimates (continued)

ii) Measurement of the Expected Credit Loss (ECL) allowances

The measurement of the ECL for financial assets measured at amortised cost and debt instruments measured at Fair Value Through Other Comprehensive Income (FVTOCI) is an area that requires the use of complex models and significant assumptions about future economic conditions, credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses), estimation of the amount and timing of the future cash flows and collateral values. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Group's ECL calculation are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Internal credit rating model, which assigns Probability of Defaults (PDs) to the individual ratings;
- The Group calculates Point-in-Time PD (PiT PD) estimates under three scenarios, a base case, good case and bad case. An appropriate probability weighted ECL is then calculated by assigning probabilities, based on current and expected market conditions, to each scenario;
- Determining and applying criteria for significant increase in credit risk;
- Determination of associations between macroeconomic variables such as, gross domestic product, oil prices and unemployment levels on the one hand and default / loss rates on the other and the consequent impact on PDs, Exposure at Defaults (EADs) and Loss Given Defaults (LGDs);
- Selection and relative weights to the forward-looking scenarios;
- Segmentation of financial assets for the purposes of determining and applying the most appropriate risk rating model; and
- Determining the behavioral maturities of exposures for revolving facilities and other facilities where contractual maturities are not an accurate representation of actual maturities.

iii) Pension plans

Estimates and assumptions are used in determining the Group's pension liabilities. The cost of the defined benefit pension plan and the present value of pension obligations are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases.

iv) Going concern

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

v) Fair value of financial instruments

Estimates are also made in determining the fair values of financial assets and derivatives that are not quoted in an active market. Such estimates are necessarily based on assumptions about several factors involving varying degrees of uncertainty and actual results may differ resulting in future changes in such estimates.

vi) Impairment of goodwill and intangible assets

The Group determines whether goodwill and intangibles with indefinite useful lives are impaired at least on an annual basis. Impairment exists when carrying value of an asset or cash generating unit (CGU) exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The key assumptions and estimates used to determine the recoverable amount for the different CGUs, are disclosed and further explained in note 13.

The recoverable amount of each cash-generating unit’s goodwill is based on value-in-use calculations using cash flow projections from financial budgets approved by the management, extrapolated for five year projections using nominal projected banking sector growth rates in the respective countries in which they operate. The discount rate applied to cash flow projections represent the cost of capital adjusted for an appropriate risk premium for these business segments.

The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

2. ACCOUNTING POLICIES (continued)

2.6 Significant accounting judgements and estimates (continued)

vii) On-going Economic environment impact

The Group has performed an assessment of the relevant macro-economic information based on the available guidance of regulators and IFRS, which has resulted in changes to the expected credit loss methodology, valuation estimates and judgements as at and for the year ended 31 December 2022.

The Group has taken note of the current economic situation post the end of regulatory forbearance measures, forecast economic recession in Europe, rising interest rates and inflationary pressures in many countries across the globe and ongoing geopolitical tensions. The group has also considered the impact of the challenging economic environment caused by COVID-19 and potential recession on vulnerable sectors in determining the ECL which have been reflected through adjustments in the established regression relationship and increased volatility in collateral haircuts. Accordingly, the Group has updated inputs and assumptions used for the determination of ECL including additional management overlays.

2.7 Summary of significant accounting policies

The principal accounting policies which are consistently applied in the preparation of these consolidated financial statements, except as detailed in notes 2.2 and 2.4, are set out below.

(a) Investment in associates

Associate companies are companies in which the Group exercises significant influence but does not control. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies. Investments in associate companies are accounted for using the equity method. After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate. At each reporting date, the Group determines whether there is an objective evidence that the investment in the associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, and then recognises the loss in the consolidated statement of income.

The reporting dates of the associates and the Group are identical and the associates' accounting policies materially conform to those used by the Group for like transactions and events in similar circumstances. Adjustments are made to the consolidated financial statements to bring into line any dissimilar accounting policies that may exist.

(b) Foreign currency translation

(i) Transactions and balances

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

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rate of exchange ruling at the balance sheet date. Any resulting exchange differences are included in "trading income" in the consolidated statement of income.

Non-monetary assets and liabilities that are measured at historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary investments classified as FVTOCI measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined and the differences are included in other comprehensive income as part of the fair value adjustment of the respective items, unless these non-monetary investments items are designated as Fair Value Through Profit or Loss (FVTPL) or are part of an effective hedging strategy, in which case it is recorded in the consolidated statement of income.

(ii) Group companies

Assets and liabilities of foreign subsidiaries and associates whose functional currency is not US Dollars are translated into US Dollars at the rates of exchange prevailing at the balance sheet date. Income and expense items are translated at average exchange rates prevailing for the reporting period for consolidation purpose, any exchange differences arising on translation are included in “foreign exchange translation reserve” forming part of other comprehensive income except to the extent that the translation difference is allocated to the non-controlling interest. On disposal of foreign operations, exchange differences relating thereto and previously recognised in other comprehensive income are recognised in the consolidated statement of income.

2. ACCOUNTING POLICIES (continued)

2.7 Summary of significant accounting policies (continued)

(c) Financial instruments

The classification of financial instruments at initial recognition depends on the purpose for which the financial instruments were acquired and their characteristics. All financial instruments are initially recognised at the fair value plus, for an item not recorded at FVTPL, transaction costs that are directly attributable to its acquisition or issue. Premiums and discounts are amortised on a systematic basis to maturity using the effective interest rate method and taken to interest income or interest expense as appropriate.

(i) Date of recognition

All "regular way" purchases and sales of financial assets are recognised on the settlement date, i.e. the date that the Group receives or delivers the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

(ii) Treasury bills and deposits with central banks

Treasury bills and deposits with central banks are initially recognised at amortised cost. Premiums and discounts are amortised to their maturity using the effective interest rate method.

(iii) Deposits with banks and other financial institutions and loans and advances

Deposits with banks (including nostro accounts) and other financial institutions and loans and advances are financial assets with fixed or determinable payments and fixed maturities. Loans with renegotiated terms are loans, the repayment plan of which have been revised as part of ongoing customer relationship to align with change in cash flows of the borrower, in some instances with improved security and with no other concessions. These assets are risk rated in accordance with the Group's policy on internal credit rating as explained in note 32 (c). After initial recognition, these are subsequently measured at amortised cost using the effective interest rate method, adjusted for effective fair value hedges, less any amounts written off and provision for credit losses. The losses arising from impairment of these assets are recognised in the consolidated statement of income in "provision for credit losses and others" and in an ECL allowance account in the consolidated balance sheet. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortisation is included in "interest income" in the consolidated statement of income.

(iv) Debt instruments

Debt instruments are measured at amortised cost using the effective interest rate method if:

- the assets are held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as profit margin. In assessing whether the contractual cash flows are SPPI, the Group considers the contractual terms of the instrument.

Debt instruments are measured at FVTOCI when both 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; and
- The contractual terms of the financial asset meet the Solely Payments of Principal and Interest (SPPI) test.

FVTOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to consolidated statement of income.

If either of these two criteria is not met, the financial assets are classified and measured at FVTPL. Additionally, even if the financial asset meets the amortised cost criteria, the Group may choose at initial recognition to designate the financial asset at FVTPL based on the business model.

The Group accounts for any changes in the fair value in the consolidated statement of income for assets classified as "FVTPL".

(v) Equity investments

Investments in equity instruments are classified as FVTPL, unless the Group designates an equity investment as FVTOCI on initial recognition. At initial recognition, the Group can make irrevocable election on an instrument by instrument basis to designate an equity instrument as FVTOCI. If an equity investment is designated as FVTOCI, all gains and losses, except for dividend income, are recognised in other comprehensive income and are not subsequently included in the consolidated statement of income.

2. ACCOUNTING POLICIES (continued)

2.7 Summary of significant accounting policies (continued)

(c) Financial instruments (continued)

(vi) Other financial instruments

A financial asset is classified as FVTPL, if:

- it has been acquired principally for the purpose of selling in the near term;
- on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is a recent actual pattern of short term profitability; or
- it is a derivative and not designated and effective as a hedging instrument or a financial guarantee.

(vii) Derivatives (other than hedging instruments)

Changes in fair values of the derivatives held for trading are included in the consolidated statement of income under "trading income".

Derivatives embedded in other financial instruments are not separated from the host contract and the entire contract is considered in order to determine its classification. These financial instruments are classified as FVTPL and the changes in fair value of the entire hybrid contract are recognised in the consolidated statement of income.

(viii) Deposits, term borrowings and subordinated liabilities

These financial liabilities are carried at amortised cost, less amounts repaid. Sukuk issued is initially recognised at their fair value being the issue proceeds. Changes in fair value to the extent of the changes in fair value of the Sukuk hedged and unamortised transaction costs are adjusted under "Long term Sukuk payable".

(d) Derecognition of financial assets and financial 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;
- 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; or
- the Group has transferred its rights to receive cash flows from the asset and either (i) has transferred substantially all the risks and rewards of the asset, or (ii) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

Derecognition of financial instruments in the context of IBOR reform

The Group derecognises financial assets and financial liabilities if there has been a substantial modification of their terms and conditions. In the context of IBOR reform, many financial instruments have already been amended or will be amended during 2023 as they transition from IBORs to RFRs. In addition to the interest rate of a financial instrument changing, there may be other changes made to the terms of the financial instrument at the time of transition.

For financial instruments measured at amortised cost, the Group first applies the practical expedient as described in note 2.7 (j), to reflect the change in the referenced interest rate from an IBOR to a RFR. Second, for any changes not covered by the practical expedient, the Group applies judgement to assess whether the changes are substantial and if they are, the financial instrument is derecognised and a new financial instrument is recognised. If the changes are not substantial, the Group adjusts the gross carrying amount of the financial instrument by the present value of the changes not covered by the practical expedient, discounted using the revised EIR.

(e) Repurchase agreements

Where investments are sold subject to a commitment to repurchase them at a predetermined price, they remain on the consolidated balance sheet and the consideration received is included in “borrowings under repurchase agreements”. The difference between the sale price and repurchase price is treated as interest expense and is accrued over the life of the agreement using the effective interest rate method.

2. ACCOUNTING POLICIES (continued)

2.7 Summary of significant accounting policies (continued)

(f) Determination of fair value

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

The fair value of financial instruments that are quoted in an active market is determined by reference to market bid prices respectively at the close of business on the balance sheet date.

The fair value of liabilities with a demand feature is the amount payable on demand.

The fair value of interest-bearing financial assets and financial liabilities that are not quoted in an active market and are not payable on demand is determined by a discounted cash flow model using the current market interest rates for financial instruments with similar terms and risk characteristics.

For equity investments that are not quoted in an active market, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument that is substantially similar, or is determined using net present valuation techniques. Equity securities classified under Level 3 are valued based on discounted cash flows and dividend discount models.

The fair value of unquoted derivatives is determined either by discounted cash flows or option-pricing models.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the assets or liabilities.

For assets and liabilities that are recognised in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period as disclosed in note 38.

(g) Impairment of financial assets

The Group applies a three-stage approach to measure allowance for credit losses, using an expected credit loss approach as required under IFRS 9, for the following categories of financial instruments that are not measured at FVTPL:

- Amortised cost financial assets;
- Debt securities classified as FVTOCI;
- Off-balance sheet loan commitments; and
- Financial guarantee contracts, letters of credit and acceptances.

ECL allowances are recognised for financial instruments that are not measured at FVTPL and are reflected in provisions for credit losses. Equity investments are not subject to impairment assessments.

Expected credit loss model

The Group's allowance for credit losses calculations are outputs of models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. The expected credit loss model reflects the present value of all cash shortfalls related to default events either (i) over the following twelve months or (ii) over the expected life of a financial instrument depending on credit deterioration from date of initial recognition. The allowance for credit losses reflects an unbiased, probability-weighted outcome which considers multiple scenarios based on reasonable and supportable forecasts.

ECL allowances are the product of the PD, EAD and LGD. The PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months, or over the remaining lifetime of the obligation. The EAD is an estimate of the exposure at a future default date, taking into account expected changes in the funded exposure after the reporting date, including repayments of principal and interest. The EAD for unfunded exposures including undrawn commitments are determined by historical behavioural analysis and regulatory Credit Conversion Factors (CCF). The LGD quantifies the potential loss from an exposure in the event of default. The key determinants of LGD are, among others, past recovery / loss data for each segment, external loss data, expected recovery period, discount rate, regulatory guidance etc. Furthermore, management overlays are applied to the model outputs, as required.

2. ACCOUNTING POLICIES (continued)

2.7 Summary of significant accounting policies (continued)

(g) Impairment of financial assets (continued)

The impairment model measures credit loss allowances using a three-stage approach based on the extent of credit deterioration since origination as described below:

Stage 1 – Measures and recognises credit loss allowance equal to 12-month ECL for financial instruments for which credit risk has not significantly increased since initial recognition. All investment grade assets are deemed to be Stage 1 as per the Bank's policy under the low credit risk presumption, except in cases where there are past dues in excess of 30 days (rebuttable) or 60 days (non-rebuttable).

Stage 2 – If credit risk has increased significantly since initial recognition (whether assessed on an individual or collective basis), then measure and recognise credit loss allowance at an amount equal to the lifetime ECL. The key drivers to consider an asset as Stage 2 are as follows:

- Movements in risk rating since origination. Where the rating movement has deteriorated significantly, the amortised cost of financial asset is automatically migrated to Stage 2.
- Number of days past due (30 days - rebuttable) subject to approval of IFRS 9 Working Committee (WC) decision; 60 days (non-rebuttable).
- Restructured credits: All restructured facilities are required to remain in Stage 2 for a minimum period of twelve months from the date of restructuring.
- Delays in credit reviews or resolving credit exceptions subject to WC decision.
- Sector or country specific weakness subject to WC decision.
- Any other specific indicators including forward looking information which are available without undue cost or effort with respect to the obligor or the exposure such as, but not limited to, arrears with other lenders, law suits filed against the obligor by other lenders / creditors, negative movements in market indicators of financial performance etc., and the WC determines that these represent a significant deterioration in credit quality.

Stage 3 – Financial instruments considered to be credit impaired are included in this stage. Similar to Stage 2, the allowance for credit losses captures the lifetime expected credit losses.

Exposures which are classified as Stage 2 are not moved back to Stage 1 unless a minimum cooling-off period of six months has elapsed from the date when the exposure qualifies to be reclassified, except for restructured facilities for which a minimum cooling off period of twelve months is applied. Further, no exposure classified in Stage 3 is moved to Stage 2 till a period of twelve months has elapsed from the date on which the account qualifies for reclassification.

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 PiT PD. The Group has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses. The forecast economic variables are applied to established regression relationships to determine PiT PD. Macro-economic factors taken into consideration mainly include crude oil related variables, gross domestic product, unemployment and real estate indices. The methodologies and assumptions including any forecasts of future economic conditions are reviewed regularly.

Definition of default

Financial assets that are subject to ECL measurement are tested as to whether they are credit-impaired. Objective evidence that a financial asset is credit-impaired may include a breach of contract, such as default or delinquency in interest or principal payments, indications that it is probable that the borrower will enter bankruptcy or other significant financial reorganisation, the disappearance of an active market, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group. The Group continues its policy of treating financial instruments as credit impaired under Stage 3 category when the repayment of the principal or interest is overdue for 90 days or more.

Financial assets are written-off after all restructuring and collection activities have taken place and there is no realistic prospect of recovery.

Debt instruments measured at fair value through OCI

The ECL for debt instruments measured at FVTOCI is recognised as 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 consolidated income statement. The accumulated loss recognised in OCI is recycled to the consolidated income statement upon derecognition of the assets.

2. ACCOUNTING POLICIES (continued)

2.7 Summary of significant accounting policies (continued)

(h) Hedge accounting

The Group enters into derivative instruments including futures, forwards, swaps and options to manage exposures to interest rate and foreign currency risks, including exposures arising from forecast transactions. In order to manage particular risks, the Group applies hedge accounting for transactions which meet the specified criteria. These derivatives are stated at fair value. Derivatives with positive market values are included in "interest receivable, derivative and other assets" and derivatives with negative market values are included in "interest payable, derivative and other liabilities" in the consolidated balance sheet.

At inception of the hedge relationship, the Group formally designates and documents the economic relationship between the hedged item and the hedging instrument, including the nature of the risk, management objectives and strategy for undertaking the hedge. The methods that will be used to assess the effectiveness of the hedging relationship form part of the Group's documentation.

Also at the inception of the hedge relationship, the Group undertakes a formal assessment to ensure the effectiveness of changes in the hedging instruments fair value in offsetting the exposure to changes in the hedged item’s fair value or cash flows attributable to the hedged risk. Such hedges are regarded as effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been effective throughout the financial reporting periods for which they were designated. For situations where the hedged item is a forecast transaction, the Group assesses whether the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect the consolidated statement of income.

For the purposes of hedge accounting, hedges are classified into two categories: (i) fair value hedges, which hedge the exposure to changes in the fair value of a recognised asset or liability; and (ii) cash flow hedges, which hedge exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a forecasted transaction.

(i) Fair value hedges

For fair value hedges which meet the conditions for hedge accounting, any gain or loss from remeasuring the hedging instrument at fair value is recognised immediately in the consolidated statement of income. The hedged item is adjusted for fair value changes relating to the risk being hedged and the difference is recognised in the consolidated statement of income.

If the hedging instrument expires or is sold, terminated or exercised, or when the hedge no longer meets the criteria for hedge accounting, the hedge relationship is terminated. For hedged items recorded at amortised cost or at FVTOCI, the difference between the carrying value of the hedged item on termination and the value at which it would have been carried without being hedged is amortised over the remaining term of the original hedge. If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the consolidated statement of income.

Hedge ineffectiveness can arise from:

- Differences in timing of cash flows of hedged items and hedging instruments;
- Different interest rate curves applied to discount the hedged items and hedging instruments; or
- Derivatives used as hedging instruments having a non-nil fair value at the time of designation.

(ii) Cash flow hedges

For cash flow hedges which meet the conditions for hedge accounting, the portion of the gain or loss on the hedging instrument which is determined to be an effective hedge is recognised initially in OCI. The ineffective portion of the fair value of the derivative is recognised immediately in the consolidated statement of income as "trading income".

The gains or losses on effective cash flow hedges recognised initially in OCI are either transferred to the consolidated statement of income in the period in which the hedged transaction impacts the consolidated statement of income or included in the initial measurement of the related asset or liability.

For hedges which do not qualify for hedge accounting, any gains or losses arising from changes in the fair value of the hedging instrument are recognised in the consolidated statement of income for the year.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. In the case of cash flow hedges, the cumulative gain or loss on the hedging instrument recognised in OCI remains in OCI until the forecasted transaction occurs, unless the hedged transaction is no longer expected to occur, in which case the net cumulative gain or loss recognised in equity is transferred to the consolidated statement of income for the year.

The Group makes an assessment, both at the inception of the hedge relationship as well as on an on-going basis, as to whether the hedging transactions are highly effective in offsetting changes in the fair value or cash flows of the respective hedged items. In case of cash flow hedges, the Group makes an assessment of a whether the forecasted transaction is highly probable to occur in order to ascertain whether any variations in those cash flows could affect the profit and loss.

2. ACCOUNTING POLICIES (continued)

2.7 Summary of significant accounting policies (continued)

(h) Hedge accounting (continued)

(i) Offsetting financial instruments

Financial assets and financial liabilities are only offset and the net amount reported in the consolidated balance sheet when there is a currently enforceable legal right to offset the recognised amounts and the Group intends to settle on a net basis to realise the assets and liabilities simultaneously.

(j) Revenue recognition

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

(i) Interest income and expense

For all interest bearing financial instruments, interest income or expense is recorded using the effective interest rate, which is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument or a short period, where appropriate, to the net carrying amount of the financial asset or financial liability. Recognition of interest income is suspended on loans and advances where interest and / or principal is overdue by 90 days or more. If the Stage 3 financial asset is cured and no longer credit-impaired, the Group reverts to calculating interest income on a gross basis.

The Group adopted IBOR reform Phase 2 from its effective date, which allows as a practical expedient for changes to the basis for determining contractual cash flows to be treated as changes to a floating rate of interest, provided certain conditions are met. The conditions include that the change is necessary as a direct consequence of IBOR reform and that the transition takes place on an economically equivalent basis.

(ii) Fees and commissions

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 to in exchange for provision of services. The performance obligations, as well as the timing of their satisfaction, are identified, and determined, at the inception of the contract. 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.

Credit origination fees are treated as an integral part of the effective interest rate of financial instruments and are recognised over their lives, except when the underlying risk is sold to a third party at which time it is recognised immediately. Fees or components of fees that are linked to certain performance obligations are recognised after fulfilling those obligations.

(iii) Dividend income

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

(k) Business combinations, goodwill and other intangible assets

Business combinations are accounted for using the purchase method of accounting. Assets and liabilities acquired are recognised at the acquisition date fair values with any excess of the cost of acquisition over the net assets acquired being recognised as goodwill.

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired. Following initial recognition, goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Intangible assets are measured on initial recognition at their fair values on the date of recognition. Following initial recognition, intangible assets are carried at originally recognised values less any accumulated impairment losses.

Impairment of goodwill and intangible assets with indefinite life is determined by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (or group of cash-generating units) is less than the carrying amount, an impairment loss is recognised immediately in the consolidated statement of income.

For the purpose of impairment testing, goodwill and intangible assets with indefinite life acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on either the Group's primary or the Group's geographic segment reporting format determined in accordance with IFRS 8 - Operating Segments.

2. ACCOUNTING POLICIES (continued)

2.7 Summary of significant accounting policies (continued)

(l) Premises and equipment

Freehold land is initially recognised at cost. After initial recognition, freehold land is carried at the revalued amount. The revaluation is carried out periodically by independent professional property valuers. Fair value is determined by using unobservable valuation inputs. The resultant revaluation surplus is recognised, as a separate component under equity. Revaluation deficit, if any, is recognised in the consolidated statement of income, except that a deficit directly offsetting a previously recognised surplus on the same asset is directly offset against the surplus in the revaluation reserve in equity.

Premises and equipment are stated at cost, less accumulated depreciation and impairment, if any.

Depreciation on buildings and other premises and equipment is provided on a straight-line basis over their estimated useful lives.

The estimated useful lives of the assets for the calculation of depreciation are as follows:

- Freehold buildings	40 to 50 years
- Fixtures and improvements	Over the lease period or up to 10 years
- Other premises and equipment	Up to 10 years

(m) Investment properties

Land and buildings held for the purpose of capital appreciation or for long term rental yields and not occupied by the Group are classified as investment properties. Investment properties are remeasured at cost less accumulated depreciation (depreciation for buildings based on an estimated useful life of 40 years using the straight-line method) and accumulated impairment. Any gains or losses on the retirement or disposal of an investment property are recognised in the consolidated statement of income in the period of retirement or when sale is completed.

(n) Cash and cash equivalents

Cash and cash equivalents comprise cash and balances with central banks, excluding mandatory reserve deposits, together with those deposits with banks and other financial institutions and treasury bills having an original maturity of three months or less. These cash and cash equivalents are readily convertible to a known amount of cash and subject to an insignificant risk of changes in value.

(o) Provisions

Provisions are recognised when the Group has a present obligation arising from a past event and the costs to settle the obligation are both probable and able to be reliably estimated.

(p) Employee benefits

Defined benefit pension plan

Pension costs are recognised on a systematic basis so that the costs of providing retirement benefits to employees are evenly matched, so far as possible, to the service lives of the employees concerned. Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets and the effect of the asset ceiling (if any) both excluding interest are recognised immediately in OCI.

Defined contribution plans

The Group also operates a defined contribution plan, the costs of which are recognised in "staff costs" in the period to which they relate.

(q) Taxes

There is no tax on corporate income in the Kingdom of Bahrain. Taxation on income from foreign entities is provided for in accordance with the fiscal regulations of the countries in which the respective Group entities' operate.

Deferred taxation is provided for using the liability method on all temporary differences calculated at the rate at which it is expected to be payable. Deferred tax assets are only recognised if recovery is probable.

(r) Fiduciary assets

Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and accordingly are not incorporated in the consolidated balance sheet.

(s) Non-controlling interests

Non-controlling interest represents the portion of profit or loss and net assets in the subsidiaries not attributable to the Bank's equity shareholders. Any change in Group's ownership interest in the subsidiary that does not result in a loss of control is accounted for as an equity transaction.

2. ACCOUNTING POLICIES (continued)

2.7 Summary of significant accounting policies (continued)

(t) Perpetual Tier 1 Capital Securities and Sukuk

Perpetual Tier 1 Capital Securities and Sukuk of the Group are recognised under equity in the consolidated balance sheet and the corresponding distribution on those securities are accounted as a debit to the retained earnings.

(u) Dividends on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Bank's shareholders.

Dividends for the period that are approved after the balance sheet date are shown as an appropriation and reported in the consolidated statement of changes in equity, as an event after the balance sheet date.

(v) Treasury shares

Own equity instruments that are acquired are recognised at consideration paid and deducted from equity. Any surplus/deficit arising from the subsequent sale of treasury shares is included in capital reserve under equity.

(w) Financial guarantees and loan commitments

In the ordinary course of business, the Group gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are contracts that require the Group to make specified payments to reimburse the holders for a loss that is incurred because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument. Loan commitments are firm commitments to provide credit under pre-specified terms and conditions.

Financial guarantees are initially recognised in the consolidated financial statements at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amortised commission and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee. The expected loss allowance on financial guarantees is measured on the basis of expected payment to be made to the holder less any amounts that the Group expects to recover. Any change in a liability relating to guarantees is recognised in the consolidated statement of income.

(x) Repossessed assets

Repossessed assets are assets acquired in settlement of debt. These assets are carried at the lower of their repossessed value or their fair value and reported under “Interest receivable, derivative and other assets" in the consolidated balance sheet.

(y) Leases

Right-of-use assets (Group as a lessee)

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

Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right of use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right of use assets are subject to impairment. The carrying value of right-of-use assets are recognised under premises and equipment in the consolidated balance sheet.

Lease liabilities (Group as a lessee)

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

2. ACCOUNTING POLICIES (continued)

2.7 Summary of significant accounting policies (continued)

(z) Islamic banking

The Islamic banking activities of the Group are conducted in accordance with Islamic Shari'a principles, as approved by the Shari'a Supervisory Board.

Earnings prohibited by Sharia

The Islamic operation is committed to avoid recognising any income generated from non-Islamic sources. Accordingly, all non-Islamic income is credited to the charity account, where the Islamic operation uses these funds for charitable purposes.

Commingling of funds

The funds of Islamic operation are not commingled with the funds of the conventional operations of the Group.

(aa) Islamic products

Murabaha

An agreement whereby the Group sells to a customer commodities, real estate and certain other assets at cost plus an agreed profit mark up whereby the Group (seller) informs the purchaser of the price at which the asset had been purchased and also stipulates the amount of profit to be recognised.

Ijara

A lease agreement between the Group (lessor) and the customer (lessee), whereby the Group earns profit by charging rentals on assets leased to customers.

Tawarruq

A sales agreement whereby a customer buys commodities from the Group on a deferred payment basis and then immediately resells them for cash to a third party.

Mudaraba

An agreement between two parties; one of them provides the funds and is called Rab-Ul-Mal and the other provides efforts and expertise and is called the Mudarib and is responsible for investing such funds in a specific enterprise or activity in return for a pre-agreed percentage of the Mudaraba income. In the case of normal loss, the Rab-Ul-Mal would bear the loss of its funds while the Mudarib would bear the loss of its efforts. However, in the case of default, negligence or violation of any of the terms and conditions of the Mudaraba agreement, only the Mudarib would bear the losses. The Group acts as Mudarib when accepting funds from depositors and as Rab-Ul-Mal when investing such funds on a Mudaraba basis.

Wakala

An agreement whereby the Group provides a certain sum of money to an agent who invests it according to specific conditions in return for a certain fee (a lump sum of money or a percentage of the amount invested). The agent is obliged to return the invested amount in the case of default, negligence or violation of any of the terms and conditions of the Wakala.

Istisna'a

Istisna'a is a sale contract between a contract owner and a contractor whereby the contractor based on an order from the contract owner undertakes to manufacture or otherwise acquire the subject matter of the contract according to specifications, and sells it to the contract owner for an agreed upon price and method of settlement whether that be in advance, by instalments or deferred to a specific future time.

Revenue recognition

Revenue is recognised on the above Islamic products as follows:

Income from Murabaha, Tawarruq and Istisna'a are recognised on an effective profit rate, which is established on the initial recognition of the asset and is not revised subsequently.

Income from Ijara is recognised over the term of the Ijara agreement so as to yield a constant rate of return on the net investment outstanding.

Income / (loss) on Mudaraba financing is based on expected results adjusted for actual experience as applicable, while similarly the losses are charged to income.

Estimated income from Wakala is recognised on an accrual basis over the period, adjusted by actual income when received. Losses are accounted for on the date of declaration by the agent.

2. ACCOUNTING POLICIES (continued)

2.7 Summary of significant accounting policies (continued)

(ab) Equity of unrestricted investment account holders' share of profit

The profit computed after taking into account all income and expenses at the end of a financial year is distributed between equity of unrestricted investment account holders which include Mudaraba depositors and the shareholders. The share of profit of the equity of unrestricted investment account holders is calculated on the basis of their average deposit balances over the year, after reducing the agreed and declared Mudarib fee.

Equity of unrestricted investment account holders do not bear the expenses relating to non compliance with Shari'a regulations.

3. NET INTEREST INCOME

	2022 US$ '000	2021 US$ '000
(a) INTEREST INCOME		
Treasury bills	157,513	86,867
Deposits with banks	93,685	30,584
Loans and advances	1,094,785	902,597
Non-trading investments	383,473	328,204
	1,729,456	1,348,252

Interest income consists income from FVTOCI investments amounting to US$ 137.0 million (2021: US$ 114.0 million).

	2022 US$ '000	2021 US$ '000
(b) INTEREST EXPENSE		
Deposits from banks	84,134	28,516
Borrowings under repurchase agreements	90,054	23,381
Customers' deposits	580,706	410,214
Subordinated liabilities	245	105
Term borrowings	65,193	14,247
	820,332	476,463
NET INTEREST INCOME	909,124	871,789

All financial liabilities and related interest expenses relate to amortised cost items.

4. FEES AND COMMISSIONS - NET

	2022 US$ '000	2021 US$ '000
Fees and commission income		
- Transaction banking services	121,376	115,040
- Management, performance and brokerage fees*	9,432	11,356
Fees and commission expense	(22,868)	(22,010)
	107,940	104,386

* This includes US$ 1.8 million (2021: US$ 3.8 million) of fee income relating to trust and other fiduciary activities.

5. TRADING INCOME

	2022 US$ '000	2021 US$ '000
Foreign exchange	24,302	27,134
Proprietary trading	11,953	7,616
	36,255	34,750

6. (a) CASH AND BALANCES WITH CENTRAL BANKS

	2022 US$ '000	2021 US$ '000
Cash and balances with central banks, excluding mandatory reserve (note 24)	**605,561**	850,456
Mandatory reserve with central banks	**1,037,631**	969,385
	1,643,192	1,819,841

6. (b) TREASURY BILLS AND DEPOSITS WITH CENTRAL BANKS

	2022 US$ '000	2021 US$ '000
Central Bank of Bahrain	**1,369,785**	559,306
Central Bank of Kuwait	**777,551**	609,158
Central Bank of Egypt	**127,650**	563,234
Central Bank of Iraq	**55,318**	-
US treasury bills	**10,000**	-
	2,340,304	1,731,698

The deposits with central banks and treasury bills are local currency denominated and are match funded by underlying respective local currencies. Deposit with Central Bank of Kuwait amounting to US$ 777.6 million (2021: US$ 609.2 million) is maintained as mandatory reserve.

7. LOANS AND ADVANCES

	2022		2021	
	US$ '000	**%**	US$ '000	%
a) By industry sector				
Consumer / personal	**3,291,836**	**14.8**	2,982,059	12.9
Residential mortgage	**1,707,559**	**7.7**	1,685,672	7.3
Trading and manufacturing	**5,684,996**	**25.7**	6,197,504	26.9
Real estate	**5,993,288**	**27.0**	6,647,896	28.9
Banks and other financial institutions	**757,716**	**3.4**	1,022,705	4.4
Services	**4,228,384**	**19.1**	3,862,501	16.8
Government / public sector	**198,023**	**0.9**	246,545	1.1
Others	**310,539**	**1.4**	396,496	1.7
	22,172,341	**100.0**	23,041,378	100.0
Less: ECL allowances (Stage 1 and 2)	**(587,336)**		(502,196)	
Less: ECL allowances (Stage 3)	**(363,680)**		(464,034)	
	21,221,325		22,075,148	

7. LOANS AND ADVANCES (continued)

	2022		2021	
	US$ '000	%	US$ '000	%
b) By geographic region				
Kingdom of Bahrain	**4,106,763**	**18.5**	4,111,730	17.9
State of Kuwait	**11,238,052**	**50.7**	11,314,746	49.1
Other GCC countries	**1,974,720**	**8.9**	2,370,540	10.3
United Kingdom	**1,603,663**	**7.3**	1,830,517	7.9
Arab Republic of Egypt	**2,419,873**	**10.9**	2,935,217	12.7
Europe (excluding United Kingdom)	**208,588**	**0.9**	149,371	0.7
Asia (excluding GCC countries)	**215,044**	**1.0**	75,860	0.3
Others	**405,638**	**1.8**	253,397	1.1
	22,172,341	**100.0**	23,041,378	100.0
Less: ECL allowances (Stage 1 and 2)	**(587,336)**		(502,196)	
Less: ECL allowances (Stage 3)	**(363,680)**		(464,034)	
	21,221,325		22,075,148	

c) Credit quality of loans and advances

	2022			
	Stage 1	Stage 2	Stage 3	Total
	US$ '000	US$ '000	US$ '000	US$ '000
High standard grade				
Retail	**3,745,155**	**272,735**	**-**	**4,017,890**
Corporate	**9,295,390**	**497,900**	**-**	**9,793,290**
Standard grade				
Retail	**120,770**	**180,320**	**-**	**301,090**
Corporate	**5,642,426**	**1,987,254**	**-**	**7,629,680**
Credit impaired				
Retail	**-**	**-**	**92,322**	**92,322**
Corporate	**-**	**-**	**338,069**	**338,069**
	18,803,741	**2,938,209**	**430,391**	**22,172,341**
Less: ECL allowances	**(190,447)**	**(396,889)**	**(363,680)**	**(951,016)**
	18,613,294	**2,541,320**	**66,711**	**21,221,325**

	2021			
	Stage 1	Stage 2	Stage 3	Total
	US$ '000	US$ '000	US$ '000	US$ '000
High standard grade				
Retail	3,801,927	171,290	-	3,973,217
Corporate	9,224,450	425,616	-	9,650,066
Standard grade				
Retail	66,258	184,679	-	250,937
Corporate	6,496,427	2,112,201	-	8,608,628
Credit impaired				
Retail	-	-	98,469	98,469
Corporate	-	-	460,061	460,061
	19,589,062	2,893,786	558,530	23,041,378
Less: ECL allowances	(171,528)	(330,668)	(464,034)	(966,230)
	19,417,534	2,563,118	94,496	22,075,148

Refer note 32 for further details on credit quality of loans and advances.

7. LOANS AND ADVANCES (continued)

d) Age analysis of past due but not credit impaired loans and advances

	2022			
	Up to 30 days US$ '000	31 to 60 days US$ '000	61 to 89 days US$ '000	Total US$ '000
Retail	91,709	52,601	30,309	174,619
Corporate	56,336	36,345	59,350	152,031
	148,045	88,946	89,659	326,650

	2021			
	Up to 30 days US$ '000	31 to 60 days US$ '000	61 to 89 days US$ '000	Total US$ '000
Retail	74,449	22,458	22,315	119,222
Corporate	46,386	5,562	17,166	69,114
	120,835	28,020	39,481	188,336

The past due loans and advances up to 30 days include those that are only past due by a few days. None of the above past due loans are considered to be credit impaired.

e) Individually credit impaired loans and advances

	2022		
	Retail US$ '000	Corporate US$ '000	Total US$ '000
Gross credit impaired loans and advances	92,322	338,069	430,391
ECL allowances (Stage 3)	(77,556)	(286,124)	(363,680)
	14,766	51,945	66,711
ECL coverage on credit impaired loans and advances	84.0%	84.6%	84.5%
Gross loans and advances	4,411,302	17,761,039	22,172,341
Credit impaired loans and advances ratio	2.1%	1.9%	1.9%

	2021		
	Retail US$ '000	Corporate US$ '000	Total US$ '000
Gross credit impaired loans and advances	98,469	460,061	558,530
ECL allowances (Stage 3)	(82,253)	(381,781)	(464,034)
	16,216	78,280	94,496
ECL coverage on credit impaired loans and advances	83.5%	83.0%	83.1%
Gross loans and advances	4,322,623	18,718,755	23,041,378
Credit impaired loans and advances ratio	2.3%	2.5%	2.4%

The fair value of collateral that the Group holds relating to loans individually determined to be credit impaired at 31 December 2022 amounted to US$ 491.2 million (31 December 2021: US$ 364.6 million). The collateral consists of cash, securities and properties.

The carrying amount of restructured credit facilities was US$ 552.1 million as at 31 December 2022 (31 December 2021: US$ 478.2 million) with no significant additional impact on ECL during the years ended 31 December 2022 and 2021.

7. LOANS AND ADVANCES (continued)

f) Impairment allowance for loans and advances

A reconciliation of the loss allowances for loans and advances by class is as follows:

i) Loss allowances for loans and advances - Retail

	2022			
	Stage 1 US$ '000	Stage 2 US$ '000	Stage 3 US$ '000	Total US$ '000
At 1 January 2022	**54,350**	**11,787**	**82,253**	**148,390**
Transfer from Stage 1	**(10,438)**	**9,054**	**1,384**	**-**
Transfer from Stage 2	**205**	**(1,916)**	**1,711**	**-**
Net remeasurement of ECL allowances	**(10,991)**	**5,701**	**28,517**	**23,227**
Amounts written-off *	**-**	**-**	**(35,946)**	**(35,946)**
Exchange rate and other adjustments	**22,671**	**(787)**	**(363)**	**21,521**
At 31 December 2022	**55,797**	**23,839**	**77,556**	**157,192**

	2021			
	Stage 1 US$ '000	Stage 2 US$ '000	Stage 3 US$ '000	Total US$ '000
At 1 January 2021	47,550	10,225	86,486	144,261
Transfer from Stage 1	(3,492)	864	2,628	-
Transfer from Stage 2	258	(1,980)	1,722	-
Net remeasurement of ECL allowances	9,996	2,605	2,672	15,273
Amounts written-off *	-	-	(11,269)	(11,269)
Exchange rate and other adjustments	38	73	14	125
At 31 December 2021	54,350	11,787	82,253	148,390

ii) *Loss allowances for loans and advances - Corporate*

	2022			
	Stage 1 US$ '000	Stage 2 US$ '000	Stage 3 US$ '000	Total US$ '000
At 1 January 2022	**117,178**	**318,881**	**381,781**	**817,840**
Transfer from Stage 1	**(20,199)**	**2,408**	**17,791**	**-**
Transfer from Stage 2	**-**	**(10,986)**	**10,986**	**-**
Net remeasurement of ECL allowances	**44,693**	**83,891**	**89,843**	**218,427**
Amounts written-off *	**-**	**-**	**(205,157)**	**(205,157)**
Exchange rate and other adjustments	**(7,022)**	**(21,144)**	**(9,120)**	**(37,286)**
At 31 December 2022	**134,650**	**373,050**	**286,124**	**793,824**

	2021			
	Stage 1 US$ '000	Stage 2 US$ '000	Stage 3 US$ '000	Total US$ '000
At 1 January 2021	91,420	365,736	393,307	850,463
Transfer from Stage 1	(2,926)	1,306	1,620	-
Transfer from Stage 2	31,732	(98,364)	66,632	-
Net remeasurement of ECL allowances	(3,208)	50,394	103,345	150,531
Amounts written-off *	-	-	(183,206)	(183,206)
Exchange rate and other adjustments	160	(191)	83	52
At 31 December 2021	117,178	318,881	381,781	817,840

* Represents the full carrying value of the loans written-off.

The contractual amount outstanding on loans and advances that have been written off during the year, but were still subject to legal action was US$ 167.5 million at 31 December 2022 (2021: US$ 176.6 million).

7. LOANS AND ADVANCES (continued)

g) Provision for credit losses and others

The net charge for provision in the consolidated statement of income is as follows:

	2022 US$ '000	2021 US$ '000
Net remeasurement of ECL on loans and advances (note 7f)	**241,654**	165,804
Recoveries from loans and advances during the year (from fully provided loans written-off in prior years)	**(80,395)**	(27,427)
Net remeasurement of ECL for non-trading investments (note 8c)	**72,156**	(1,943)
Net remeasurement of ECL on off-balance sheet exposures and others	**10,012**	8,541
Net other provision write-back	**(12,133)**	(22,625)
	231,294	122,350

8. NON-TRADING INVESTMENTS

a) By sector

	2022			
	Held at amortised cost US$ '000	Held at FVTOCI US$ '000	Held at FVTPL US$ '000	Total US$ '000
Quoted investments				
GCC government bonds and debt securities	3,147,212	48,605	-	3,195,817
Other government bonds and debt securities	917,166	392,398	-	1,309,564
GCC government entities' securities	711,825	224,030	-	935,855
Notes and certificates of deposit:				
- issued by banks and other financial institutions	1,502,375	378,279	-	1,880,654
- issued by corporates	2,257,055	258,391	-	2,515,446
Equity instruments	-	26,195	2,469	28,664
	8,535,633	1,327,898	2,469	9,866,000
Unquoted investments				
Notes and certificates of deposit:				
- issued by banks and other financial institutions	11,264	101,489	-	112,753
Equity instruments	-	76,266	420	76,686
	11,264	177,755	420	189,439
Total	8,546,897	1,505,653	2,889	10,055,439
Less: ECL allowances	(80,570)	(19,272)	-	(99,842)
	8,466,327	1,486,381	2,889	9,955,597

8. NON-TRADING INVESTMENTS (continued)

a) By sector (continued)

	2021			
	Held at amortised cost US$ '000	Held at FVTOCI US$ '000	Held at FVTPL US$ '000	Total US$ '000
Quoted investments				
GCC government bonds and debt securities	3,010,570	67,373	-	3,077,943
Other government bonds and debt securities	773,964	643,973	-	1,417,937
GCC government entities' securities	879,332	252,792	-	1,132,124
Notes and certificates of deposit:				
- issued by banks and other financial institutions	1,258,444	412,284	-	1,670,728
- issued by corporates	1,948,051	437,900	-	2,385,951
Equity instruments	-	24,767	2,910	27,677
	7,870,361	1,839,089	2,910	9,712,360
Unquoted investments				
Notes and certificates of deposit:				
- issued by banks and other financial institutions	13,675	138,874	-	152,549
Equity instruments	-	83,720	928	84,648
	13,675	222,594	928	237,197
Total	7,884,036	2,061,683	3,838	9,949,557
Less: ECL allowances	(18,346)	(7,917)	-	(26,263)
	7,865,690	2,053,766	3,838	9,923,294

The fair value of the non-trading investments held at amortised cost is US$ 8,574.2 million as at 31 December 2022 (31 December 2021: US$ 7,986.8 million) of which US$ 8,563.0 million is classified under Level 1 of fair value hierarchy (31 December 2021: US$ 7,972.6 million) and US$ 11.2 million is classified under Level 2 of fair value hierarchy (31 December 2021: US$ 14.2 million).

Gain on FVTPL investments for the year ended 31 December 2022 amounted to US$ 0.7 million (2021: Loss of US$ 1.2 million).

b) Credit quality of non-trading investments

	2022			
	Stage 1 US$ '000	**Stage 2 US$ '000**	**Stage 3 US$ '000**	**Total US$ '000**
High standard grade	**6,419,430**	**-**	**-**	**6,419,430**
Standard grade	**3,399,655**	**120,131**	**-**	**3,519,786**
Impaired	**-**	**-**	**10,873**	**10,873**
	9,819,085	**120,131**	**10,873**	**9,950,089**
Less: ECL allowances	**(24,571)**	**(64,398)**	**(10,873)**	**(99,842)**
	9,794,514	**55,733**	**-**	**9,850,247**
Equity instruments at fair value				**105,350**
				9,955,597

	2021			
	Stage 1 US$ '000	Stage 2 US$ '000	Stage 3 US$ '000	Total US$ '000
High standard grade	5,958,028	5,036	-	5,963,064
Standard grade	3,818,558	55,610	-	3,874,168
	9,776,586	60,646	-	9,837,232
Less: ECL allowances	(23,273)	(2,990)	-	(26,263)
	9,753,313	57,656	-	9,810,969
Equity instruments at fair value				112,325
				9,923,294

Refer note 32 for further details on credit quality of non-trading investments.

8. NON-TRADING INVESTMENTS (continued)

c) Reconciliation of ECL allowances

	2022			
	Stage 1 US$ '000	Stage 2 US$ '000	Stage 3 US$ '000	Total US$ '000
At 1 January 2022	**23,273**	**2,990**	**-**	**26,263**
Transfer from Stage 1	(249)	232	17	-
Net remeasurement of ECL allowances	2,055	59,618	10,483	72,156
Exchange rate and other adjustments	(508)	1,558	373	1,423
At 31 December 2022	**24,571**	**64,398**	**10,873**	**99,842**

	2021			
	Stage 1 US$ '000	Stage 2 US$ '000	Stage 3 US$ '000	Total US$ '000
At 1 January 2021	21,171	5,771	-	26,942
Net remeasurement of ECL allowances	1,206	(3,149)	-	(1,943)
Exchange rate and other adjustments	896	368	-	1,264
At 31 December 2021	23,273	2,990	-	26,263

9. INVESTMENT IN ASSOCIATES

The associates of the Group are:

Name	Incorporated in	Group's nominal holding 2022	Group's nominal holding 2021
Ahli Bank S.A.O.G. (ABO)	Sultanate of Oman	**35.0%**	35.0%
United Bank for Commerce and Investment S.A.L. (UBCI)	Libya	**40.0%**	40.0%
Middle East Financial Investment Company (MEFIC)	Kingdom of Saudi Arabia	**40.0%**	40.0%

The summarised financial information of the Group's associates was as follows:

	2022 US$ '000	2021 US$ '000
Total assets	**8,417,777**	8,343,899
Total liabilities	**7,083,097**	7,102,751
Share of results for the year (Group's share)	**34,485**	35,383
Other comprehensive (loss) income for the year (Group's share)	**(2,597)**	4,272

9. INVESTMENT IN ASSOCIATES (continued)

Financial information of ABO, being the material associate, is provided below. The information is based on latest available financial information of ABO.

	2022 US$ million	2021 US$ million
Ahli Bank S.A.O.G.		
Balance sheet related information		
Loans and advances	**6,494.5**	6,238.9
Total assets	**7,988.3**	7,928.7
Customers' deposits	**5,964.2**	5,666.0
Total liabilities	**6,791.0**	6,819.6
Income statement related information		
Total operating income	**238.2**	214.1
Net profit for the year	**85.9**	71.7
Dividends received during the year	**13.3**	8.9
Cash flow related information		
Net cash from operating activities	**58.9**	575.4
Net cash used in investing activities	**(61.7)**	(144.0)
Net cash from / (used in) financing activities	**239.2**	(170.5)

The market value of AUB's investment in ABO based on the price quoted in the Muscat Securities Market at 31 December 2022 is US$ 303.1 million (31 December 2021: US$ 205.6 million).

10. INVESTMENT PROPERTIES

These represent properties acquired by the Group and are recognised at cost. As at 31 December 2022, the fair value of the investment properties is US$ 204.1 million (31 December 2021: US$ 202.3 million). Investment properties were valued by independent valuers using unobservable valuation inputs such as comparable sales, potential revenue etc. and are classified under Level 3 (2021: Level 3) of the fair value hierarchy.

Movements during the year are as follows:

	2022 US$ '000	2021 US$ '000
At 1 January	**188,648**	185,715
Additions	**-**	18,350
Disposals	**-**	(15,545)
Depreciation, impairment and other movements	**417**	128
At 31 December	**189,065**	188,648

11. INTEREST RECEIVABLE, DERIVATIVE AND OTHER ASSETS

	2022 US$ '000	2021 US$ '000
Interest receivable	**275,117**	246,323
Derivative assets (note 28)	**750,140**	120,307
Tax assets (note 22)	**793**	507
Repossessed real estate assets	**306,104**	317,538
Prepayments and others	**225,184**	231,525
	1,557,338	916,200

Interest receivable includes US$ 33.4 million (2021: US$ 43.1 million) relating to financial assets held at FVTOCI and US$ 241.7 million (2021: US$ 203.2 million) relates to financial assets held at amortised cost.

12. PREMISES AND EQUIPMENT

The net book values of the Group's premises and equipment are:

	2022 US$ '000	2021 US$ '000
Freehold land	**96,011**	94,403
Freehold buildings	**29,081**	40,311
Fixtures and improvements	**30,131**	31,296
IT equipment and others	**86,281**	81,960
Capital work-in-progress	**47,540**	22,212
Right-of-use assets	**36,258**	41,747
	325,302	311,929

Freehold land is revalued by independent valuers annually close to year end using significant unobservable valuation inputs such as comparable sales, potential revenue etc. and is classified under Level 3 (2021: Level 3) of the fair value hierarchy. During the years ended 31 December 2022 and 2021, there have been no movements in Level 3 freehold land other than valuation changes.

13. GOODWILL AND OTHER INTANGIBLE ASSETS

	2022			2021		
	Goodwill US$ '000	Intangible assets US$ '000	Total US$ '000	Goodwill US$ '000	Intangible assets US$ '000	Total US$ '000
At 1 January	**431,021**	**55,868**	**486,889**	430,144	55,814	485,958
Additions, exchange rate and other movements	**43,538**	**(20,382)**	**23,156**	877	54	931
At 31 December	**474,559**	**35,486**	**510,045**	431,021	55,868	486,889

Goodwill:

Goodwill acquired through business combinations has been allocated to the cash-generating units of the acquired entities for impairment testing purposes. The carrying amount of goodwill and intangible assets allocated to each of the cash-generating units is shown under note 30.

Goodwill amounting to US$ 57.2 million calculated based on a provisional purchase price allocation has been included in the consolidated financial statements. Subsequent adjustments during the measurement period will occur as the Group completes its estimation of fair values of assets acquired and liabilities assumed as referred in note 43.

Key assumptions used in estimating recoverable amounts of cash-generating units

The discount rate used in goodwill impairment testing ranged between 8.9% to 15.6% (2021: 7.0% to 13.6%). The key assumptions used in estimating recoverable amounts of cash generating units were sensitised to test the resilience of value-in-use calculations. On this basis, management believes that reasonable changes in the key assumptions used to determine the recoverable amount of the Group's cash-generating units will not result in an impairment.

Intangible assets:

Intangible assets comprises primarily the subsidiaries' banking licenses which have indefinite lives. Based on an annual impairment assessment of the intangible assets, no indications of impairment were identified (2021: same). The fair values of a banking license are determined at the time of acquisition by discounting the future expected profits from their acquisition and their projected terminal value.

14. DEPOSITS FROM BANKS

	2022 US$ '000	2021 US$ '000
Demand and call deposits	**699,777**	180,241
Time deposits	**3,377,452**	4,458,732
	4,077,229	4,638,973

15. BORROWINGS UNDER REPURCHASE AGREEMENTS

The Group has collateralised borrowing lines of credit with various financial institutions through repurchase arrangements, amounting to US$ 8.6 billion (31 December 2021: US$ 8.3 billion).

As at 31 December 2022, the borrowings under these agreements were US$ 4.4 billion (31 December 2021: US$ 3.8 billion). The fair value of investment securities that were provided as collateral was US$ 4.6 billion (31 December 2021: US$ 4.3 billion).

16. CUSTOMERS' DEPOSITS

	2022 US$ '000	2021 US$ '000
Current and call accounts	**5,073,220**	6,511,827
Saving accounts	**2,783,631**	2,900,037
Time deposits	**16,536,498**	15,792,077
	24,393,349	25,203,941

17. TERM BORROWINGS

	2022 US$ '000	2021 US$ '000
(a) Term debts:		
- repayable in 2022	**-**	350,000
- repayable in 2023	**175,000**	175,000
- repayable in 2025	**1,094,462**	-
(b) Long term Sukuk payable	**508,861**	563,822
	1,778,323	1,088,822

(a) Term debts carry interest rates ranging from 4.9% to 6.8% (2021: 1.9% to 2.2%).

(b) The Sukuk was issued during 2021 through a wholly owned special purpose vehicle with a tenor of 5 years maturing on 9 September 2026 and carries a fixed profit rate of 2.615% per annum, payable semi-annually in arrears on 9 September and 9 March respectively. The Sukuk is listed on the London Stock Exchange.

18. INTEREST PAYABLE, DERIVATIVE AND OTHER LIABILITIES

	2022 US$ '000	2021 US$ '000
Interest payable	**210,399**	159,334
Accruals and other payables*	**201,761**	186,709
Derivative liabilities (note 28)	**225,216**	453,654
Other credit balances**	**410,962**	411,079
Tax liabilities (note 22)	**29,793**	42,311
ECL allowances***	**35,234**	25,100
	1,113,365	1,278,187

* Accruals and other payables include US$ 37.0 million (31 December 2021: US$ 41.7 million) relating to lease liabilities.

** Other credit balances mainly include insurance related technical provisions, clearing balances, unearned fees and other sundry creditors.

*** This represents ECL allowances on financial contracts such as guarantees and undrawn commitments.

19. SUBORDINATED LIABILITIES

A group entity has borrowings amounting to US$ 9.5 million (31 December 2021: US$ 10.0 million), which are subordinated to the claims of its creditors of a group entity and are repayable on 24 July 2025.

20. EQUITY

(a) Authorised:

	2022 US$ '000	2021 US$ '000
Share capital		
12,000 million shares (2021: 12,000 million shares) of US$ 0.25 each	**3,000,000**	3,000,000

Available for issuance of ordinary shares and various classes of preference shares.

(b) Issued and fully paid:

	2022 US$ '000	2021 US$ '000
Ordinary share capital (US$ 0.25 each)	**2,786,983**	2,533,621
Number of shares (millions)	**11,147.9**	10,134.5

Movement in ordinary shares	2022 (number in millions)	2021
Opening balance as at 1 January	**10,134.5**	9,651.9
Add: issuance of bonus shares	**1,013.4**	482.6
Closing balance as at 31 December	**11,147.9**	10,134.5

(c) Perpetual Tier 1 Capital Securities and Sukuk

	2022 US$ '000	2021 US$ '000
Issued by the Bank (note i)	**400,000**	400,000
Perpetual Tier I Sukuk (note ii)	**600,000**	600,000
	1,000,000	1,000,000

(i) Basel III compliant Additional Tier I Perpetual Capital Securities issued by the Bank during 2015 carried an initial distribution rate of 6.875% per annum payable semi-annually with a reset after every 5 years. On completion of the initial 5 year period, during 2020, distribution rate was reset to 5.839%. These securities are perpetual, subordinated and unsecured. The securities are listed on the Irish Stock Exchange. The Bank can elect to make a distribution at its own discretion. The holders of these securities do not have a right to claim the same and such an event will not be considered an event of default. The securities carry no maturity date and have been classified under equity.

(ii) During 2021, AUBK completed a US$ 600 million Basel III compliant Additional Tier 1 Perpetual Capital Sukuk ("Perpetual Tier I Sukuk") issue that bears a profit rate of 3.875% per annum, which are eligible to be classified under equity. These are subordinated, unsecured and carry a periodic distribution amount, payable semi-annually in arrears, is callable after five year period of issuance until the first call date ending June 2026 or any profit distribution date thereafter subject to certain redemption conditions, including prior CBK approval. The securities are listed on the Irish Stock Exchange and NASDAQ Dubai.

21. RESERVES

a) Share premium

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

b) Capital reserve

As required under BCCL, any profit on the sale of treasury stock is transferred to a capital reserve. The reserve is not distributable except in such circumstances as stipulated in the BCCL.

21. RESERVES (continued)

c) Statutory reserve

As required under BCCL and the Bank's Articles of Association, 10% of the net profit is transferred to a statutory reserve on an annual basis. The Bank may resolve to discontinue such transfers when the reserve totals 50% of the paid up capital. The reserve is not distributable except in such circumstances as stipulated in the BCCL.

d) Property revaluation reserve

The revaluation reserve arising on revaluation of freehold land is not distributable except in such circumstances as stipulated in the BCCL.

e) Foreign exchange translation reserve

It comprises mainly of translation effects arising on consolidation of subsidiaries and investments in associates.

f) Other comprehensive income reserve

This reserve represents changes in the fair values of equity and debt instruments that are classified as fair value through other comprehensive income.

g) Cash flow hedge reserve

This reserve represents the effective portion of gain or loss on the Group's cash flow hedging instruments.

h) Movements in other reserves

		Other comprehensive income					
				Cumulative changes			
	Capital reserve US$ '000	Property revaluation reserve US$ '000	Foreign exchange translation reserve US$ '000	OCI reserve US$ '000	Cash flow hedge reserve US$ '000	Pension fund reserve US$ '000	Total other reserves US$ '000
Balance at 1 January 2022	**17,240**	**36,574**	**(476,737)**	**(6,421)**	**(41,387)**	**(17,359)**	**(488,090)**
Currency translation adjustments	**-**	**-**	**(286,464)**	**-**	**-**	**-**	**(286,464)**
Transfers to consolidated statement of income	**-**	**-**	**-**	**(3,698)**	**(156)**	**-**	**(3,854)**
Net fair value movements	**-**	**-**	**-**	**(20,801)**	**41,514**	**-**	**20,713**
Transfers to retained earnings on sale of equity investments	**-**	**-**	**-**	**155**	**-**	**-**	**155**
Fair value movements and others	**-**	**-**	**-**	**-**	**-**	**(17,605)**	**(17,605)**
Revaluation of freehold land	**-**	**2,157**	**-**	**-**	**-**	**-**	**2,157**
Balance at 31 December 2022	**17,240**	**38,731**	**(763,201)**	**(30,765)**	**(29)**	**(34,964)**	**(772,988)**

		Other comprehensive income					
				Cumulative changes			
	Capital reserve US$ '000	Property revaluation reserve US$ '000	Foreign exchange translation reserve US$ '000	OCI reserve US$ '000	Cash flow hedge reserve US$ '000	Pension fund reserve US$ '000	Total other reserves US$ '000
Balance at 1 January 2021	17,240	36,309	(473,924)	(2,548)	(53,739)	(45,439)	(522,101)
Currency translation adjustments	-	-	(2,813)	-	-	-	(2,813)
Transfers to consolidated statement of income	-	-	-	(6,319)	313	-	(6,006)
Net fair value movements	-	-	-	3,858	12,039	-	15,897
Transfers to retained earnings on sale of equity investments	-	-	-	(1,412)	-	-	(1,412)
Fair value movements and others	-	-	-	-	-	28,080	28,080
Revaluation of freehold land	-	265	-	-	-	-	265
Balance at 31 December 2021	17,240	36,574	(476,737)	(6,421)	(41,387)	(17,359)	(488,090)

21. RESERVES (continued)

h) Movements in other reserves (continued)

Foreign currency translation risk primarily arises from Group’s investments in diverse countries. Assets and liabilities of the Group's subsidiaries are translated into US Dollars at the rates of exchange prevailing at the balance sheet date. Income and expense items are translated at average exchange rates prevailing for the reporting periods for consolidation purpose, any exchange differences arising on translation are included in “foreign exchange translation reserve” forming part of other comprehensive income prorated between non-controlling interests and equity owners.

The Group undertakes hedging of such net investment in foreign operations to mitigate any currency risk in a number of ways including borrowing in the underlying currency, structural hedging in the form of holding US Dollar long position to the extent possible and forward contracts.

i) Dividends proposed and paid

	2022 US$ ’000	2021 US$ ’000
Proposed for approval at the forthcoming Annual General Assembly of Shareholders		
Total cash dividend proposed on the ordinary shares	**278,698**	304,034
Cash dividend on each ordinary share (US cents per share)	**2.50**	3.00
Bonus share issue	**-**	10%

j) Distribution on Perpetual Tier 1 Capital Securities and Sukuk

	2022 US$ ’000	2021 US$ ’000
Distribution on the Perpetual Tier 1 Capital Securities	**23,356**	23,356
Distribution on the Perpetual Tier 1 Sukuk	**23,250**	21,859
	46,606	45,215

22. TAXATION AND ZAKAT

Consolidated balance sheet (note 11 and note 18):	2022 US$ ’000	2021 US$ ’000
- Current tax asset	**706**	507
- Deferred tax asset	**87**	-
	793	507
- Current tax liability	**21,489**	27,143
- Deferred tax liability	**8,304**	15,168
	29,793	42,311
Consolidated statement of income:		
- Current tax expense on foreign operations	**52,703**	37,086
- Zakat arising from subsidiary operations	**1,270**	1,058
- Deferred tax expense (credit) on foreign operations	**1,483**	(16,503)
	55,456	21,641

The Group's tax expense includes all direct taxes that are accrued on taxable profits of entities to the authorities in the respective countries of incorporation, in accordance with the tax laws prevailing in those jurisdictions. Consequently, it is not practical to provide a reconciliation between the accounting and taxable profits together with the details of effective tax rates. Tax expense primarily relates to AUBE and AUBUK. Tax rate at AUBE is 22.5% (2021: 22.5%) and AUBUK is 19.0% (2021: 19.0%).

23. EARNINGS PER SHARE

Basic and diluted earnings per ordinary share are calculated by dividing the net profit for the year attributable to the Bank's ordinary equity shareholders less distribution on Perpetual Tier 1 Capital Securities and Sukuk, by the weighted average number of ordinary shares outstanding during the year.

The following reflects the income and share data used in basic and diluted earnings per ordinary share computations:

	2022 US$ '000	2021 US$ '000
Net profit for basic and diluted earnings per ordinary share computation		
Net profit attributable to Bank's equity shareholders	**546,102**	607,244
Less: Share of Perpetual Tier 1 Capital Securities and Sukuk distributions	**40,766**	39,719
Adjusted net profit attributable to Bank's ordinary equity shareholders for basic and diluted earnings per ordinary share	**505,336**	567,525
Basic and diluted earnings per ordinary share (US cents)	**4.5**	**5.1**

	Number of shares (in millions)	
	2022 US$ '000	2021 US$ '000
Weighted average ordinary shares outstanding during the year adjusted for bonus shares	**11,147.9**	11,147.9
Weighted average number of ordinary shares for diluted earnings per share	**11,147.9**	11,147.9

24. CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the consolidated statement of cash flows include the following balance sheet amounts:

	2022 US$ '000	2021 US$ '000
Cash and balances with central banks, excluding mandatory reserve deposits [note 6(a)]	**605,561**	850,456
Treasury bills and deposits with central banks and other banks - with an original maturity of three months or less	**3,023,530**	1,759,070
	3,629,091	2,609,526

25. RELATED PARTY TRANSACTIONS

The Group enters into transactions with major shareholders, associates, directors, senior management and companies which are controlled, jointly controlled or significantly influenced by such parties in the ordinary course of business. All the loans and advances to related parties are performing and are subject to ECL assessments. Share of profit from associates and investment in associates are shown separately under the consolidated statement of income and consolidated balance sheet respectively.

25. RELATED PARTY TRANSACTIONS (continued)

The income, expense and the period end balances in respect of related parties included in the consolidated financial statements were as follows:

	2022 US$ '000					
				Senior Management		
	Major shareholders	Associates	Non-Executive Directors	Management Directors[2]	Others	Other related parties
Interest income	4,187	113	15,786	33	-	622
Interest expense	46,830	-	1,476	148	13	624
Fees and commissions	14	1,997	949	16	12	7
Deposits with banks	325,000	12,052	-	-	-	30,000
Loans and advances	-	-	229,719	488	267	9,839
Non-trading investments	15,000	-	-	-	-	18,332
Derivatives assets	-	3,762	-	-	-	-
Deposits from banks	78,767	41,088	-	10,973	878	18,585
Customers' deposits[1]	2,787,380	-	71,153	-	-	50,147
Term borrowings	100,000	-	-	-	-	-
Subordinated liabilities	9,462	-	-	-	-	-
Commitments and contingent liabilities	2,126	13,797	64,876	-	-	1,811
Short term employee benefits	-	-	-	11,892	3,717	-
End of service benefits	-	-	-	808	238	-
Directors' fees and related expenses[3]	-	-	1,612	-	-	-

	2021 US$ '000					
				Senior Management		
	Major shareholders	Associates	Non-Executive Directors	Management Directors[2]	Others	Other related parties
Interest income	-	65	8,140	30	-	-
Interest expense	13,894	-	732	77	6	-
Fees and commissions	1,075	2,581	1,159	10	2	-
Deposits with banks	-	13,384	-	-	-	-
Loans and advances	-	-	321,615	311	31	-
Derivatives assets	-	4,501	-	-	-	-
Deposits from banks	-	39,004	-	-	-	-
Customers' deposits[1]	2,541,430	-	43,552	9,626	831	-
Subordinated liabilities	9,983	-	-	-	-	-
Commitments and contingent liabilities	560	44,425	83,136	-	-	-
Short term employee benefits	-	-	-	11,580	3,066	-
End of service benefits	-	-	-	847	196	-
Directors' fees and related expenses[3]	-	-	993	-	-	-

[1]Customers' deposits include deposits from GCC government-owned institutions amounting to US$ 2,787.4 million (31 December 2021: US$ 2,460.1 million).

[2]AUB Group Management Directors (Employees) who are appointed by the shareholders of AUB to the AUB Board to represent management or by AUB to the boards of any of its subsidiaries or affiliates or their related committees, are excluded from receiving any additional remuneration for their membership of or attendance at board or related committee meetings at AUB or its subsidiaries / affiliates as per their specific contractual arrangements and as per the Board approved HR Policy covering all of AUB Group.

[3]Directors fees and related expenses for 2021 were approved by the shareholders in the annual general meeting on 7 April 2022 and the same for 2022 will be presented for shareholders' approval at the forthcoming annual general meeting to be convened in March 2023.

26. EMPLOYEE BENEFITS

The Group operates Defined Benefit and Defined Contribution retirement benefit schemes for its employees in accordance with the local laws and regulations in the countries in which it operates. The costs of providing retirement benefits including current contributions, are charged to the consolidated statement of income.

Defined benefit plans

The charge to the consolidated statement of income on account of end of service benefits for the year amounted to US$ 7,858 thousand (2021: US$ 3,892 thousand).

AUBUK's defined benefit pension scheme was closed to future service accruals on 31 March 2010. In accordance with the IAS-19 Employee Benefits, the Group immediately recognises the actuarial gains and losses relating to 'Defined Pension Benefit' scheme through consolidated statement of changes in equity.

Defined contribution plans

The Group contributed US$ 8,533 thousand during the year (2021: US$ 9,664 thousand) towards defined contribution plans. The Group's obligations are limited to the amounts contributed to various schemes.

27. MANAGED FUNDS

Funds administrated on behalf of customers in fiduciary capacity by the Group are not included in the consolidated balance sheet. The total market value of all such funds at 31 December 2022 was US$ 1,938.9 million (2021: US$ 2,327.1 million).

28. DERIVATIVES

In the ordinary course of business, the Group enters into various types of transactions that involve derivative financial instruments. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instruments, reference rates or indices.

Derivatives include financial options, futures and forwards, interest rate swaps and currency swaps, which create rights and obligations that have the effect of transferring between the parties of the instrument one or more of the financial risks inherent in an underlying primary financial instrument. On inception, a derivative financial instrument gives one party a contractual right to exchange financial assets or financial liabilities with another party under conditions that are potential favourable, or a contractual obligation to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable. However, they generally do not result in a transfer of the underlying primary financial instrument on inception of the contract, nor does such a transfer necessarily take place on maturity of the contract. Some instruments embody both a right and an obligation to make an exchange. Because the terms of the exchange are determined on inception of the derivative instruments, as prices in financial markets change those terms may become either favourable or unfavourable.

The IBOR reform phase 2 amendments address issues arising during interest rate benchmark reform (IBOR reform), including specifying when the 'phase 1' amendments will cease to apply, when hedge designations and documentation should be updated, and when hedges of the alternative benchmark rate or Alternative Reference Rate (ARR) as the hedged risk are permitted.

The 'phase 1' amendments provided temporary relief from applying specific hedge accounting requirements to hedging relationships directly affected by IBOR reform. The reliefs had the effect that IBOR reform should not generally cause hedge accounting to terminate prior to contracts being amended. However, any hedge ineffectiveness continued to be recorded in the statement of profit or loss. Furthermore, the amendments set out triggers for when the reliefs would end, which included the uncertainty arising from IBOR reform no longer being present.

The Group evaluated the extent to which its fair value and cash flow hedging relationships are subject to uncertainty driven by IBOR reform as at the reporting date. The Group's hedged items and hedging instruments continue to be indexed to IBOR benchmark rates, which are mainly US Dollar LIBOR. These IBOR benchmark rates are quoted each day and IBOR cash flows are exchanged with its counterparties as usual.

28. DERIVATIVES (continued)

The table below shows the net fair values of derivative financial instruments held for trading.

	2022		2021	
	Derivative assets US$ '000	Derivative liabilities US$ '000	Derivative assets US$ '000	Derivative liabilities US$ '000
Derivatives held for trading:				
- Interest rate swaps	95,452	92,001	60,570	57,041
- Forward foreign exchange contracts	39,080	33,086	30,682	15,905
- Options	1,059	1,389	379	370
- Interest rate futures	51	-	-	-
	135,642	126,476	91,631	73,316

The table below shows the net fair values of derivative financial instruments held for hedging.

	2022			2021		
	Derivative assets US$ '000	Derivative liabilities US$ '000	Notionals amounts US$ '000	Derivative assets US$ '000	Derivative liabilities US$ '000	Notionals amounts US$ '000
Derivatives held as fair value hedges:						
- Interest rate swaps on amortised cost instruments	557,633	98,471	9,951,349	23,171	323,682	7,222,634
- Interest rate swaps on FVTOCI instruments	56,606	-	532,340	5,179	12,676	689,448
Derivatives held as cash flow hedges:						
- Interest rate swaps	-	14	12,410	-	43,980	186,922
- Forward foreign exchange contracts	259	255	22,118	326	-	8,056
	614,498	98,740	10,518,217	28,676	380,338	8,107,060

Major financial counterparties with whom the Group has entered into above derivative contracts are covered through margin monies for the fair values of contracts outstanding.

In respect of derivative assets above, the Group has US$ 117.0 million (2021: US$ 45.5 million) of liabilities that can be offset through master netting arrangements. These master netting arrangements create a right of set-off that is enforceable only following an event of default, insolvency or bankruptcy of counterparties or following other predetermined events.

Fair value hedges

The net fair value of interest rate swaps held as fair value hedges as at 31 December 2022 is positive US$ 515.8 million (2021: Negative US$ 308.0 million) which is offset by loss recognised on the hedged item at 31 December 2022, attributable to the hedged risk of US$ 515.8 million (2021: gain of US$ 308.0 million). These offsetting gains and losses are included in "trading income" in the consolidated statement of income during the years ended 31 December 2022 and 2021 respectively.

Hedging instruments are issued to hedge against interest rate and foreign exchange risks pertaining to hedged items. Hedged items include certain loans and advances amounting to US$ 119.7 million (31 December 2021: US$ 203.6 million), Sukuk payable amounting to US$ 600.0 million (31 December 2021: US$ 600.0 million), non-trading investments amounting to US$ 8,081.5 million (31 December 2021: US$ 6,018.9 million), borrowings under repurchase agreements amounting to US$ Nil million (31 December 2021: US$ 145.0 million) and customer deposits amounting to US$ 1,694.5 million (31 December 2021: US$ 1,139.5 million).

28. DERIVATIVES (continued)

Cash flow hedges

The time periods in which the hedged cash flows are expected to occur and their impact on the consolidated statement of income is as follows:

	3 months or less US$ '000	More than 3 months up to 1 year US$ '000	More than 1 year up to 5 years US$ '000	More than 5 years US$ '000	Total US$ '000
At 31 December 2022					
Net cash flows	**(1)**	**(25)**	**(4)**	**1**	**(29)**
At 31 December 2021					
Net cash flows	(959)	(5,022)	(13,180)	(22,226)	(41,387)

No significant hedge ineffectiveness on cash flow hedges was recognised during the years ended 31 December 2022 and 2021.

Derivatives held for trading purposes

Most of the Group's derivative trading activities relate to customer driven transactions as well as positioning and arbitrage. Positioning involves managing positions with the expectation of profiting from favourable movements in prices, rates or indices. Arbitrage involves identifying and profiting from price differentials between markets or products.

Derivatives held for hedging purposes

The Group has adopted a comprehensive system for the measurement and management of risk.

As part of its asset and liability management, the Group uses derivatives for hedging purposes in order to reduce its exposure to currency and interest rate movements. This is achieved by hedging specific financial instruments and forecasted transactions, as well as strategic hedging against overall balance sheet exposures.

The Group uses options and currency swaps to hedge against specifically identified currency and equity risks. In addition, the Group uses interest rate swaps and forward rate agreements to hedge against the interest rate risk arising from specifically identified, or a portfolio of, fixed interest rate investments and loans. The Group also uses interest rate swaps to hedge against the cash flow risks arising on certain floating rate deposits. In all such cases the hedging relationship and objective, including details of the hedged item and hedging instrument, are formally documented and the transactions are accounted for as derivatives held for hedging purposes.

Hedging of interest rate risk is also carried out by monitoring the duration of assets and liabilities and entering into interest rate swaps to hedge net interest rate exposures.

29. COMMITMENTS AND CONTINGENT LIABILITIES

Credit-related commitments

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

Commitments to extend credit represent contractual commitments to make loans and revolving credits available and generally have fixed expiration dates or other termination clauses. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

Standby letters of credit, guarantees and acceptances (standby facilities) commit the Group to make payments on behalf of customers contingent upon their failure to perform under the terms of the contract. Standby facilities would have market risk if issued or extended at a fixed rate of interest. However, these contracts are primarily made at floating rates.

29. COMMITMENTS AND CONTINGENT LIABILITIES (continued)

The Group has the following credit related commitments:

	2022 US$ '000	2021 US$ '000
Contingent liabilities:		
Guarantees	2,755,245	2,727,426
Acceptances	442,842	431,573
Letters of credit	563,737	730,247
	3,761,824	3,889,246
Maturity of contingent liabilities is as follows:		
Less than one year	2,982,055	3,149,966
Over one year	779,769	739,280
	3,761,824	3,889,246
Irrevocable commitments:		
Undrawn loan commitments	249,081	292,122

Also, refer to note 18 for ECL allowances and note 35 for additional liquidity disclosures.

30. SEGMENT INFORMATION

For management purposes, the Group is organised into four major business segments:

Retail banking	Principally handling individual customers' deposit and current accounts, providing consumer loans, residential mortgages, overdrafts, credit cards and fund transfer facilities.
Corporate banking	Principally handling loans and other credit facilities, and deposit and current accounts for corporate and institutional customers.
Treasury and investments	Principally providing money market, trading and treasury services, as well as management of the Group's investments and funding.
Private banking	Principally servicing high net worth clients through a range of investment products, funds, credit facilities, trusts and alternative investments.

These segments are the basis on which the Group reports its primary segment information. Transactions between segments are conducted at approximate market rates on an arm's length basis. Interest is charged/credited to business segments based on a pool rate which approximates the cost of funds.

Year ended 31 December 2022:	Retail banking US$ '000	Corporate banking US$ '000	Treasury and investments US$ '000	Private banking US$ '000	Total US$ '000
Net interest income	182,283	366,018	300,942	59,881	909,124
Fees and commissions-net	30,960	60,804	4,463	11,713	107,940
Other operating income (loss)	2,365	18,423	199,089	(50)	219,827
OPERATING INCOME	215,608	445,245	504,494	71,544	1,236,891
Provision for credit losses and others	31,726	109,987	72,156	17,425	231,294
NET OPERATING INCOME	183,882	335,258	432,338	54,119	1,005,597
Operating expenses	131,350	93,188	111,919	31,387	367,844
PROFIT BEFORE TAX AND ZAKAT	52,532	242,070	320,419	22,732	637,753
Tax expense and zakat					55,456
NET PROFIT FOR THE YEAR					582,297
Less: Attributable to non-controlling interests					36,195
NET PROFIT ATTRIBUTABLE TO THE OWNERS OF THE BANK					546,102
Inter segment interest included in net interest income above	133,328	(214,674)	30,047	51,299	-

30. SEGMENT INFORMATION (continued)

As at 31 December 2022:	Retail banking US$ '000	Corporate banking US$ '000	Treasury and investments US$ '000	Private banking US$ '000	Total US$ '000
Segment assets	3,800,575	16,438,809	16,535,443	2,042,502	38,817,329
Goodwill	202,650	96,318	97,225	78,366	474,559
Other intangible assets	9,630	12,741	11,616	1,499	35,486
Investment in associates					350,958
Unallocated assets					1,882,640
TOTAL ASSETS					41,560,972
Segment liabilities	6,859,213	8,941,853	14,097,261	4,719,881	34,618,208
Unallocated liabilities					1,113,365
TOTAL LIABILITIES					35,731,573

Year ended 31 December 2021:	Retail banking US$ '000	Corporate banking US$ '000	Treasury and investments US$ '000	Private banking US$ '000	Total US$ '000
Net interest income	180,865	328,651	311,487	50,786	871,789
Fees and commissions-net	27,472	60,260	3,059	13,595	104,386
Other operating income	5,172	12,963	114,372	246	132,753
OPERATING INCOME	213,509	401,874	428,918	64,627	1,108,928
Provision for / (recovery from) credit losses and others	10,140	113,258	(1,943)	895	122,350
NET OPERATING INCOME	203,369	288,616	430,861	63,732	986,578
Operating expenses	121,081	85,549	86,988	33,388	327,006
PROFIT BEFORE TAX AND ZAKAT	82,288	203,067	343,873	30,344	659,572
Tax expense and zakat					21,641
NET PROFIT FOR THE YEAR					637,931
Less: Attributable to non-controlling interests					30,687
NET PROFIT ATTRIBUTABLE TO THE OWNERS OF THE BANK					607,244
Inter segment interest included in net interest income above	119,240	(121,933)	(22,629)	25,322	-

As at 31 December 2021:	Retail banking US$ '000	Corporate banking US$ '000	Treasury and investments US$ '000	Private banking US$ '000	Total US$ '000
Segment assets	3,713,494	17,141,429	16,891,185	2,109,168	39,855,276
Goodwill	155,537	100,766	95,035	79,683	431,021
Other intangible assets	15,161	20,058	18,287	2,362	55,868
Investment in associates					343,076
Unallocated assets					1,228,129
TOTAL ASSETS					41,913,370
Segment liabilities	6,448,280	8,940,613	15,361,346	3,966,979	34,717,218
Unallocated liabilities					1,278,187
TOTAL LIABILITIES					35,995,405

30. SEGMENT INFORMATION (continued)

Geographic segmentation

Although the management of the Group is based primarily on business segments, the Group's geographic segmentation is based on the countries where the Bank and its subsidiaries are incorporated. Thus, the operating income generated by the Bank and its subsidiaries based in the Gulf Cooperation Council (GCC) are grouped as "GCC Countries", while those generated by the Bank's subsidiaries located outside the GCC region is grouped under "Others". Similar segmentation is followed for the distribution of total assets. The following table shows the distribution of the Group's operating income and total assets by geographical segments:

	Operating income		Total assets	
	2022	2021	**2022**	2021
	US$ '000	US$ '000	**US$ '000**	US$ '000
GCC Countries	**797,612**	745,453	**27,574,021**	27,164,539
Others	**439,279**	363,475	**13,986,951**	14,748,831
Total	**1,236,891**	1,108,928	**41,560,972**	41,913,370

Net profit from Bahrain onshore operations is US$ 89.6 million (2021: US$ 85.0 million), which represents 16.4% (2021: 14%) of the Group's net profit attributable to the owners of the Bank.

31. RISK MANAGEMENT

The Board of Directors (BOD) seeks to optimise the Group's performance by enabling the various business units to realise the Group's business strategy and meet agreed business performance targets by operating within the BOD approved Group Risk Framework covering risk parameters.

The Group Risk Committee, Group Investment Committee, Group Assets & Liability Committee and Group Operational Risk Committee are set up as part of the Group's risk governance structure. The terms of reference for these committees are approved by the BOD. Group Audit & Compliance Committee (including the Corporate Governance committee) has oversight over Group's audit, compliance and operational risk.

The BOD approves the Group Risk Framework on an annual basis. The Group Risk Committee monitors the Group's risk profile against the risk parameters. The BOD and its Executive Committee receive quarterly risk updates including detailed risk exposures analysis reports. The Group faces a range of risks in its business and operations including (i) credit risk; (ii) market risk (comprising of interest rate risk, currency risk and equity price risk); (iii) liquidity risk; (iv) operational risk; and (v) legal risk as detailed in notes 32 to 37.

32. CREDIT RISK

Credit risk is the risk that one party to a financial instrument will fail to discharge a financial obligation and cause the other party to incur a financial loss. In the case of derivatives, this is limited to positive fair values. The Group attempts to mitigate credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties.

a) Concentration risk

Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions.

Concentrations of credit risk indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographic location.

The Group manages its credit risk exposure so as to avoid over concentration to a particular sector or geographic location. It also obtains security where appropriate. Guidelines are in place regarding the acceptability of types of collateral and valuation parameters.

The principal collateral types are as follows:

- In the personal sector – cash, mortgages over residential properties and assignments over salary income;
- In the commercial sector – cash, charges over business assets such as premises, inventories, receivables, debt securities and bank guarantees;
- In the commercial real estate sector – charges over the properties being financed; and
- In the financial sector – charges over financial instruments, such as debt securities and equities.

The Group monitors the market value of collateral and requests additional collateral when necessary in accordance with the underlying agreement.

Details of the concentration of the loans and advances by industry sector and geographic region are disclosed in note 7(a) and 7(b) respectively.

Details of the industry sector analysis and the geographical distribution of the assets, liabilities and commitments on behalf of customers are set out in note 33.

32. CREDIT RISK (continued)

b) Gross maximum exposure to credit risk without taking account of any collateral and other credit enhancements

The table below shows the gross maximum exposure to credit risk for the components of the balance sheet. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements, but after provision for credit losses, where applicable.

	Gross maximum exposure 2022 US$ '000	Gross maximum exposure 2021 US$ '000
Balances with central banks	1,523,752	1,698,694
Treasury bills and deposits with central banks	2,340,304	1,731,698
Deposits with banks	3,467,846	4,116,647
Loans and advances	21,221,325	22,075,148
Non-trading investments	9,850,247	9,810,969
Interest receivable, derivative and other assets	1,215,630	553,747
Total	39,619,104	39,986,903
Contingent liabilities	3,761,824	3,889,246
Undrawn loan commitments	249,081	292,122
Total credit related commitments	4,010,905	4,181,368
Total credit risk exposure	43,630,009	44,168,271

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 arise in the future as a result of changes in values.

c) Credit quality of financial assets

The tables below shows distribution of financial assets before ECL allowances:

At 31 December 2022	Stage 1 US$ '000	Stage 2 US$ '000	Stage 3 US$ '000	Total US$ '000
Balances with central banks:				
High standard grade	1,523,752	-	-	1,523,752
Treasury bills and deposits with central banks:				
High standard grade	2,157,336	-	-	2,157,336
Standard grade	171,889	11,100	-	182,989
Deposits with banks:				
High standard grade	3,115,779	41,493	-	3,157,272
Standard grade	305,296	5,898	-	311,194
Loans and advances:				
High standard grade	13,040,545	770,635	-	13,811,180
Standard grade	5,763,196	2,167,574	-	7,930,770
Credit impaired	-	-	430,391	430,391
Non-trading investments:				
High standard grade	6,419,430	-	-	6,419,430
Standard grade	3,399,655	120,131	-	3,519,786
Credit impaired	-	-	10,873	10,873
Credit related contingent items:				
High standard grade	5,984,590	274,877	-	6,259,467
Standard grade	2,910,792	355,206	-	3,265,998
Credit impaired*	-	-	62,162	62,162

32. CREDIT RISK (continued)

At 31 December 2021	Stage 1 US$ '000	Stage 2 US$ '000	Stage 3 US$ '000	Total US$ '000
Balances with central banks:				
High standard grade	1,698,694	-	-	1,698,694
Treasury bills and deposits with central banks:				
High standard grade	1,168,464	-	-	1,168,464
Standard grade	553,825	11,051	-	564,876
Deposits with banks:				
High standard grade	3,947,682	23,883	-	3,971,565
Standard grade	142,172	3,654	-	145,826
Loans and advances:				
High standard grade	13,026,377	596,906	-	13,623,283
Standard grade	6,562,685	2,296,880	-	8,859,565
Credit impaired	-	-	558,530	558,530
Non-trading investments:				
High standard grade	5,958,028	5,036	-	5,963,064
Standard grade	3,818,558	55,610	-	3,874,168
Credit related contingent items:				
High standard grade	5,617,671	247,727	-	5,865,398
Standard grade	2,651,423	218,105	-	2,869,528
Credit impaired*	-	-	46,692	46,692

* After application of credit conversion factors, credit impaired contingent items amounted to US$ 28,953 thousand (31 December 2021: US$ 21,926 thousand).

Except for non-trading investments that are classified as FVTOCI or FVTPL, all the above financial instruments are carried at amortised cost.

It is the Group's policy to maintain consistent internal risk ratings across the credit portfolio. The credit quality of the portfolio of loans and advances that were neither past due nor impaired can be assessed by reference to the Group's internal credit rating system. This facilitates focused portfolio management of the inherent level of risk across all lines of business. The credit quality ratings disclosed below can be equated to the following risk rating grades, which are either internally applied or external ratings mapped to internal ratings.

Credit quality rating	Risk rating	Definition
High standard	Risk rating 1 to 4	Undoubted through to good credit risk
Standard	Risk rating 5 to 7	Satisfactory through to adequate credit risk
Credit impaired	Risk rating 8 to 10	Substandard through to loss

The risk rating system is supported by various financial analytics and qualitative market information for the measurement of counterparty risk. Refer to note 2.7(g) for detailed ECL measurement methodology.

There are no financial assets which are past due but not impaired as at 31 December 2022 and 2021 other than those disclosed under note 7(d).

33. CONCENTRATION ANALYSIS

The distribution of assets, liabilities and contingent liabilities on behalf of customers by geographic region and industry sector was as follows:

	2022			2021		
	Assets US$ '000	Liabilities US$ '000	Contingent liabilities on behalf of customers US$ '000	Assets US$ '000	Liabilities US$ '000	Contingent liabilities on behalf of customers US$ '000
Geographic region:						
Kingdom of Bahrain	7,987,056	5,747,802	830,376	7,058,870	5,713,637	1,041,464
State of Kuwait	13,744,616	14,236,775	1,432,364	13,901,103	15,747,517	1,430,219
Other GCC countries	5,842,349	3,852,523	200,244	6,204,566	3,017,650	224,471
United Kingdom (UK)	3,221,754	2,118,580	24,773	3,668,618	1,856,804	14,617
Arab Republic of Egypt	3,467,977	3,431,274	671,558	4,750,979	3,800,919	715,212
Europe (excluding UK)	1,883,479	2,655,661	188,043	1,540,883	2,400,496	186,034
Asia (excluding GCC)	2,436,881	2,682,047	244,404	1,758,635	2,153,626	225,859
United States of America	1,445,010	551,255	160,492	1,693,036	429,294	10,985
Rest of the World	1,531,850	455,656	9,570	1,336,680	875,462	40,385
	41,560,972	35,731,573	3,761,824	41,913,370	35,995,405	3,889,246
Industry sector:						
Banks and other financial institutions	12,759,752	15,704,884	266,233	12,461,127	15,455,347	296,430
Consumer/personal	3,175,850	7,520,085	19,945	2,889,600	7,576,972	14,230
Residential mortgage	1,708,386	22,187	645	1,670,756	23,297	1,317
Trading and manufacturing	7,175,544	2,244,804	1,699,669	7,367,437	2,593,212	1,689,008
Real estate	5,934,439	793,690	63,216	6,619,159	694,297	63,526
Services	4,991,898	3,924,456	1,606,018	4,618,716	3,919,261	1,628,111
Government/public sector	5,512,806	4,481,035	2,178	5,899,306	4,619,126	2,669
Others	302,297	1,040,432	103,920	387,269	1,113,893	193,955
	41,560,972	35,731,573	3,761,824	41,913,370	35,995,405	3,889,246

34. MARKET RISK

Market risk is the risk of potential financial loss that may arise from adverse changes in the value of a financial instrument or portfolio of financial instruments due to movements in interest rates, foreign exchange rates, equity prices, commodity prices and derivatives. This risk arises from asset - liability mismatches, changes that occur in the yield curve, foreign exchange rates and changes in volatilities/implied volatilities in the market value of derivatives. The Group classifies exposures to market risk into either trading or non-trading portfolios. Given the Group's low risk strategy, aggregate market risk levels are considered low. The Group utilises Value-at-Risk (VaR) models to assist in estimating potential losses that may arise from adverse market movements in addition to non-quantitative risk management techniques. The market risk for the trading portfolio is managed and monitored on a VaR methodology which reflects the inter-dependency between risk variables. Non-trading portfolios are managed and monitored using stop loss limits and other sensitivity analyses. The data given below is representative of the information during the year.

i) Value-at-Risk

The Group calculates historical simulation VaR using a one day holding period at a confidence level of 99%, which takes into account the actual correlations observed historically between different markets and rates.

Since VaR is an integral part of the Group's market risk management, VaR limits have been established for all trading operations and exposures are reviewed daily against the limits by management. Actual outcomes are compared to the VaR model derived predictions on a regular basis as a means of validating the assumptions and parameters used in the VaR calculation.

The table below summarises the risk factor composition of the VaR including the correlative effects intrinsic to the trading book:

	Foreign exchange US$ '000	Interest rate US$ '000	Effects of correlation US$ '000	Total US$ '000
At 31 December 2022	**841**	**48**	**-**	**889**
At 31 December 2021	648	4	-	652

34. MARKET RISK (continued)

ii) Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments or the future profitability of the Group. The Group is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off balance sheet instruments that mature or reprice in a given period. The Group measures and manages interest rate risk by establishing levels of interest rate risk by setting limits on the interest rate gaps for stipulated periods. Interest rate gaps on assets and liabilities are reviewed periodically and hedging strategies are used to reduce the interest rate gaps to within the limits established by the Bank's Board of Directors.

Progress in and risks arising from the transition to alternative benchmark interest rates

Following the decision by global regulators to phase out IBORs and replace them with alternative reference rates and to manage our transition to ABRs, the Group has implemented a comprehensive group-wide program and governance structure that addresses the key areas of impact including contract remediation, funding and liquidity planning, risk management, financial reporting and valuation, systems, processes and client education and communication.

The transition from IBORs to alternative benchmark interest rates will impact GBP and EUR denominated financial instruments referencing LIBOR rates for terms that extend beyond 31 December 2021. The corresponding date for majority of USD IBOR based contracts is 30 June 2023.

The announcement of changes in IBOR setting process has affected the Group's LIBOR linked products, including certain loans, bonds, and derivatives, and defined the dates of their transition to alternative benchmark rates. The fixed spreads to be used in the transition to the relevant alternative benchmark rate for each LIBOR setting were also defined by the respective regulatory bodies.

AUB Group LIBOR Transition Steering Committee is managing the Group's transition activities and continues to engage with various stakeholders to support an orderly transition and to mitigate the risks resulting from the transition.

Financial instruments that are yet to transit to alternative benchmark interest rates

The table below summarises the exposures to financial instruments referencing benchmark interest rates subject to the reform that are yet to transit to alternative benchmark interest rates as of 31 December 2022. No significant impact is expected as a result of IBOR change on the transition date.

	2022			2021		
	Assets US$ '000	Liabilities US$ '000	Derivative notional amounts US$ '000	Assets US$ '000	Liabilities US$ '000	Derivative notional amounts US$ '000
Currency						
GBP LIBOR*	5,054	-	-	42,606	4,883	-
USD LIBOR**	3,569,421	1,983,209	8,356,950	4,569,236	2,547,512	8,834,178
	3,574,475	1,983,209	8,356,950	4,611,842	2,552,395	8,834,178

*Only deals maturing beyond 31 December 2022 (2021: deals maturing beyond 31 December 2021)

**Only deals maturing beyond 30 June 2023

34. MARKET RISK (continued)

The table below provides an analysis of the Group's interest rate risk exposure:

	2022			
	Less than three months US$ '000	Three months to one year US$ '000	Over one year US$ '000	Total US$ '000
Cash and balances with central banks	302,781	-	-	302,781
Treasury bills and deposits with central banks	1,361,772	978,532	-	2,340,304
Deposits with banks	3,004,693	71,926	391,227	3,467,846
Loans and advances	16,618,661	3,224,853	1,377,811	21,221,325
Non-trading investments	467,918	785,644	8,596,685	9,850,247
	21,755,825	5,060,955	10,365,723	37,182,503
Deposits from banks	3,325,522	461,293	290,414	4,077,229
Borrowings under repurchase agreements	3,783,972	396,506	179,367	4,359,845
Customers' deposits	15,607,577	6,152,409	2,633,363	24,393,349
Term borrowings	1,269,462	-	508,861	1,778,323
Subordinated liabilities	-	9,462	-	9,462
	23,986,533	7,019,670	3,612,005	34,618,208
On balance sheet gap	(2,230,708)	(1,958,715)	6,753,718	2,564,295
Off balance sheet gap	5,305,038	951,914	(6,256,952)	
Total interest sensitivity gap	3,074,330	(1,006,801)	496,766	
Cumulative interest sensitivity gap	3,074,330	2,067,529	2,564,295	

	2021			
	Less than three months US$ '000	Three months to one year US$ '000	Over one year US$ '000	Total US$ '000
Cash and balances with central banks	425,228	-	425,228	850,456
Treasury bills and deposits with central banks	1,000,381	731,317	-	1,731,698
Deposits with banks	3,302,750	812,136	1,761	4,116,647
Loans and advances	17,480,187	3,132,223	1,462,738	22,075,148
Non-trading investments	176,889	877,350	8,756,730	9,810,969
	22,385,435	5,553,026	10,646,457	38,584,918
Deposits from banks	4,042,338	167,635	429,000	4,638,973
Borrowings under repurchase agreements	3,618,093	157,406	-	3,775,499
Customers' deposits	16,530,213	5,647,255	3,026,473	25,203,941
Term borrowings	525,000	-	563,822	1,088,822
Subordinated liabilities	9,983	-	-	9,983
	24,725,627	5,972,296	4,019,295	34,717,218
On balance sheet gap	(2,340,192)	(419,270)	6,627,162	3,867,700
Off balance sheet gap	5,063,353	124,677	(5,188,030)	
Total interest sensitivity gap	2,723,161	(294,593)	1,439,132	
Cumulative interest sensitivity gap	2,723,161	2,428,568	3,867,700	

34. MARKET RISK (continued)

ii) Interest rate risk (continued)

The following table demonstrates the sensitivity of the Group's net interest income for the next one year, to a change in interest rates, with all other variables held constant. The sensitivity is based on the floating rate financial assets and financial liabilities held at 31 December 2022 and 2021 including the effect of hedging instruments.

Sensitivity analysis - interest rate risk

		2022 US$ '000	2021 US$ '000
At 25 bps - increase (+) / decrease (-)	+/-	**5,786**	6,270

iii) Currency risk

Currency risk is the risk that the functional currency value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The risk management process manages the Group's exposure to fluctuations in foreign exchange rates (currency risk) through the asset and liability management process. It is the Group's policy to reduce its exposure to currency fluctuations to acceptable levels as determined by the Board of Directors. The Board of Directors has established levels of currency risk by setting limits on currency position exposures. Positions are monitored periodically and hedging strategies are used to ensure positions are maintained within the established limits.

The Group's significant net exposures arising out of banking operations as of the consolidated balance sheet date and the effect of change in currency rate by + 1% on the consolidated statement of income is presented below:

	(Loss) / Gain		Net exposures	
	2022 US$ '000	2021 US$ '000	**2022 US$ '000**	2021 US$ '000
Great Britain Pound	**214**	(36)	**21,405**	(3,593)
Euro	**(176)**	(114)	**(17,580)**	(11,400)
Egyptian Pound	**18**	3,743	**1,812**	374,328
Iraqi Dinar	**(992)**	(1,056)	**(91,177)**	(105,582)
Kuwaiti Dinar	**(2,310)**	703	**(230,993)**	70,276

Sensitivity analysis - currency risk

All foreign currency exposures with the exception of investments in subsidiaries and associates are captured as part of the trading book. The risk of the exposures are subject to quantification via a daily VaR calculation, the results of which are disclosed in note 34 (i).

The effect of foreign currency translation on the Group's investments in subsidiaries and associates are reported in the "foreign exchange translation reserve" in note 21(h).

iv) Equity price risk

Equity price risk arises from fluctuations in equity indices and prices. The Board of Directors has set limits on the amount and type of investments that may be accepted. This is monitored on an ongoing basis by the Group Risk Committee. The non-trading equity price risk exposure arises from the Group's investment portfolio. The Group is not exposed to any significant equity price risk.

35. LIQUIDITY RISK

Liquidity risk is the risk that the Group does not have sufficient financial resources to meet its obligations as they fall due, or will have to do so at an excessive cost. This risk arises from mismatches in the timing of cash flows. Funding risk arises when the necessary liquidity to fund illiquid asset positions cannot be obtained at the expected terms and when required.

The management of the Group's liquidity and funding is the responsibility of the Group Asset and Liability Committee (GALCO) under the chairmanship of the Deputy Group Chief Executive Officer Treasury and Investments supported by the Group Treasurer, and is responsible for ensuring that all foreseeable funding commitments, including deposit withdrawals, can be met when due, and that wholesale market access is coordinated and controlled.

The Group maintains a stable funding base comprising core retail and corporate customer deposits and institutional balances, augmented by wholesale funding and portfolios of highly liquid assets, which are diversified by currency and maturity, in order to enable the Group to respond quickly to any unforeseen liquidity requirements.

35. LIQUIDITY RISK (continued)

The Group subsidiaries and affiliates maintain a strong individual liquidity position and manage their liquidity profiles so that cash flows are balanced and funding obligations can be met when due.

Treasury limits are set by the GALCO and allocated as required across the various group entities. Specifically GALCO and the Group Treasurer are responsible for:

- projecting cash flows by major currency under various stress scenarios and considering the level of liquid assets necessary in relation thereto;
- monitoring balance sheet liquidity ratios against internal and regulatory requirements;
- maintaining a diverse range of funding sources with adequate back-up facilities;
- managing the concentration and profile of debt maturities;
- managing contingent liquidity commitment exposures within predetermined caps;
- monitoring depositor concentration in order to avoid undue reliance on large individual depositors and ensure a satisfactory overall funding mix; and
- maintaining liquidity and funding contingency plans. These plans must identify early indicators of stress conditions and describe actions to be taken in the event of difficulties arising from systemic or other crises while minimising adverse long-term implications for the business.

The maturity profile of the assets and liabilities at 31 December 2022 and 2021 given below reflects management's best estimates of the maturities of assets and liabilities. These have been determined on the basis of the remaining period at the balance sheet date to the contractual or expected maturity date, where relevant. The liquidity profile of customer deposits has been determined on the basis of the effective maturities indicated by the Group's deposit retention history and the liquidity profile of bonds has been determined on the basis of liquidity requirements.

31 December 2022	Upto three months US$ '000	Over three months to one year US$ '000	Above one year US$ '000	Undated US$ '000	Total US$ '000
Assets					
Cash and balances with central banks	1,643,192	-	-	-	1,643,192
Treasury bills and deposits with central banks	1,384,276	956,028	-	-	2,340,304
Deposits with banks	3,066,284	72,391	329,171	-	3,467,846
Loans and advances	9,685,716	3,046,381	8,489,228	-	21,221,325
Non-trading investments	5,701,833	3,247,683	1,006,081	-	9,955,597
Investment in associates	-	-	-	350,958	350,958
Investment properties	-	-	-	189,065	189,065
Interest receivable, derivative and other assets	936,849	459,702	160,787	-	1,557,338
Premises and equipment	2,266	6,798	27,193	289,045	325,302
Goodwill and other intangible assets	-	-	-	510,045	510,045
Total	22,420,416	7,788,983	10,012,460	1,339,113	41,560,972
Liabilities					
Deposits from banks	2,994,939	332,183	750,107	-	4,077,229
Borrowings under repurchase agreements	1,642,052	1,893,727	824,066	-	4,359,845
Customers' deposits	9,622,845	5,662,370	9,108,134	-	24,393,349
Term borrowings	94,462	75,000	1,608,861	-	1,778,323
Interest payable, derivative and other liabilities	754,561	185,827	172,977	-	1,113,365
Subordinated liabilities	-	-	9,462	-	9,462
Total	15,108,859	8,149,107	12,473,607	-	35,731,573
Net liquidity gap	7,311,557	(360,124)	(2,461,147)	1,339,113	5,829,399

The Group has collateralised borrowing lines of credit with various financial institutions through repurchase arrangements. Refer note 15 for further details.

35. LIQUIDITY RISK (continued)

31 December 2021	Upto three months US$ '000	Over three months to one year US$ '000	Above one year US$ '000	Undated US$ '000	Total US$ '000
Assets					
Cash and balances with central banks	1,819,841	-	-	-	1,819,841
Treasury bills and deposits with central banks	1,014,171	717,527	-	-	1,731,698
Deposits with banks	3,576,080	540,567	-	-	4,116,647
Loans and advances	9,319,193	3,539,510	9,216,445	-	22,075,148
Non-trading investments	4,740,883	3,524,268	1,658,143	-	9,923,294
Investment in associates	-	-	-	343,076	343,076
Investment properties	-	-	-	188,648	188,648
Interest receivable, derivative and other assets	387,126	465,066	64,008	-	916,200
Premises and equipment	3,589	7,827	31,310	269,203	311,929
Goodwill and other intangible assets	-	-	-	486,889	486,889
Total	20,860,883	8,794,765	10,969,906	1,287,816	41,913,370
Liabilities					
Deposits from banks	3,538,283	148,058	952,632	-	4,638,973
Borrowings under repurchase agreements	309,650	2,221,041	1,244,808	-	3,775,499
Customers' deposits	10,342,187	6,366,835	8,494,919	-	25,203,941
Term borrowings	-	200,000	888,822	-	1,088,822
Interest payable, derivative and other liabilities	765,555	283,984	228,648	-	1,278,187
Subordinated liabilities	-	-	9,983	-	9,983
Total	14,955,675	9,219,918	11,819,812	-	35,995,405
Net liquidity gap	5,905,208	(425,153)	(849,906)	1,287,816	5,917,965

The Group has collateralised borrowing lines of credit with various financial institutions through repurchase arrangements. Refer note 15 for further details.

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Group's financial liabilities (including interest) based on contractual undiscounted repayment obligations. However, the Group's expected cash flows on these instruments vary significantly from this analysis. In particular, customer deposits are expected to maintain stable or increased balances.

As at 31 December 2022	**Up to One month US$ '000**	**Over one month to three months US$ '000**	**Over three months to one year US$ '000**	**Over one year to five years US$ '000**	**Over five years US$ '000**	**Total US$ '000**
Deposits from banks	**2,072,168**	**928,710**	**335,957**	**791,016**	**-**	**4,127,851**
Borrowings under repurchase agreements	**1,578,227**	**66,172**	**1,913,245**	**864,834**	**-**	**4,422,478**
Customers' deposits	**12,243,438**	**5,633,412**	**5,587,614**	**1,125,256**	**4,128**	**24,593,848**
Term borrowings	**94,592**	**-**	**76,920**	**1,803,785**	**-**	**1,975,297**
Subordinated liabilities	**-**	**-**	**-**	**10,836**	**-**	**10,836**
Interest payable	**82,789**	**51,647**	**55,891**	**20,072**	**-**	**210,399**
Total	**16,071,214**	**6,679,941**	**7,969,627**	**4,615,799**	**4,128**	**35,340,709**
Credit related commitments	**21,828**	**112,143**	**9,862**	**59,791**	**45,457**	**249,081**
Derivatives (net)	**525,203**	**-**	**-**	**-**	**-**	**525,203**

35. LIQUIDITY RISK (continued)

As at 31 December 2021	Up to One month US$ '000	Over one months to three months US$ '000	Over three months to one year US$ '000	Over one year to five years US$ '000	Over five years US$ '000	Total US$ '000
Deposits from banks	2,788,911	751,638	148,644	970,767	-	4,659,960
Borrowings under repurchase agreements	309,794	-	2,228,843	1,265,801	-	3,804,438
Customers' deposits	13,147,923	5,599,979	5,467,309	1,114,979	22,257	25,352,447
Term borrowings	-	-	202,527	939,724	-	1,142,251
Subordinated liabilities	-	-	-	10,295	-	10,295
Interest payable	61,733	36,401	40,208	20,992	-	159,334
Total	16,308,361	6,388,018	8,087,531	4,322,558	22,257	35,128,725
Credit related commitments	28,283	26,804	175,036	40,534	21,465	292,122
Derivatives (net)	(333,356)	-	-	-	-	(333,356)

36. OPERATIONAL RISK

Operational risk is the risk of loss arising from inadequate or failed internal processes, people and systems or from external events, whether intentional, unintentional or natural. This definition includes legal risk, but excludes strategic and reputational risk. It is an inherent risk faced by all businesses and covers a large number of operational risk events including business interruption and systems failures, internal and external fraud, employment practices and workplace safety, customer and business practices, transaction execution and process management, and damage to physical assets.

The BOD acknowledges that it has ultimate responsibility for operational risk. Oversight rests with the Group Risk Committee, whilst day to day monitoring is carried out by the Group Operational Risk Committee.

37. LEGAL RISK

Legal risk is the risk relating to losses due to legal or regulatory action that invalidates or otherwise precludes performance by the end user or its counterparty under the terms of the contract or related netting agreements.

The Group has a dedicated Legal Department whose role is to identify, and provide analysis and advice on the legal risks. The department is governed by the Group Legal Policy approved by the BOD, which facilitates the management and control of operational risks from pending legal actions. The Group Legal Policy is reviewed on a periodic basis.

38. FAIR VALUE MEASUREMENT

The fair value of financial assets and financial liabilities, other than those disclosed in the table below and in note 8, approximate their carrying values. Please refer note 8 for the fair value of non-trading investments carried at amortised cost.

The Group's primary medium and long-term financial liabilities are the term debts and subordinated liabilities. The fair values of these financial liabilities are not materially different from their carrying values, since these liabilities are repriced at intervals of three or six months, depending on the terms and conditions of the instrument and the resultant applicable margins approximate the current spreads that would apply for borrowings with similar maturities.

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

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

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

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

38. FAIR VALUE MEASUREMENT (continued)

	2022			
	Level 1	Level 2	Level 3	Total
	US$ '000	US$ '000	US$ '000	US$ '000
Equity instruments at fair value	**561**	**65,639**	**39,150**	**105,350**
Debt instruments (FVTOCI)	**1,301,703**	**101,489**	**-**	**1,403,192**
Derivative assets	**-**	**750,140**	**-**	**750,140**
Derivative liabilities	**-**	**225,216**	**-**	**225,216**

	2021			
	Level 1	Level 2	Level 3	Total
	US$ '000	US$ '000	US$ '000	US$ '000
Equity instruments at fair value	340	72,834	39,151	112,325
Debt instruments (FVTOCI)	1,814,322	138,874	-	1,953,196
Derivative assets	-	120,307	-	120,307
Derivative liabilities	-	453,654	-	453,654

During the years ended 31 December 2022 and 2021, there have been no transfers between Levels 1, 2 and 3 and no significant movements were noted in Level 3 investments.

For an explanation of valuation techniques used to value these financial instruments, refer to note 2.7(f).

The significant inputs for valuation of equity securities classified under Level 3 are annual growth rate of cash flows and discount rates and for funds, it is the illiquidity discount. Lower growth rate and higher discount rate, illiquidity discount will result in a lower fair value. The impact on the consolidated balance sheet or the consolidated statement of shareholders' equity would be immaterial if the relevant risk variables used to fair value the unquoted securities were altered by five per cent. There were no material changes in the valuation techniques used for the purpose of measuring fair value of investment securities as compared to the previous year.

39. CAPITAL ADEQUACY AND NET STABLE FUNDING RATIO (NSFR)

The primary objectives of the Group's capital management policies are to ensure that the Group complies with externally imposed capital requirements and that the Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value. Capital adequacy for each of the Group companies is also managed separately at individual company level. The Group does not have any significant restrictions on its ability to access or use its assets and settle its liabilities other than any restrictions that may result from the supervisory frameworks within which the banking subsidiaries operate.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous year.

The total capital ratio is calculated in accordance with the capital adequacy guidelines, under Basel III, issued by the CBB. The minimum capital adequacy ratio as per CBB is 12.5%. The Group's total capital ratio is 16.9% as of 31 December 2022 (31 December 2021: 17.0%).

The NSFR ratio is calculated in accordance with the Liquidity Risk Management Module guidelines, issued by the CBB. The minimum NSFR ratio limit as per CBB is 100%. The Group's consolidated NSFR ratio as of 31 December 2022 is 118.0% (31 December 2021: 118.1%).

39. CAPITAL ADEQUACY AND NET STABLE FUNDING RATIO (NSFR) (continued)

	2022 US$ '000	2021 US$ '000
Available Stable Funding:		
Regulatory capital	**6,155,841**	6,270,390
Stable deposits	**7,346,964**	6,958,945
Wholesale funding	**12,576,583**	13,039,788
Others	**734,758**	650,939
Total Available Stable Funding (A)	**26,814,146**	26,920,062
Required Stable Funding:		
High-Quality Liquid Assets (HQLA)	**1,451,622**	1,439,864
Performing loans	**14,912,508**	14,730,855
Securities (other than HQLA)	**3,046,772**	3,341,785
Derivative contracts	**290,695**	283,217
Others	**2,552,342**	2,562,446
Off-Balance sheet items	**479,381**	438,989
Total Required Stable Funding (B)	**22,733,320**	22,797,156
NSFR (%) (A/B)	**118.0%**	118.1%

40. DEPOSIT PROTECTION SCHEME

Certain customers' deposits of the Group are covered by deposit protection schemes established by the CBB, the Financial Services Compensation Scheme, UK and Central Bank of Iraq.

Kingdom of Bahrain: Customers' deposits held with the Bank in the Kingdom of Bahrain are covered by the Regulation Protecting Deposits issued by the CBB in accordance with Resolution No. (34) of 2010. This scheme covers eligible 'natural persons' (individuals) up to a maximum of Bahraini Dinar 20,000 as set out by CBB requirements. A periodic contribution, as mandated by the CBB, is paid by the Bank under this scheme.

United Kingdom: Customers' deposits in AUBUK are covered under the Financial Services Compensation Scheme, up to a limit of GBP 85,000 per customer. No up-front contribution is currently mandated under this scheme and no liability is due unless any member bank of the scheme is unable to meet its depository obligations.

Republic of Iraq: Customers' deposits held with the Bank in the Iraq are covered by the Regulation Protecting Deposits issued by the Central Bank of Iraq in accordance with Resolution No. (121) of 2018 up to a maximum limit of IQD 25 million per customer and an overall limit of IQD 150 million per bank.

41. ISLAMIC BANKING AND INSURANCE ACTIVITIES

The Group's Shari'a compliant Islamic activities are offered through its Islamic Banking subsidiary AUBK, Takaful subsidiary of AHL, Islamic Banking associate UBCI and dedicated Islamic banking branches/windows at AUB Bahrain and AUBUK. The results of its Islamic Banking activities are presented below.

BALANCE SHEET AT 31 DECEMBER	Note	2022 US$ '000	2021 US$ '000
ASSETS			
Cash and balances with central banks		**574,633**	537,842
Deposits with central banks		**777,551**	612,600
Deposits with banks	(a)	**2,192,302**	974,674
Receivable balances from Islamic financing	(b)	**12,848,520**	13,209,322
Financial investments		**2,279,164**	1,731,048
Investment in associates		**28,602**	26,678
Investment properties		**66,264**	65,847
Profit receivable and other assets		**244,975**	174,984
Premises and equipment		**134,006**	130,716
TOTAL ASSETS		**19,146,017**	17,463,711
LIABILITIES			
Deposits from banks	(c)	**940,653**	1,811,432
Customers' deposits	(d)	**12,924,435**	11,470,139
Long term Sukuk payable		**1,603,323**	563,822
Profit payable and other liabilities		**441,770**	320,548
Restricted investment accounts		**38,041**	17,842
		15,948,222	14,183,783
EQUITY OF UNRESTRICTED INVESTMENT ACCOUNTHOLDERS		**532,151**	672,253
TOTAL LIABILITIES AND EQUITY OF UNRESTRICTED INVESTMENT ACCOUNTHOLDERS		**16,480,373**	14,856,036
TOTAL EQUITY		**2,665,644**	2,607,675
TOTAL LIABILITIES, EQUITY OF UNRESTRICTED INVESTMENT ACCOUNTHOLDERS AND EQUITY		**19,146,017**	17,463,711

41. ISLAMIC BANKING AND INSURANCE ACTIVITIES (continued)

STATEMENT OF INCOME FOR THE YEAR ENDED 31 DECEMBER	Note	2022 US$ '000	2021 US$ '000
Net income from Islamic financing	(e)	317,472	334,024
		317,472	334,024
Fees and commissions - net		30,701	30,879
Other operating income		12,191	25,418
Foreign exchange gains		9,037	12,008
OPERATING INCOME		369,401	402,329
Provision for financing receivables and others		40,605	81,176
NET OPERATING INCOME		328,796	321,153
Staff costs		70,520	67,560
Depreciation		14,972	14,643
Other operating expenses		46,845	45,435
OPERATING EXPENSES		132,337	127,638
PROFIT BEFORE TAX AND ZAKAT		196,459	193,515
Tax expense and zakat		6,870	4,342
PROFIT BEFORE THE SHARE OF PROFIT OF EQUITY OF UNRESTRICTED INVESTMENT ACCOUNT HOLDERS		189,589	189,173
Less: Share of profit of equity of unrestricted investment account holders		5,642	5,325
NET PROFIT FOR THE YEAR		183,947	183,848
Attributable to:			
Owners of the Bank		153,333	157,829
Non-controlling interests		30,614	26,019
		183,947	183,848

Notes

(a) Deposits with banks	2022 US$ '000	2021 US$ '000
Murabaha finance with other banks	1,657,348	566,555
Wakala with banks	360,787	338,060
Current accounts and others	174,167	70,059
	2,192,302	974,674

(b) Receivable balances from Islamic financing	2022 US$ '000	2021 US$ '000
Tawarruq receivables	9,005,503	8,686,312
Murabaha receivables	2,692,041	3,124,656
Ijara receivables	1,494,723	1,794,459
Others	54,293	19,695
Less: Allowance for impairment	(398,040)	(415,800)
	12,848,520	13,209,322

41. ISLAMIC BANKING AND INSURANCE ACTIVITIES (continued)

Notes (Continued)

(c) Deposits from banks	2022 US$ '000	2021 US$ '000
Murabaha	446,139	553,583
Wakala	478,281	1,246,034
Current accounts	16,233	11,815
	940,653	1,811,432

(d) Customers' deposits	2022 US$ '000	2021 US$ '000
Wakala	8,705,739	7,199,434
Murabaha	2,953,276	2,831,857
Current accounts	1,265,420	1,438,848
	12,924,435	11,470,139

(e) Net income from Islamic financing	2022 US$ '000	2021 US$ '000
Income from Tawarruq	304,896	234,441
Income from Murabaha	157,966	149,396
Income from Ijara	82,814	72,385
Income from financial investments and others	67,921	45,260
Income from Islamic financing	613,597	501,482
Profit expense on Wakala	180,117	103,427
Profit expense on Murabaha and others	116,008	64,031
Less: Distribution to depositors	296,125	167,458
Net income from Islamic financing	317,472	334,024

42. SUBSIDIARIES

Financial information of subsidiaries that has material non-controlling interests is provided below.

Proportion of equity interest held by non-controlling interests are provided below:

Name	Incorporated in	2022	2021
Ahli United Bank K.S.C.P. [AUBK]	State of Kuwait	25.1%	25.1%
Ahli United Bank (Egypt) S.A.E. [AUBE]	Arab Republic of Egypt	4.3%	4.3%

	2022 US$ '000	2021 US$ '000
Accumulated material non-controlling interests as at 31 December:		
Ahli United Bank K.S.C.P.	392,722	381,191
Ahli United Bank (Egypt) S.A.E.	17,233	24,696
Profit allocated to material non-controlling interests:		
Ahli United Bank K.S.C.P.	30,614	26,019
Ahli United Bank (Egypt) S.A.E.	4,009	2,903

Summarised financial information of AUBK and AUBE is provided below. The information is based on amounts as reported in the consolidated financial statements before inter-company eliminations and adjustments.

42. SUBSIDIARIES (continued)

	2022 US$ '000	2021 US$ '000
Ahli United Bank K.S.C.P. (AUBK)		
Balance sheet related information		
Loans and advances	**11,123,094**	11,048,423
Non-trading investments	**1,480,955**	1,258,976
Total assets	**15,389,118**	15,118,792
Customers' deposits	**12,174,508**	11,301,799
Total liabilities	**13,207,871**	12,977,785
Income statement related information		
Total operating income	**296,191**	303,058
Net profit attributable to shareholders	**121,852**	103,485
Total comprehensive income attributable to shareholders	**124,985**	104,126
Dividends paid to non-controlling interest	**8,837**	-
Cash flow related information		
Net cash from / (used in) operating activities	**746,672**	(587,767)
Net cash (used in) / from investing activities	**(311,669)**	11,028
Net cash (used in) / from financing activities	**(58,256)**	374,679
Ahli United Bank (Egypt) S.A.E. (AUBE)		
Balance sheet related information		
Loans and advances	**1,964,502**	2,336,101
Non-trading investments	**549,188**	829,812
Total assets	**3,464,050**	4,100,508
Customers' deposits	**2,842,701**	3,410,631
Total liabilities	**3,033,305**	3,517,782
Income statement related information		
Total operating income	**269,375**	168,674
Net profit attributable to shareholders	**104,876**	74,863
Total comprehensive income attributable to shareholders	**82,804**	70,821
Cash flow related information		
Net cash (used in) / from operating activities	**(83,779)**	333,139
Net cash used in investing activities	**(62,445)**	(253,840)
Net cash from / (used in) financing activities	**25,430**	(8,373)

43. ACQUISITION OF CITIBANK BAHRAIN CONSUMER BUSINESS

On 4 April 2022, the Bank entered into a business transfer agreement with Citibank N.A. to acquire its consumer banking business in the Kingdom of Bahrain. After obtaining all the regulatory approvals and fulfillment of relevant conditions precedent, the Group completed the acquisition transaction on 1 December 2022 i.e., the acquisition date by settling net purchase consideration of US$ 15.9 million. The total identifiable loans and advances (at provisional fair values) as at acquisition date amounted to US$ 143.5 million, customer deposits amounted to US$ 181.7 million and assets under management of US$ 86.8 million.

The transaction has been accounted for using the acquisition method under IFRS 3 – Business Combinations (IFRS 3). For the purpose of consolidated financial statements for the year ended 31 December 2022, the Bank has accounted for this acquisition using provisional fair values of the acquired assets and assumed liabilities as at the acquisition date. Adjustment to the provisional values will be finalised within twelve months of the date of acquisition as permissible under IFRS.

CONTENTS

INTRODUCTION TO THE CENTRAL BANK OF BAHRAIN'S BASEL III GUIDELINES

The Central Bank of Bahrain (the "CBB") Basel III Guidelines, based upon the Bank for International Settlements (BIS) Revised Framework – 'International Convergence of Capital Measurement and Capital Standards', became applicable from 1 January 2015. Basel III is structured around three 'Pillars': Pillar I - Minimum Capital Requirements; Pillar II – the Supervisory Review and Evaluation Process and the Internal Capital Adequacy Assessment Process (ICAAP); and Pillar III - Market Discipline.

Group Structure

The public disclosures under this section have been prepared in accordance with the CBB rules concerning Public Disclosure Module ("PD Module"), section PD-1: Annual Disclosure Requirements. The disclosures under this section are applicable to Ahli United Bank B.S.C. ("AUB" or "the Bank"), incorporated in the Kingdom of Bahrain. The Bank operates under a retail banking license issued by the CBB. The Bank and its subsidiaries (as detailed under note 2.3 to the audited consolidated financial statements) are collectively known as the "Group".

Pursuant to acquisition of AUB by Kuwait Finance House K.S.C.P. ("KFH") effective 2 October 2022, KFH is the Parent Company and AUB is 100% subsidiary of KFH as on 31 December 2022. KFH is a public shareholding company incorporated in the State of Kuwait on 23 March 1977 and listed in the Boursa Kuwait and Bahrain Bourse. KFH is regulated and supervised by Central Bank of Kuwait.

Pillar I – Minimum Capital Requirements

Pillar I deals with the basis for the computation of the regulatory capital adequacy ratio. It defines the calculation of Risk Weighted Assets (RWAs) for credit risk, market risk and operational risk, as well as the derivation of the regulatory capital base. The capital adequacy ratio is then calculated as the ratio of the Bank's regulatory capital to its total RWAs. All Bahrain incorporated banks are currently required to maintain a minimum capital adequacy ratio of 12.5%. This includes, mandatory Capital Conservation Buffer (CCB) of 2.5%.

AUB had been designated as a Domestic Systemically Important Banks (DSIB) by the CBB. CBB has mandated in its rule book (DS-1.2.1) that DSIBs must hold additional Common Equity Tier 1 (CET 1) capital buffer of 1.5% of total RWA as calculated for the purpose of capital adequacy. Consequently, AUB is required to maintain minimum total capital adequacy ratio of 14.0%.

The Group ensures that each subsidiary maintains sufficient capital levels for their respective legal and regulatory compliance purposes.

Credit risk

Basel III provides two approaches (Standardised approach and Internal Rating Based approach) to the calculation of credit risk regulatory capital. The Standardised approach, which the Bank has adopted, require banks to use external credit ratings to determine the risk weightings applied to rated counterparties, and groups other counterparties into broad categories and applies standardised risk weightings to these categories.

Market risk

The Bank has adopted the Standardised approach for determining the market risk capital requirement.

Operational risk

Under the Basic Indicator Approach (BIA), which the Bank has adopted for operational risk, the regulatory capital requirement for operational risk is calculated by applying a co-efficient of 15 per cent to the average gross income for the preceding three financial years.

Pillar II – The Supervisory Review and Evaluation Process and Internal Capital Adequacy Assessment Process (ICAAP)

Pillar II involves the process of supervisory review of a financial institution's risk management framework and its capital adequacy.

Accordingly, this involves both the Bank and its regulators taking a view on whether additional capital should be held against risks not covered in Pillar I. Part of the Pillar II process is the ICAAP, which is the Bank's self assessment of risks not captured by Pillar I and based on CBB's guidelines and ICAAP module under the CBB rulebook.

As part of the CBB's Pillar II guidelines, each bank is required to be individually reviewed and assessed by the CBB with the intention of setting individual minimum capital adequacy ratios. The Bank is currently required to maintain a 12.5% minimum capital adequacy ratio at overall Group level.

Pillar III – Market Discipline

Pillar III is related to market discipline and requires the Bank to publish detailed qualitative and quantitative information of its risk management and capital adequacy policies and processes to complement the first two pillars and the associated supervisory review process. The disclosures in this report are in addition to the disclosures set out in the audited consolidated financial statements of the Group for the year ended 31 December 2022.

PILLAR III QUANTITATIVE AND QUALITATIVE DISCLOSURES

For the purpose of computing regulatory minimum capital requirements, the Group follows the rules as laid out under the Capital Adequacy (CA) Module of the CBB Rulebook. Accordingly;

a) All subsidiaries as per note 2.3 to the audited consolidated financial statements are consolidated on a line by line basis in accordance with International Financial Reporting Standards (IFRS) as issued by International Accounting Standards Board (IASB), as explained in note 2.2 to the audited consolidated financial statements for the year ended 31 December 2022. Non-controlling interest arising on consolidation is incorporated under respective tiers of capital as per the CBB rules. The Group has an equity investment in an insurance subsidiary, Al Hilal Life B.S.C. (c), which is deducted from regulatory capital as per the CBB rules;

PILLAR III QUANTITATIVE AND QUALITATIVE DISCLOSURES (Continued)

b) Investments in associates as reported under note 9 to the audited consolidated financial statements for the year ended 31 December 2022 are treated as "Significant Investment in Financial Entities". These are risk weighted/deducted from capital as per CBB Basel III guidelines;

c) Goodwill and intangibles are deducted from Tier 1 Capital;

d) Subordinated term debt, as reported under liabilities in the consolidated balance sheet, is reported as part of Tier 2 Capital, subject to maximum thresholds and adjusted for remaining life; and

e) Expected credit losses (Stages 1 and 2), net of additional ECL for the year 31 December 2020, which is added to CET1 of the capital as part of CBB's COVID relief measures by virtue of circular OG/226/2020 dated 21 June 2020, to the extent of maximum threshold of 1.25% of Credit Risk Weighted Assets are included under Tier 2 Capital.

1. CAPITAL STRUCTURE

TABLE - 1 CAPITAL STRUCTURE

		US$ '000	
A. NET AVAILABLE CAPITAL	***CET 1***	***AT 1***	***Tier 2***
NET AVAILABLE CAPITAL	**4,332,671**	**741,790**	**519,347**
TOTAL ELIGIBLE CAPITAL BASE (CET 1 + AT 1 + Tier 2)			**5,593,808**
RISK WEIGHTED EXPOSURES			
Credit Risk Weighted Exposures			30,615,964
Market Risk Weighted Exposures			452,776
Operational Risk Weighted Exposures			1,951,128
TOTAL RISK WEIGHTED EXPOSURES			**33,019,868**
CET 1 and Capital Conservation Buffer (CCB)			13.1%
Tier 1 - Capital Adequacy Ratio (CET 1, AT 1 and CCB)			15.4%
Total - Capital Adequacy Ratio			**16.9%**

By virtue of CBB's circular OG/226/2020 dated 21 June 2020 as part of COVID-19 relief measures, for the purposes of capital adequacy computations and for prudential reporting to the CBB, the Group has added back the modification loss, net of the financial assistance from government and aggregate Stage 1 and Stage 2 ECL provision charge for the year ended 31 December 2020 to the Common Equity Tier (CET1) Capital. Refer to Appendix I for details.

Refer note 20 of the consolidated financial statements for the year ended 31 December 2022 for further details on capital structure. The change in capital is not expected to have any significant impact on the present or future earnings of the Group. Further, there are no restrictions on the transfer of funds or regulatory capital within the Group.

B. CAPITAL ADEQUACY RATIO

As at 31 December 2022, the capital adequacy ratio of banking subsidiaries under Basel III were:

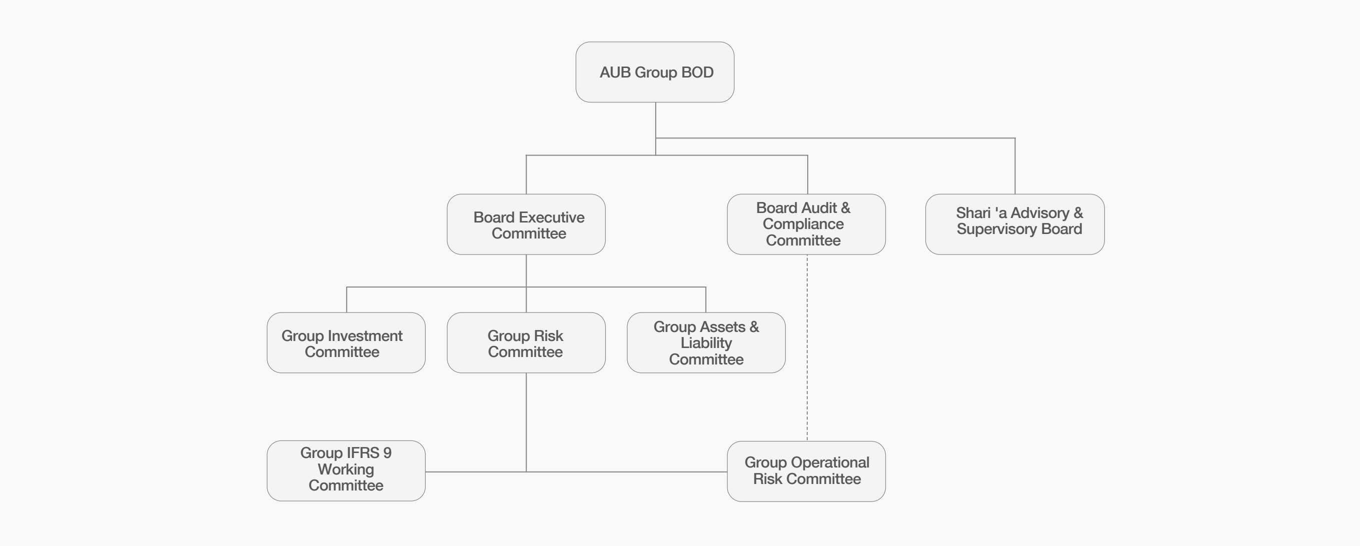
	Subsidiaries			
	Ahli United Bank K.S.C.P. (AUBK)	**Ahli United Bank (U.K.) PLC (AUBUK)**	**Ahli United Bank (Egypt) S.A.E. (AUBE)**	**Commercial Bank of Iraq P.S.C. (CBIQ)**
Tier 1 - Capital Adequacy Ratio	17.2%	19.9%	15.1%	100.7%
Total - Capital Adequacy Ratio	18.4%	19.9%	16.2%	100.8%

2. GROUP RISK GOVERNANCE STRUCTURE

Risk Governance

The Group's Board of Directors (BOD) seek to optimise the Group's performance by enabling the various Group business units to realize the Group's business strategy and meet agreed business performance targets within the BOD approved Group Risk Framework and Group Credit Risk Appetite Framwork covering risk parameters.

AUB Group Risk Governance Structure



The above Group committees are set up as part of the Group's risk governance structure. The terms of reference for these committees are approved by the BOD. Group Audit & Compliance Committee (incorporating the Corporate Governance committee) has oversight over Group's audit, compliance and operational risk.

Risk Management Framework

The overall authority for risk management in the Group is vested in the Board of Directors. The BOD receives quarterly risk updates including detailed risk exposures analysis reports. The Board authorises appropriate credit, legal, compliance, liquidity, market, operational and information security risk policies that form part of its risk management framework, based on the recommendation of management on an annual basis. The Group has established various committees that review and assess all risk issues. The Group Risk Committee monitors the Group's risk profile against the risk parameters. The risk management team of the Group is independent of the business lines and provides the necessary support to senior management and the business units in all areas of risk management.

The Deputy Group CEO – Risk, Legal & Compliance reports directly to the Executive Committee (sub-committee of the BOD responsible for risk functions) and administratively to the Group CEO. The Risk group comprises a Credit Risk Department (responsible for independent pre-approval analysis of credit / investment proposals as well as risk policy and procedures management), Credit Administration Department (responsible for post approval implementation and follow up), Liquidity and Market Risk Department, Operational Risk Department, Remedial Asset Management, Risk Reporting and the Information Security Risk Department. Approval authorities are delegated to different functionaries in the hierarchy (on a dual sign-off basis with both business line and risk line signatories) as well as various committees depending on the amount, type of risk and nature of operations or risk.

Internal Audit Department is responsible for the independent review of risk management and the Group's risk control environment. The Group Audit & Compliance Committee considers the adequacy and effectiveness of the Group risk control framework and receives quarterly updates on any control, regulatory and compliance related issues.

3. CREDIT RISK MANAGEMENT

Credit risk is the risk of financial loss if a customer or counterparty fails to meet a financial obligation under a contract. It arises principally from lending, trade finance and treasury activities. Credit risk also arises where assets are held in the form of debt securities, the value of which may fall.

The Group has policies and procedures in place to monitor and manage these risks and the Group Risk Management function provides high-level centralized oversight and management of credit risk. The specific responsibilities of Group Risk Management are to:

- Set credit policy and risk appetite for credit risk exposure to specific market sectors;
- Control exposures to sovereign entities, banks and other financial institutions and set risk ratings for individual exposures. Credit and settlement risk limits to counterparties in these sectors are approved and managed by Group Risk Management, to optimize the use of credit availability and avoid risk concentration;
- Control cross-border exposures, through the centralized setting of country limits with sub-limits by maturity and type of business;
- Manage large credit exposures, ensuring that concentrations of exposure by counterparty, sector or geography remain within internal and regulatory limits in relation to the Group's capital base;
- Maintain the Group's Internal Risk Rating Framework;
- Manage watchlisted and criticised asset portfolios and recommend appropriate level of provisioning and write-offs;
- Maintain the Expected Credit Loss impairment models across the Group entities;
- Recommend Expected Credit Loss provisions to the Group IFRS 9 Working Committee;
- Report to the Group Risk Committee, Board Audit & Compliance Committee and the BOD on all relevant aspects of the Group's credit risk portfolio. Regular reports include detailed analysis of:
  - risk concentrations;
  - corporate and retail portfolio performance;
  - specific higher-risk portfolio segments, e.g. real estate;
  - individual large impaired accounts, and details of impairment allowances; and
  - country limits, cross-border exposures.
- Specialised management and control of all non-performing assets;
- Manage and direct credit risk management systems initiatives; and
- Interface, for credit-related issues, with external parties including the CBB, rating agencies, investment analysts, etc.

All credit proposals are subjected to a thorough comprehensive risk assessment, which examines the customer's financial condition and trading performance, nature of the business, quality of management and market position. In addition, AUB's internal risk rating model scores these quantitative and qualitative factors. The credit approval decision is then made and terms and conditions are set. Exposure limits are based on the aggregate exposure to the counterparty and any connected entities across the AUB Group. All credit exposures are reviewed at least annually.

3. CREDIT RISK MANAGEMENT (continued)

Counterparty Exposure Class

The CBB's capital adequacy framework for the Standardised approach to credit risk sets the following counterparty exposure classes and the risk weightings to be applied to determine the risk weighted assets:

Exposure Class	Risk Weighting Criteria
Sovereign Portfolio	Exposures to governments of GCC (refer table 4 for definition of GCC) member states and their central banks {including International organization and Multilateral Development Banks (MDBs)} are zero % risk weighted. Other sovereign exposures denominated in the relevant domestic currency are also zero % risk weighted. All other sovereign exposures are risk weighted based on their external credit ratings.
Public Sector Entity [PSE] Portfolio	Bahrain PSEs and domestic currency claims on other sovereign PSEs (which are assigned a zero % risk weighting by their own national regulator) are assigned a zero % risk weighting. All other PSEs are risk weighted based on their external credit ratings.
Banks Portfolio	Exposures to banks are risk weighted based on their external credit ratings, with a preferential weighting given to short term exposures (i.e. with an original tenor of 3 months or less).
Investment Company Portfolio	Exposures to investment companies which are supervised by the CBB are treated in the same way as exposures to banks but without the preferential short term exposure weighting.
Corporate Portfolio	Exposures to corporates are risk weighted based on their external credit rating. Unrated corporates are 100% risk weighted. A number of corporates owned by the Kingdom of Bahrain have been assigned a preferential zero % risk weighting.
Regulatory Retail Portfolio	Eligible regulatory retail exposures are risk weighted at 75%, except for SMEs which are risk weighted at 25% as per CBB's COVID-19 relief measures.
Residential Property Portfolio	Exposures fully secured by first mortgages on owner occupied residential property are risk weighted between 35%-75% based on applicable regulatory guidance.
Commercial Property Portfolio	Exposures secured by mortgages on commercial real estate are subject to a minimum 100% risk weighting, except where the borrower has an external rating below BB- in which case the rating risk weighting applies.
Equities and Funds Investment Portfolio	Investments in listed equities carry a 100%-250% risk weighting. Unlisted equities are 150%-250% risk weighted. Investments in funds are risk weighted according to the type of underlying assets.
Impaired Exposures	The unsecured portion of any exposure (other than a residential mortgage loan) that is past due for 90 days or more: - 150% risk weighted when expected credit loss (Stage 3) is less than 20% of the outstanding amount; and - 100% risk weighted when expected credit loss (Stage 3) is greater than 20%.
Holdings of Real Estate	All holdings (directly or indirectly) of real estate in the form of real estate companies, subsidiaries or associate companies or other arrangements such as trusts, funds or Real Estate Investment Trusts (REITs) are risk-weighted at 200%. Premises occupied by the Bank are weighted at 100%.
Other Assets	All other assets not classified above are risk weighted at 100%.

3. CREDIT RISK MANAGEMENT (continued)

External Rating Agencies

The Group uses the following external credit assessment institutions (ECAI's): Moody's, Standard & Poors and Fitch. The external rating of each ECAI is mapped to the prescribed internal risk rating that in turn produces standard risk weightings.

Basel III Reporting of Credit Risk Exposures

As a result of the methodologies applied in credit risk exposures presented under Basel III reporting, which differs in many ways from the exposures reported in the consolidated financial statements.

1. As per the CBB Basel III framework, off balance sheet exposures are converted, by applying a Credit Conversion Factor (CCF), into direct credit exposure equivalents.
2. Under the Basel III capital adequacy framework eligible collateral is applied after applying prescribed haircut, to reduce the exposure.

Credit Risk Mitigation

The Group's first priority when disbursing loans is to establish the borrower's capacity to repay and not rely principally on security / collateral obtained. Where the customer's financial standing is strong, facilities may be granted on an unsecured basis, but when necessary collateral is an essential credit risk mitigation.

Acceptable forms of collateral are defined within the Group risk framework and conservative valuation parameters are also pre-set and regularly reviewed to reflect any changes in market conditions. Security structures and legal covenants are also subject to regular review to ensure that they continue to fulfil their intended purpose and remain in line with the CBB's prescribed minimum requirements set out in their capital adequacy regulations.

The principal collateral types are as follows:

- in the personal sector – cash, mortgages over residential properties and assignments over salary income;
- in the commercial sector – cash, charges over business assets such as premises, inventories, receivables, debt securities and bank guarantees;
- in the commercial real estate sector – charges over the properties being financed; and
- in the financial sector – charges over financial instruments, such as debt securities and equities.

Valuation of Collateral

The type and amount of collateral taken is based upon the credit risk assessment of the borrower. The market or fair value of collateral held is closely monitored and when necessary, top-up requests are made or liquidation is initiated as per the terms of the underlying credit agreements.

Gross Credit Risk Exposures subject to Credit Risk Mitigations (CRM)

The following table details the Group's gross credit risk exposures before the application of eligible Basel III CRM techniques. The CBB's Basel III guidelines detail which types of collateral and which issuers of guarantees are eligible for preferential risk weighting. The guidelines also specify the minimum collateral management processes and collateral documentation requirements necessary to achieve eligibility.

TABLE - 2 GROSS CREDIT RISK EXPOSURES

	US$ '000	
	As at 31 December 2022	**Average monthly balance**
Balances with central banks	1,523,752	1,464,127
Treasury bills and deposits with central banks	2,340,304	1,979,404
Deposits with banks	3,467,846	4,638,432
Loans and advances	21,221,325	21,575,737
Non-trading investments	9,850,247	9,755,619
Interest receivable, derivative and other assets	1,215,630	950,604
TOTAL FUNDED EXPOSURES	**39,619,104**	**40,363,923**
Contingent liabilities	3,761,824	3,930,182
Undrawn loan commitments	249,081	220,240
TOTAL UNFUNDED EXPOSURES	**4,010,905**	**4,150,422**
TOTAL GROSS CREDIT RISK EXPOSURES	**43,630,009**	**44,514,345**

The gross credit exposures reported above are as per the consolidated balance sheet as at 31 December 2022 as reduced by exposures which do not carry credit risk.

3. CREDIT RISK MANAGEMENT (continued)

TABLE - 3 RISK WEIGHTED EXPOSURES

	US$ '000			
	Gross exposures	Secured by eligible CRM	Risk weighted exposures after CRM	Capital requirement
Claims on sovereigns	8,206,579	-	408,779	51,097
Claims on public sector entities	2,328,847	-	1,111,056	138,882
Claims on banks	6,938,563	-	3,033,533	379,192
Claims on corporates	21,784,983	1,173,796	20,390,241	2,548,781
Regulatory retail exposures	2,502,226	24,916	1,840,083	230,010
Residential mortgage exposures	1,351,478	-	511,931	63,991
Equity	448,572	-	1,009,825	126,228
Other exposures	1,906,352	-	2,310,516	288,814
TOTAL	**45,467,600**	**1,198,712**	**30,615,964**	**3,826,995**
TOTAL CREDIT RISK CAPITAL REQUIREMENT (STANDARDISED APPROACH)			**30,615,964**	**3,826,995**
TOTAL MARKET RISK CAPITAL REQUIREMENT (STANDARDISED APPROACH)			**452,776**	**56,597**
TOTAL OPERATIONAL RISK CAPITAL REQUIREMENT (BASIC INDICATOR APPROACH)*			**1,951,128**	**243,891**
TOTAL			**33,019,868**	**4,127,483**

*Indicator for operational risk exposure is gross income, adjusted for exceptional items, as per BIA. This approach uses average of adjusted gross income for previous three financial years (US$ 1,040,602 thousands) for operational risk computation.

The gross exposure in the above table represents the on and off balance sheet credit exposures before Credit Risk Mitigations (CRM), determined in accordance with the CBB Pillar III guidelines. The off balance sheet exposures are computed using the relevant credit conversion factors.

Under the CBB Basel III Guidelines, banks may choose between two options when calculating credit risk mitigation capital relief. The simple approach which substitutes the risk weighting of the collateral for the risk weighting of the counterparty or the comprehensive approach whereby the exposure amount is adjusted by the actual value ascribed to the collateral. The Group has selected to use the comprehensive method where collateral is in the form of cash or bonds or equities. The Group uses a range of risk mitigation tools including collateral, guarantees, credit derivatives, netting agreements and financial covenants to reduce credit risk.

Concentration Risk

Refer note 32(a) to the audited consolidated financial statements for the year ended 31 December 2022 for definition and policies in relation to management of concentration risk.

As per the CBB's large exposure regulations, banks incorporated in the Kingdom of Bahrain are required to obtain the CBB's prior approval for any planned exposure to a single counterparty, or group of connected counterparties, exceeding 15 per cent of the regulatory capital base. As at 31 December 2022, the Group had no qualifying single obligor exposures in accordance with CBB guidelines which exceed 15 percent of the Group's regulatory capital base.

3. CREDIT RISK MANAGEMENT (continued)

Geographic Distribution of Gross Credit Exposures

The geographic distribution of credit exposures is monitored on an ongoing basis by Group Risk Management and reported to the BOD on a quarterly basis.

The following table details the Group's geographic distribution of gross credit exposures as at 31 December 2022.

TABLE - 4 GEOGRAPHIC DISTRIBUTION OF GROSS CREDIT EXPOSURES

	US$ '000								
	Kingdom of Bahrain	**State of Kuwait**	**Other GCC countries***	**United Kingdom**	**Europe (excluding United Kingdom)**	**Arab Republic of Egypt**	**Asia (excluding GCC countries)**	**Rest of the World**	**Total**
Balances with central banks	158,380	518,214	61	450,388	-	344,422	52,287	-	**1,523,752**
Treasury bills and deposits with central banks	1,369,785	777,551	-	-	-	127,650	55,318	10,000	**2,340,304**
Deposits with banks	268,387	527,377	117,658	364,215	586,735	55,319	290,963	1,257,192	**3,467,846**
Loans and advances	3,831,852	10,807,866	1,945,334	1,600,577	199,503	2,224,632	208,146	403,415	**21,221,325**
Non-trading investments	1,584,533	310,860	3,341,329	243,821	814,822	508,009	1,771,276	1,275,597	**9,850,247**
Interest receivable, derivative and other assets	62,063	180,945	65,837	500,083	282,396	64,130	29,523	30,653	**1,215,630**
Total funded exposures	**7,275,000**	**13,122,813**	**5,470,219**	**3,159,084**	**1,883,456**	**3,324,162**	**2,407,513**	**2,976,857**	**39,619,104**
Contingent liabilities	830,376	1,432,364	200,244	24,773	188,043	671,558	244,404	170,062	**3,761,824**
Undrawn loan commitments	83,461	-	52,662	101,215	7,314	1,332	-	3,097	**249,081**
Total unfunded exposures	**913,837**	**1,432,364**	**252,906**	**125,988**	**195,357**	**672,890**	**244,404**	**173,159**	**4,010,905**
TOTAL	**8,188,837**	**14,555,177**	**5,723,125**	**3,285,072**	**2,078,813**	**3,997,052**	**2,651,917**	**3,150,016**	**43,630,009**
	18.8%	**33.3%**	**13.1%**	**7.5%**	**4.8%**	**9.2%**	**6.1%**	**7.2%**	**100.0%**

* Other GCC countries are countries which are part of the Gulf Co-operation Council comprising the Sultanate of Oman, State of Qatar, Kingdom of Saudi Arabia and the United Arab Emirates, apart from Kingdom of Bahrain and State of Kuwait, which are disclosed separately.

TABLE - 5 SECTORAL CLASSIFICATION OF GROSS CREDIT EXPOSURES

	US$ '000			
	Funded	**Unfunded**	**Total**	**%**
Central banks	3,864,056	-	**3,864,056**	**8.9**
Banks and other financial institutions	7,179,881	285,863	**7,465,744**	**17.1**
Consumer/personal	3,175,850	19,945	**3,195,795**	**7.3**
Residential mortgage	1,708,386	89,543	**1,797,929**	**4.1**
Trading and manufacturing	7,175,544	1,736,607	**8,912,151**	**20.4**
Real estate	5,737,220	63,774	**5,800,994**	**13.3**
Services	4,991,898	1,658,426	**6,650,324**	**15.2**
Government/public sector	5,512,806	52,827	**5,565,633**	**12.8**
Others	273,463	103,920	**377,383**	**0.9**
TOTAL	**39,619,104**	**4,010,905**	**43,630,009**	**100.0**
	90.8%	**9.2%**	**100.0%**	

3. CREDIT RISK MANAGEMENT (continued)

TABLE - 6 RESIDUAL CONTRACTUAL MATURITY OF GROSS CREDIT EXPOSURES

	US$ '000							
	Up to one month	Over one month to three months	Over three months to one year	Over one year to five years	Over five to ten years	Over ten to twenty years	Over twenty years	Total
Balances with central banks	1,523,752	-	-	-	-	-	-	**1,523,752**
Treasury bills and deposits with central banks	1,008,512	375,764	956,028	-	-	-	-	**2,340,304**
Deposits with banks	2,022,026	1,044,258	72,391	329,171	-	-	-	**3,467,846**
Loans and advances	3,969,875	5,715,841	3,046,381	5,282,371	1,875,736	1,212,323	118,798	**21,221,325**
Non-trading investments	99,314	270,128	744,849	3,922,876	4,367,132	261,481	184,467	**9,850,247**
Interest receivable, derivative and other assets	829,070	97,986	145,157	143,417	-	-	-	**1,215,630**
Total funded exposures	**9,452,549**	**7,503,977**	**4,964,806**	**9,677,835**	**6,242,868**	**1,473,804**	**303,265**	**39,619,104**
Contingent liabilities	646,319	735,794	1,599,943	701,538	78,105	125	-	**3,761,824**
Undrawn loan commitments	21,828	112,143	9,862	59,791	40,041	5,416	-	**249,081**
Total unfunded exposures	**668,147**	**847,937**	**1,609,805**	**761,329**	**118,146**	**5,541**	**-**	**4,010,905**
TOTAL	**10,120,696**	**8,351,914**	**6,574,611**	**10,439,164**	**6,361,014**	**1,479,345**	**303,265**	**43,630,009**

Allowances for expected credit loss

Refer note 2.7 (g) of the consolidated financial statements of the Group for the year ended 31 December 2022 for further details on ECL model.

The Group Risk Committee regularly evaluates the adequacy of the established allowances for impaired loans.

TABLE - 7 SECTORAL BREAKDOWN OF IMPAIRED LOANS AND IMPAIRMENT ALLOWANCES

	US$ '000				
	Impaired loans (Stage 3)	ECL allowances (Stage 3)	*Net specific charge for the year ended 31 December 2022	Write-offs during the year ended 31 December 2022	ECL allowances (Stage 1 & Stage 2)
Consumer/personal	60,998	55,255	72,678	43,021	85,760
Trading and manufacturing	140,220	138,691	9,003	118,075	124,200
Real estate	141,057	136,655	16,800	42,872	189,603
Residential mortgage	58,002	7,653	1,579	-	4,981
Banks and other financial institutions	2,093	2,000	-	-	7,283
Services	25,920	21,729	18,300	37,135	137,738
Government/public sector	-	-	-	-	10
Others	2,101	1,697	-	-	37,761
TOTAL	**430,391**	**363,680**	**118,360**	**241,103**	**587,336**

* Net specific charge (ECL allowance: Stage 3) for the year excludes recoveries from fully provided loans written-off in prior years.

3. CREDIT RISK MANAGEMENT (continued)

TABLE - 8 GEOGRAPHICAL DISTRIBUTION OF IMPAIRMENT ALLOWANCES FOR LOANS AND ADVANCES

	US$ '000								
	Kingdom of Bahrain	State of Kuwait	Other GCC countries	United Kingdom	Europe (excluding) United Kingdom)	Arab Republic of Egypt	Asia (excluding GCC countries)	Rest of the world	Total
ECL allowances (Stage 1 & 2)	88,012	283,257	21,315	200	9,085	182,306	939	2,222	**587,336**
ECL allowances (Stage 3)	186,900	146,928	8,070	2,886	-	12,935	5,961	-	**363,680**
TOTAL	**274,912**	**430,185**	**29,385**	**3,086**	**9,085**	**195,241**	**6,900**	**2,222**	**951,016**

TABLE - 9 MOVEMENTS IN IMPAIRMENT ALLOWANCES FOR LOANS AND ADVANCES

Refer note 7(f) of the consolidated financial statements for the year ended 31 December 2022 for ECL allowance movements.

Impaired Credit Facilities

As per CBB guidelines, credit facilities are placed on non-accrual status and interest income suspended when either principal or interest is overdue by 90 days or more whereupon unpaid and accrued interest is reversed from income. Interest on non-accrual facilities is included in income only when received. Credit facilities classified as past due are assessed for ECL in accordance with IFRS 9 guidelines. Financial instruments where there is objective evidence of impairment are considered to be credit impaired and the allowance for credit losses captures the life time expected credit losses.

For definition of default, refer to note 2.7(g) to the audited consolidated financial statements for the year ended 31 December 2022.

Refer to notes 7(a) to 7(e) and note 32(c) to the audited consolidated financial statements for the year ended 31 December 2022 for the distribution of the loans and advances portfolio.

Ratings 1 - 4 comprise of credit facilities demonstrating financial condition, risk factors and capacity to repay that are excellent to good and retail borrowers where cash collateral (or equivalent such as pledged investment funds) has been provided.

Ratings 5 - 7 represents satisfactory risk and includes credit facilities that require closer monitoring, and retail accounts which are maintained within generally applicable product parameters.

TABLE - 10 IMPAIRED LOANS - AGE ANALYSIS

i) By Geographical region

	US$ '000			
	Three months to one year	Over one to three years	Over three years	Total
Kingdom of Bahrain	18,168	12,647	162,352	**193,167**
State of Kuwait	57,116	38,427	70,651	**166,194**
Other GCC Countries	8,180	-	-	**8,180**
United Kingdom	17,183	18,757	-	**35,940**
Arab Republic of Egypt	4,367	7,497	8,955	**20,819**
Asia (excluding GCC countries)	287	-	5,804	**6,091**
TOTAL	**105,301**	**77,328**	**247,762**	**430,391**
	24.4%	**18.0%**	**57.6%**	**100.0%**

ii) By Industry sector

	Three months to one year	Over one to three years	Over three years	Total
Consumer/personal	21,257	32,221	7,521	**60,999**
Trading and manufacturing	12,354	11,813	116,053	**140,220**
Real estate	38,942	5,844	96,270	**141,056**
Residential mortgage	18,726	21,107	18,169	**58,002**
Banks and other financial institutions	-	-	2,093	**2,093**
Services	13,238	6,343	6,339	**25,920**
Others	784	-	1,317	**2,101**
TOTAL	**105,301**	**77,328**	**247,762**	**430,391**
	24.4%	**18.0%**	**57.6%**	**100.0%**

3. CREDIT RISK MANAGEMENT (continued)

TABLE - 11 RESTRUCTURED CREDIT FACILITIES

	US$ '000
Balance of any restructured credit facilities as at year end	552,061
Loans restructured during the year	160,259

The above restructurings did not have any significant impact on the present or future earnings and were primarily extensions of the loan tenor.

TABLE - 12 COUNTERPARTY CREDIT RISK IN DERIVATIVE TRANSACTIONS

The Group uses the Current Exposure Method to calculate the exposure for counterparty credit risk for derivative instruments as per CBB Basel III guidelines. The table below represent net credit equivalent exposure after giving effect to master netting agreements.

i) Breakdown of the credit exposure

	US$ '000	
	Notional amount	**Credit Equivalent Exposure**
a) Trading		
Foreign exchange related	9,184,119	82,934
Interest rate related	2,339,743	205,470
Others	60,895	781
	11,584,757	**289,185**
b) Hedging		
Foreign exchange related	22,118	19
Interest rate related	10,496,097	643,791
	10,518,215	**643,810**
	22,102,972	**932,995**

	US$ '000
ii) Amounts of cash collateral	**107,486**

TABLE - 13 RELATED PARTY TRANSACTIONS

Refer note 25 to the audited consolidated financial statements of the Group for the year ended 31 December 2022. Related party transactions are entered with related parties in ordinary course of business at arm's length.

4. MARKET RISK

Market risk is the risk that movements in market risk factors, including foreign exchange rates, interest rates, credit spreads and equity prices will reduce the Group's income or the value of its portfolios.

Market Risk Management, Measurement and Control Responsibilities

The BOD approves the overall market risk appetite and delegates responsibility for providing oversight on the Bank's market risk exposures and the sub allocation of BOD limits to the Group Asset and Liability Committee (GALCO). Group Risk Management is responsible for the market risk control framework and for monitoring compliance with the GALCO limit framework..

The Group separates market risk exposures into either trading or non-trading portfolios. Trading portfolios include those positions arising from market-making, proprietary position-taking and other marked-to-market positions. Non-trading portfolios include positions that arise from the foreign exchange/ interest rate management of the Group's retail and commercial banking assets and liabilities, and financial assets designated at amortised cost and fair value through other comprehensive income.

Each Group operating entity has an independent market risk function which is responsible for measuring market risk exposures in accordance with the Group Trading Book Policy and the Interest Rate Risk in the Banking Book Policy, and monitoring these exposures against prescribed limits.

Market risk reports covering Trading Book risk exposures and profit and loss are published daily to the Bank's senior management. A risk presentation covering both Trading and Banking Book is also compiled monthly and discussed at the GALCO.

The measurement techniques used to measure and control market risk include:

- Value at Risk (VaR);
- Stress tests; and
- Sensitivities and position size related metrics.

4. MARKET RISK (continued)

Daily Value at Risk (VaR)

The Group VaR is an estimate of the potential loss which might arise from unfavourable market movements:

VaR Type	Sample Size	Holding Period	Confidence Interval	Frequency of Calculation
1 Day VaR	260 days	1 day	99%	Daily
10 Day Var	260 days	10 day	99%	Daily

Daily losses exceeding the VaR figure are likely to occur, on average, once in every 100 business days depending on the confidence interval employed in the VaR calculation (per the above). The Group routinely validates the accuracy of its VaR models by backtesting the actual daily profit and loss results. The actual number of excesses over a given period can be used to gauge how well the models are performing.

Although a useful guide to risk, VaR should always be viewed in the context of its limitations. For example:

- the use of historical data as a proxy for estimating future events may not encompass all potential events, particularly those which are extreme in nature;
- the use of a 1-day holding period assumes that all positions can be liquidated or hedged in one day. This may not fully reflect the market risk arising at times of severe illiquidity, when a 1-day holding period may be insufficient to liquidate or hedge all positions fully;
- the use of a confidence level, by definition, does not take into account losses that might occur beyond the applied level of confidence; and
- VaR is calculated on the basis of exposures outstanding at the close of business and therefore does not necessarily reflect intra-day exposures.

The VaR for the Group was as follows:

	US$ '000		
	Average	Minimum	Maximum
For the year 2022	659	177	1,432

TABLE - 14 CAPITAL REQUIREMENTS FOR COMPONENTS OF MARKET RISK

	US$ '000			
	Risk-weighted exposures after CRM	Capital requirement	Maximum value	Minimum value
Interest rate risk	108,568	13,571	27,398	13,572
Equity position risk	880	110	292	110
Foreign exchange risk	341,064	42,633	42,633	15,793
Options and others	2,264	283	1,159	245
TOTAL MARKET RISK CAPITAL REQUIREMENT (STANDARDISED APPROACH)	**452,776**	**56,597**		

Interest Rate Risk (non-trading)

Interest rate risk is the risk that the earnings or capital of the Group, or its ability to meet business objectives, will be adversely affected by movements in interest rates. Accepting this risk is a normal part of banking practice and can be an important source of profitability and shareholder value. Changes in interest rates can affect a bank's earnings by changing its net interest income and the level of other interest sensitive income and operating expenses. Changes in interest rates also affect the underlying value of the Group's assets, liabilities and off-balance sheet instruments because the present value of future cash flows and / or the cash flows themselves change when interest rates change. The Bank employs a risk management process that maintains interest rate risk within prudent levels.

The BOD recognises that it has responsibility for understanding the nature and the level of interest rate risk taken by the Bank, and has defined a risk framework pertaining to the management of non-trading interest rate risk and has identified lines of authority and responsibility for managing interest rate risk exposures.

4. MARKET RISK (continued)

The BOD has delegated the responsibility for the management of interest rate risk to GALCO which is responsible for setting and monitoring the interest rate risk strategy of the Group, for the implementation of the interest rate risk framework and ensuring that the management process is in place to maintain interest rate risk within prudent levels.

GALCO reviews the interest rate risk framework annually and submits recommendations for changes to the Executive Committee and BOD as applicable.

The responsibility for the implementation of the Group’s interest rate risk policies resides with the Group Treasurer. An independent review and measurement of all interest exposure present in the banking book is undertaken by the Group Market Risk team and reported to GALCO on a monthly basis.

Interest rate re-pricing reports are based on each product's contractual re-pricing characteristics overlaid where appropriate by behavioural adjustments. Behavioural adjustments are derived by an analysis of customer behaviour over time augmented by input from the business units.

The behavioural adjustments are applied mainly for those liabilities with no fixed maturity dates such as current and savings accounts. These adjustments are based on empirical experience, and current account balances are spread over a maximum period of 5 years, while savings accounts are spread over a maximum period of 7 years.

Reports detailing the interest rate risk exposure of the Group are reviewed by GALCO and the BOD on a regular basis.

Refer note 34 to the audited consolidated financial statements for the year ended 31 December 2022 for the re-pricing profiles of the Group’s assets and liabilities.

Interest rate risk sensitivity analysis
The Group’s interest rate risk sensitivity is analysed in note 34(ii) to the audited consolidated financial statements for the year ended 31 December 2022.

The impact of a +/- 200bps interest rate shock on assets and liabilities which are carried at fair value and the consequent impact on equity as of 31 December 2022 is as per the following table.

	US$ ’000		
	Assets	**Liabilities**	**Equity**
at 200 bps - increase (+)	**(149,886)**	**149,724**	**(162)**
at 200 bps - decrease (-)	**149,886**	**(149,724)**	**162**

Equity Risk

Equity risk is the risk of changes in the fair value of an equity instrument. The Group is exposed to equity risk on non-trading equity positions that are primarily focused on the GCC stock markets. The BOD has set limits on the amount and type of investments that may be made by the Bank. This is monitored on an ongoing basis by the Group Risk Committee with pre approved loss thresholds. The Bank's equity risk appetite is minimal.

Valuation and accounting policies:
a) Equity investments held for strategic reasons - investments in associates

Associated companies are companies in which the Group exerts significant influence but does not control, normally represented by an interest of between 20% and 50% in the voting capital. Investments in associated companies are accounted for using the equity method.

b) Other equity investments

At initial recognition, the Group can make irrevocable election on an instrument by instrument basis to designate an equity instrument as fair value through other comprehensive income (FVTOCI). If an equity investment is designated as FVTOCI, all gains and losses, except for dividend income, are recognised in other comprehensive income and are not subsequently included in the consolidated statement of income.

The fair value of equity instruments that are quoted in an active market is determined by reference to market prices at the close of business on the balance sheet date. For equity investments that are not quoted in an active market, a reasonable estimate of the fair value is determined using net present valuation techniques.

For accounting policies on equity instruments, please refer to note 2.7(c) (v) of the audited consolidated financial statements for the year ended 31 December 2022.

4. MARKET RISK (continued)

TABLE - 15 GAIN / (LOSS) ON EQUITY INSTRUMENTS

	US$ '000
Net loss recognised in Tier1 Capital (CET1)	
Net unrealized loss recognised in the balance sheet	**(16,265)**
Realized loss recognised in the equity	**(155)**

5. LIQUIDITY RISK AND FUNDING MANAGEMENT

Liquidity risk and funding management of the Group have been explained in note 35 of audited consolidated financial statements for the year ended 31 December 2022.

Maturity Analysis of Assets and Liabilities

A maturity analysis of cash flows payable by the Group under financial liabilities by remaining contractual maturities at the balance sheet date is shown in note 35 to the audited consolidated financial statements for the year ended 31 December 2022.

6. OPERATIONAL RISK

Operational risk is the risk of loss arising from inadequate or failed internal processes, people and systems or from external events, whether intentional, unintentional or natural. This definition includes legal risk, but excludes strategic and reputational risk. It is an inherent risk faced by all businesses and covers a large number of operational risk events including business interruption and systems failures, internal and external fraud, employment practices and workplace safety, customer and business practices, transaction execution and process management, and damage to physical assets.

The BOD acknowledges that it has ultimate responsibility for operational risk. Oversight rests with the Group Risk Committee, whilst day to day monitoring is carried out by the Group Operational Risk Committee.

The Operational Risk Management framework has been in place for a number of years and is ingrained in the Group's culture and processes. The Group has developed a comprehensive Operational Risk Self Assessment (ORSA) process.

The BOD takes the lead in promoting and encouraging a culture of risk awareness and prevention across all areas of the Group. The Group follows a Group Operational Risk Policy approved by the BOD. The policy, supported by the Group Operational Risk Framework, aims to ensure that operational risk measures are incorporated into all major aspects of the overall management framework.

The Group Operational Risk Committee (the "GORC") is responsible for maintaining an operational risk management framework across the organization. The GORC receives regular reporting on all key operational risk measures. Promptness in resolution of material operational risks identified through Operational Risk Self Assessments and audits are considered as one of the key criteria for performance reviews.

The Group Audit & Compliance Committee assists the BOD in ensuring compliance with all regulatory requirements and consistency with best market practices. The Group Audit & Compliance Committee reviews regular reports on all key operational risk measures.

The Group Operational Risk Policy, supported by the Group Operational Risk Framework requires reporting of all material Operational Risk Incidents / Loss Events within a specified period of the occurrence of the event which is followed by an analysis of the root cause and its remediation.

The Group Operational Risk Policy requires that internal controls are reviewed and enhanced on an ongoing basis in order to mitigate the residual risks identified through the Operational Risk Self Assessments, analysis of operational loss and near miss events and, internal and external audits. In addition, regular reviews of operating procedures also aim to enhance internal controls. The Group's Human Resources Policy requires that employees are trained regularly so that they are, among others, aware of operational risks and the mitigating controls. The policies require the establishment of appropriate infrastructure and processes for ensuring continuity of business which must be comprehensively and frequently tested for different contingencies.

The BOD approves the Group Information Security Framework and Policy. The policy provides a consistent and strong cybersecurity approach across the Group. Group Information Security Office (GISO) runs several cybersecurity programs covering all cyber risk areas including threat and vulnerability management, risk assessments, cybersecurity awareness, penetration testing, and incident management. GISO also executes several projects to continuously enhance the security control systems and processes, and to make the Group resilient to cyber risks. AUB maintained its ISO 27001, SWIFT Customer Security Program (CSP) and PCI DSS certifications were relevant across the Group.

Group Operational Risk Committee overseas the cybersecurity program through quarterly review of cybersecurity metrics. GISO also provides cybersecurity status reports to the BOD every quarter.

7. INFORMATION TECHNOLOGY RISK

All computer system developments and operations are centrally controlled and common standard business systems are deployed across the Group wherever possible. Information security is defined through a common 'Group Information Security Framework' and is executed through various information security processes and controls that support the framework. The Group follows an enterprise wide approach to business continuity to ensure that all identified critical operations, services and systems are recovered in time in the event of a disruption. The Group Business Continuity Management Policy is updated annually and the Disaster Recovery and Business Continuity capabilities are each tested at least once a year and critical systems data are continuously replicated at the disaster recovery site.

The Group has also adopted a Flexible Business Management approach to business continuity and disaster recovery with the aim of continuing to conduct business as usual to the extent possible on a remote basis even under diverse scenarios of unavailability of premises, infrastructure or resources, with scalability for any duration of time.

8. STRATEGIC RISK

The BOD supported by Strategic Development Unit and the Group Finance manages strategic risk on an ongoing basis. The BOD receives regular performance reports with details of strategic / regulatory issues as they arise.

9. LEGAL, COMPLIANCE, REGULATORY AND REPUTATIONAL RISKS

Protecting the Legal, Compliance, Regulatory and Reputational Risks of the Group is of paramount importance. All management and staff are expected to apply highest standards of business conduct and professional ethics at all times.

The Group has a dedicated Legal Department whose role is to identify and provide analysis and advice on legal risk.

The department is governed by the Group Legal Policy approved by the BOD, which facilitates the management and control of operational risks from pending legal actions, by performing the following tasks:

- Advising on applicable legislation and regulation;
- reviewing and / or drafting non- standard contracts and related documentation (including amendments to existing contracts) applicable to the Group;
- periodically reviewing the standard contractual documentation of the Bank;
- advising on matters involving legal risk and drafting formal communication relating to legal claims involving the Group and
- Managing and providing legal advice in respect of any actual or threatened litigation against the Bank, or brought (or proposed to be brought) by the Group against any other party.

There are no material litigations / claims against the Group as at 31 December 2022.

The Group continuously strives to improve the level of Compliance in all its activities. The Group has an independent Compliance function that reports to the Audit and Compliance Committee. The Compliance function acts as a focal point for appropriate coordination and dissemination of regulatory correspondence and rulebook updates, and strives to adopt best practice in Compliance, Governance and Control. Also, the Compliance Department, has the responsibility through its monitoring programs, to regularly assesses the adequacy and effectiveness of the measures and procedures put in place and the actions taken to address any deficiencies in the Bank's compliance with its obligations; and advises and assists the responsible business areas and personnel for carrying out appropriate regulated activities.

Implementing appropriate systems, processes and controls to combat Anti-Money Laundering (AML) and Terrorist Financing activities form an important activity of the AML Unit within the Compliance function. The Group has deployed a risk based automated transaction monitoring system and implemented relevant procedures and controls to facilitate appropriate monitoring and detection mechanism. The Group also has appropriate AML and Compliance policies and monitoring programs. These policies are reviewed and updated annually and approved by the BOD. The Group's anti-money laundering measures are regularly audited by the internal auditors who report to the Audit & Compliance Committee of the BOD. Additionally, the Bank's AML measures are reviewed by independent external auditors every year and their agreed-upon procedures reports are submitted to the CBB. The CBB also performs periodic inspections of the Bank's compliance with anti-money laundering regulations.

The BOD approved policies, including Group Reputation Risk policy, Communications Policy, Personal Account Dealing Policy, Key Person Dealing Policy, Compliance Policy, Anti Money Laundering policy, Banking Integrity and Whistle Blowing Policy and Code of Business conduct policy and such other policies prescribe the required standards of ethical behaviour and personal conduct for all staff (including the Bank's Directors), and the BOD exercises an oversight of these risks through various management functions, including Legal, Risk Management, Compliance, Human Resources and Internal Audit Department.

10. ENVIRONMENTAL RISK

The Group recognises the importance of environmental and social issues within its risk framework, and has established a Social and Environmental Management System (SEMS) which details the policy, procedures and workflow that will be followed by the Bank and its subsidiaries / affiliates in respect of environmental risk.

The Group continually endeavours to implement effective social and environmental management practices in all its activities, products and services with a focus on the applicable national laws on environmental, health, safety and social issues.

The Group has adopted the Equator Principles (EP), a globally recognized benchmark for managing social and environmental risks in project finance. EP is an arrangement by financial institutions worldwide to adhere to the environmental, health and safety standards while financing projects.

As such the Group will finance projects only when they are expected to be designed, built, operated and maintained in a manner consistent with the applicable national laws.

The Bank has become a signatory of the United Nations (UN) Principles for Responsible banking and a member of the UN Environment Programme Finance Initiative (UNEP FI). AUB is committed to take leadership role and use of its products, services and relationships to support and contribute to individual needs and society's goal, as expressed in the Sustainable Development Goals, the Paris Climate Agreement and relevant national and regional frameworks.

APPENDIX I - REGULATORY CAPITAL DISCLOSURES

PD 1 : Capital Composition Disclosure Template

Basel III Common disclosure template	US$ '000 PIR as on 31 December 2022	Reference
Common Equity Tier 1 capital: instruments and Reserves		
Directly issued qualifying common share capital plus related stock surplus	2,786,983	A1
Retained earnings	472,262	B1+B2+B3+B4
Accumulated other comprehensive income (and other reserves)	1,307,021	C1+C2+C3+C4+ C5 +C6 +C7
Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	328,924	D
Common Equity Tier 1 capital before regulatory adjustments	**4,895,190**	
Common Equity Tier 1 capital: regulatory adjustments		
Goodwill (net of related tax liability)	474,556	E
Other intangibles other than mortgage-servicing rights (net of related tax liability)	73,319	F1+F2
Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-	G1-G2
Cash-flow hedge reserve	(29)	C7
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)	14,673	
Total regulatory adjustments to Common equity Tier 1	**562,519**	
Common Equity Tier 1 capital (CET1)	**4,332,671**	
Additional Tier 1 capital: instruments		
Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	400,000	I
Additional Tier 1 instruments (and CET1 instruments not included above) issued by subsidiaries and held by third parties (amount allowed in group AT1)	341,790	J
Additional Tier 1 capital before regulatory adjustments	**741,790**	
Total regulatory adjustments to Additional Tier 1 capital	**-**	
Additional Tier 1 capital (AT1)	**741,790**	
Tier 1 capital (T1 = CET1 + AT1)	**5,074,461**	
Tier 2 capital: instruments and provisions		
Directly issued qualifying Tier 2 instruments plus related stock surplus	-	K
Tier 2 instruments (and CET1 and AT1 instruments not included above) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	97,916	L
Expected Credit Losses & Reserves	421,431	M1+M2
Tier 2 capital before regulatory adjustments	**519,347**	
Total regulatory adjustments to Tier 2 capital	**-**	
Tier 2 capital (T2)	**519,347**	
Total capital (TC = T1 + T2)	**5,593,808**	
Total risk weighted assets	**33,019,868**	

APPENDIX I - REGULATORY CAPITAL DISCLOSURES (continued)

PD 1: Capital Composition Disclosure Template (continued)

Basel III Common disclosure template	US$ '000 PIR as on 31 December 2022	Reference
Capital ratios		
Common Equity Tier 1 (as a percentage of risk weighted assets)	13.1%	
Tier 1 (as a percentage of risk weighted assets)	15.4%	
Total capital (as a percentage of risk weighted assets)	**16.9%**	
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)	10.5%	
of which: Capital Conservation Buffer requirement	2.5%	
of which: bank specific countercyclical buffer requirement (N/A)	NA	
of which: D-SIB buffer requirement	1.5%	
National minima (if different from Basel 3)		
CBB Common Equity Tier 1 minimum ratio (including buffers)	10.5%	
CBB Tier 1 minimum ratio (including buffers)	12.0%	
CBB total capital minimum ratio (including buffers)	14.0%	
Amounts below the thresholds for deduction (before risk weighting)		
Non-significant investments in the capital of other financial entities	399,865	
Significant investments in the common stock of financial entities	351,260	
Applicable caps on the inclusion of Expected Credit Losses in Tier 2		
Expected Credit Losses (Stages 1 and 2) eligible for inclusion in Tier 2 in respect of exposures subject to standardized approach (prior to application of cap)	676,965	N
Cap on inclusion of Expected Credit Losses in Tier 2 under standardized approach	382,700	M2

PD 2 : Reconciliation Of Regulatory Capital

i) Step 1: Disclosure of Balance Sheet under Regulatory scope of Consolidation

There are no differences between the regulatory and accounting consolidation, with both following the line by line consolidation approach as per the IFRS 10 Consolidated Financial Statements without excluding any entities. As mandated by the Central Bank of Bahrain ("CBB"), financial assets have been grossed up with impairment allowances for expected credit losses (ECL) - Stages 1 and 2, as presented below:

	US$ '000
Balance sheet per published financial statements	**41,560,972**
ECL - Stages 1 and 2	676,965
Balance sheet as in Regulatory Return	**42,237,937**

APPENDIX I - REGULATORY CAPITAL DISCLOSURES (continued)

ii) Step 2: Expansion of the Balance Sheet under Regulatory scope of Consolidation

	US$ '000		
Assets	**Balance as per published financial statements**	**Consolidated PIR data**	**Reference**
Cash and balances with central banks	1,643,192	1,643,192	
Financial assets at fair value through Profit & Loss		2,889	
Treasury bills and deposits with central banks	2,340,304	2,340,304	
Deposits with banks	3,467,846	3,468,489	
Loans and advances	21,221,325	21,808,662	
Non-trading investments	9,955,597	10,041,678	
Investment properties	189,065	189,065	
Interest receivable and other assets	1,557,338	1,557,354	
of which deferred tax assets		87	G1
Investments in associates	350,958	350,958	
Goodwill and intangible assets	510,045	510,045	
of which Goodwill		474,556	E
of which other intangibles (excluding MSRs)		35,489	F1
Premises and equipment	325,302	325,302	
of which software		37,830	F2
TOTAL ASSETS	**41,560,972**	**42,237,938**	
Liabilities			
Deposits from banks	4,077,229	4,077,229	
Customers' deposits	24,393,349	24,393,349	
Borrowings under repurchase agreements	4,359,845	4,359,845	
Term Borrowings	1,778,323	1,269,462	
Sukuk payable	-	508,861	
Interest payable and other liabilities	1,113,365	1,113,365	
of which deferred tax liabilities		8,303	G2
Subordinated liabilities	9,462	9,462	
of which amount eligible for Tier 2		-	K
of which amount ineligible		9,462	
TOTAL LIABILITIES	**35,731,573**	**35,731,573**	

APPENDIX I - REGULATORY CAPITAL DISCLOSURES (continued)

ii) Step 2: Expansion of the Balance Sheet under Regulatory scope of Consolidation (continued)

	US$ '000		
Equity	**Balance as per published financial statements**	**Consolidated PIR data**	**Reference**
Paid-in share capital	2,786,983	2,786,983	
of which form part of Common Equity Tier 1		2,786,983	
Ordinary Share Capital		2,786,983	A1
Treasury Shares		-	
Perpetual Tier 1 Capital Securities - AUB Bahrain	400,000	400,000	I
Reserves	1,588,521	1,588,521	
of which form part of Common Equity Tier 1			
Retained earnings/(losses) brought forward		242,769	B1
Porposed Dividend Payable			B2
Net profit for the current period		546,102	C1
Share premium		752,549	C2
Legal reserve		820,089	C3
Others		(17,724)	C4
FX translation adjustment		(763,201)	C5
Cumulative fair value changes on FVOCI investments		(30,765)	C6
Fair value changes of cash flow hedges		(29)	C7
of which form part of Tier 2			
Fixed assets revaluation reserves		*38,731*	M1
CBB modification loss (part of CET1)		84,448	B3
Perpetual Tier 1 Capital Securities - AUB Kuwait	600,000	1,053,895	
Non - controlling interest	453,895		
of which amount eligible for Common Equity Tier 1		328,924	D
of which amount eligible for Additional Tier 1		341,790	J
of which amount eligible for Tier 2		97,916	L
of which amount ineligible		285,265	
Impairment Allowance for Expected Credit Losses - Stages 1 and 2		676,965	N
of which amount eligible for Tier 2 (maximum 1.25% of RWA)		382,700	M2
of which amount included in CET1 as per CBB		145,045	B4
of which amount ineligible		149,220	
TOTAL EQUITY	**5,829,399**	**6,506,364**	

APPENDIX I - REGULATORY CAPITAL DISCLOSURES (continued)

PD 3: Main features of regulatory capital instruments

1	**Issuer**	Ahli United Bank B.S.C.	Ahli United Bank B.S.C.	Ahli United Bank K.S.C.P.
2	**Unique identifier**	AUBB.BH - Bahrain Bourses AUB/818 - Kuwait Stock Exchange	ISIN: XS1133289832 / Perpetual Tier 1 Capital Securities	ISIN: XS2342243875 / Perpetual Tier 1 Capital Securities
3	**Governing law(s) of the instrument**	Laws of Bahrain	English Law, except for the provisions of subordination which will be governed by the Laws of Bahrain	English Law, except for the provisions of subordination which will be governed by the Laws of Kuwait
4	**Transitional CBB rules**	Not applicable	Not applicable	Not applicable
5	**Post-transitional CBB rules**	Common Equity Tier 1	Additional Tier 1	Additional Tier 1
6	**Eligible at solo/group/group & solo**	Solo and Group	Solo and Group	Group
7	**Instrument type**	Common Equity Shares	Capital Securities	Capital Securities
8	**Amount recognized in regulatory capital**	$2787.0 mn	$400.0 mn	$323.6 mn
9	**Par value of instrument (USD)**	$0.25	$1000 subject to minimum of $200,000	$1000 subject to minimum of $200,000
10	**Accounting classification**	Shareholders' equity	Shareholders' equity	Shareholders' equity
11	**Original date of issuance**	31-May-2000	29-Apr-2015	17-Jun-2021
12	**Perpetual or dated**	Perpetual	Perpetual	Perpetual
13	**Original maturity date**	No Maturity	No Maturity	No Maturity
14	**Issuer call subject to prior supervisory approval**	NA	Yes	Yes
15	**Optional call date, contingent call dates and redemption amount**	NA	Call Option : On every Distribution Payment Date at Par/100%; Tax event at Par/100%; Regulatory Capital Event at 101% (Full or partial)	First Call Option : 17-Jun-2026 at Par/100%; Tax event at Par/100%; Regulatory Capital Event at 100% (Full or partial)
16	**Subsequent call dates, if applicable**	NA	Every Distribution Payment Date	Any day falling in the period commencing on (and including) the First Call Date and ending on (and including) the First Reset Date (17-Dec-2026) or on any profit payment date thereafter
17	**Fixed or floating dividend/coupon**	NA	Fixed	Fixed
18	**Coupon rate and any related index**	NA	5.839%	3.875%
19	**Existence of a dividend stopper**	NA	Yes	Yes
20	**Fully discretionary, partially discretionary or mandatory**	Fully discretionary	Fully discretionary	Fully discretionary
21	**Existence of step up or other incentive to redeem**	No	No	No
22	**Noncumulative or cumulative**	NA	Noncumulative	Noncumulative
23	**Convertible or non-convertible**	NA	Non-convertible	Non-convertible
24	**If convertible, conversion trigger (s)**	NA	NA	NA
25	**If convertible, fully or partially**	NA	NA	NA
26	**If convertible, conversion rate**	NA	NA	NA
27	**If convertible, mandatory or optional conversion**	NA	NA	NA
28	**If convertible, specify instrument type convertible into**	NA	NA	NA
29	**If convertible, specify issuer of instrument it converts into**	NA	NA	NA
30	**Write-down feature**	NA	Yes	Yes
31	**If write-down, write-down trigger(s)**	NA	Notification by regulator of Non viability without (a) write-down ; or (b) a public sector injection of capital (or equivalent support)	Notification by regulator of Non viability without (a) write-down ; or (b) a public sector injection of capital (or equivalent support)
32	**If write-down, full or partial**	NA	Fully / Partially	Fully / Partially
33	**If write-down, permanent or temporary**	NA	Permanent	Permanent
34	**If temporary write-down, description of write-up mechanism**	NA	NA	NA
35	**Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)**	Additional Tier 1 Capital Bonds	Subordinated Debts	Subordinated Debts
36	**Non-compliant transitioned features**	NA	No	No
37	**If yes, specify non-compliant features**	NA	NA	NA

APPENDIX I - REGULATORY CAPITAL DISCLOSURES (continued)

Leverage Ratio

The leverage ratio serves as a supplementary measure to the risk-based capital requirements. The leverage ratio is computed on a consolidated basis and Bahraini conventional bank licensees designated as DSIB must meet a 3.75% leverage ratio minimum requirement at all times..

Leverage Ratio components

	US$ '000
Tier1 Capital [A]	5,074,461
Total Exposure [B]	45,090,442
Leverage Ratio ([A] / [B])	**11.3%**

www.ahliunited.com

www.ahliunited.com