AHLI UNITED BANK B.S.C. (c)

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2023

AHLI UNITED BANK B.S.C. (c)

CONTENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS

Building a better
working world

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

Report on the Audit of the Consolidated Financial Statements

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

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2023, and its consolidated financial performance and 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 2023. 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.

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

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

Key audit matters (continued)

<table>
<tr><th colspan="2">1. Expected Credit Loss on financing receivables</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 financing receivables 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.

The Group exercises significant judgment using subjective assumptions when determining both the timing and the amounts of the ECL for financing receivables. 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 financing receivables which form a significant portion of the Group's total assets, the audit of ECL for financing receivables is a key area of focus.

Refer to the accounting policies, disclosures of financing receivables 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.</td></tr>
</table>

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

Key audit matters (continued)

1. Expected Credit Loss on financing receivables (continued)	
Key audit matter	**How our audit addressed the key audit matter**
	• We reviewed a sample of credit files and performed procedures to assess: ○ timely identification of exposures with a significant increase in credit risk and appropriateness of the staging; ○ the process of collateral valuation; and ○ ECL recalculation. • We considered the adequacy of the disclosures in the consolidated financial statements in relation to ECL for financing receivables as per the applicable financial reporting standards.

Other information included in the Group's 2023 Annual Report
Other information consists of the information included in the Group's 2023 Annual Report, other than the consolidated financial statements and our auditor's report thereon. The Board of Directors is responsible for the other information. Prior to the date of this auditor'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.

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

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.

- 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.

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

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

Auditor's responsibilities for the audit of the consolidated financial statements (continued)
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, or the terms of the Bank's memorandum and articles of association during the year ended 31 December 2023 that might have had a material adverse effect on the business of the Bank or on its consolidated financial position; and

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 Ashwani Siotia.

Ernst + Young

Partner's registration no. 117
27 February 2024
Manama, Kingdom of Bahrain

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2023

	Note	**2023** **US$ '000**	2022 US$ '000
Financing and similar income	3a	**1,895,502**	1,238,689
Finance and similar cost and distribution to depositors	3b	**1,112,990**	581,167
Net financing and similar income		**782,512**	657,522
Fees and commissions - net	4	**96,689**	87,339
Trading income	5	**27,505**	19,782
Investment and other income		**141,018**	146,313
Share of results from associates	9	**31,548**	32,553
Fees and other income		**296,760**	285,987
OPERATING INCOME		**1,079,272**	943,509
Provision for credit losses and others	7g	**104,110**	186,896
NET OPERATING INCOME		**975,162**	756,613
Staff costs		**137,012**	117,910
Depreciation		**24,795**	20,802
Other operating expenses		**119,073**	104,837
OPERATING EXPENSES		**280,880**	243,549
PROFIT BEFORE TAX		**694,282**	513,064
Tax expense	22	**58,427**	49,810
NET PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		**635,855**	463,254
Profit after tax expense for the year from discontinuing operations	42	**71,824**	119,043
NET PROFIT FOR THE YEAR		**707,679**	582,297
Non-controlling interests		**6,367**	5,581
Non-controlling interests - discontinuing operations		**34,056**	30,614
NET PROFIT ATTRIBUTABLE TO THE OWNER OF THE BANK		**667,256**	546,102
EARNINGS PER SHARE ATTRIBUTABLE TO THE OWNER OF THE BANK FOR THE YEAR:			
Basic and diluted earnings per ordinary share (US cents)	23	**5.6**	4.5

Hamad Al-Marzouq	Adel A. El-Labban	Ahmed AlKharji
Chairman	Deputy Chairman	Group Chief Executive Officer

The attached notes 1 to 42 form part of these consolidated financial statements

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2023

	2023	*2022*
	US$ '000	*US$ '000*
Net profit for the year	**707,679**	582,297
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	**(25,232)**	(5,262)
Net change in pension fund revaluation reserve (note 21 (h))	**(20,080)**	(17,605)
Net change in property revaluation reserve	**1,485**	2,887
Items that may be reclassified subsequently to consolidated statement of income		
Foreign currency translation adjustments	**(73,900)**	(302,121)
Net change in fair value of debt instruments measured at fair value through OCI	**(4,118)**	(16,006)
Transfer to consolidated statement of income on sale of debt instruments measured at fair value through OCI	**(1,893)**	(3,757)
Net change in fair value of cash flow hedges	**29**	41,358
Other comprehensive loss for the year	**(123,709)**	(300,506)
Total comprehensive income for the year	**583,970**	281,791
Total comprehensive income (loss) attributable to non-controlling interests	**6,594**	(5,897)
Total comprehensive income attributable to non-controlling interests -discontinuing operations	**33,756**	26,484
Total comprehensive income attributable to the owner of the Bank	**543,620**	261,204

The attached notes 1 to 42 form part of these consolidated financial statements

CONSOLIDATED BALANCE SHEET

At 31 December 2023

	Note	***2023*** ***US$ '000***	*2022* *US$ '000*
ASSETS			
Cash and balances with central banks	6a	**1,173,479**	1,643,192
Deposits with central banks	6b	**913,049**	2,340,304
Deposits with banks		**2,202,025**	3,467,846
Financing receivables	7	**10,907,398**	21,221,325
Non-trading investments	8	**10,182,949**	9,955,597
Investment in associates	9	**375,313**	350,958
Investment properties	10	**105,037**	189,065
Profit receivable, derivative and other assets	11	**1,104,044**	1,557,338
Premises and equipment	12	**203,876**	325,302
Goodwill and other intangible assets	13	**136,180**	510,045
Assets classified as held for sale	42	**14,596,548**	-
TOTAL ASSETS		**41,899,898**	41,560,972
LIABILITIES AND EQUITY			
LIABILITIES			
Deposits from banks	14	**2,213,524**	4,077,229
Repurchase agreements with banks	15	**4,619,644**	4,359,845
Customers' deposits	16	**14,039,595**	24,393,349
Sukuk payable and term financing	17	**1,624,410**	1,778,323
Profit payable, derivative and other liabilities	18	**1,002,951**	1,113,365
Subordinated liabilities	19	**-**	9,462
Liabilities directly associated with assets as held for sale	42	**12,340,832**	-
TOTAL LIABILITIES		**35,840,956**	35,731,573
EQUITY			
Ordinary share capital	20b	**2,786,983**	2,786,983
Reserves		**1,800,525**	1,588,521
Equity attributable to the owner of the Bank		**4,587,508**	4,375,504
Perpetual Tier 1 Capital Securities	20c	**400,000**	400,000
Perpetual Tier 1 Capital Sukuk - held for sale	20c	**600,000**	600,000
Non-controlling interests		**64,600**	453,895
Non-controlling interests- held for sale		**406,834**	-
TOTAL EQUITY		**6,058,942**	5,829,399
TOTAL LIABILITIES AND EQUITY		**41,899,898**	41,560,972

Hamad Al-Marzouq	Adel A. El-Labban	Ahmed AlKharji
Chairman	Deputy Chairman	Group Chief Executive Officer

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2023

	Note	*2023* US$ '000	*2022* US$ '000
OPERATING ACTIVITIES			
Profit before tax from continuing operations		**694,282**	637,753
Profit before tax from discontinuing operations	42	**78,251**	-
Adjustments for:			
Depreciation		**40,475**	35,388
Investment and other income		**(105,607)**	(53,720)
Provision relating to credit losses, discontinuing operations and others	7g	**170,055**	231,294
Share of results from associates	9	**(31,548)**	(34,485)
Operating profit before changes in operating assets and liabilities		**845,908**	816,230
Changes in:			
Mandatory reserve deposits with central banks		**(486,040)**	(243,419)
Deposits with central banks		**143,737**	(97,388)
Deposits with banks		**(375,159)**	1,570,436
Financing receivables		**(102,345)**	836,002
Profit receivable, derivative and other assets		**319,507**	(29,981)
Deposits from banks		**(1,713,035)**	(561,744)
Repurchase agreements with bank		**259,799**	584,346
Customers' deposits		**1,498,377**	(992,162)
Profit payable, derivative and other liabilities		**137,476**	(82,908)
Net cash flows generated from operations		**528,225**	1,799,412
Income tax and zakat paid		**(38,217)**	(33,572)
Net cash flows from operating activities		**490,008**	1,765,840
INVESTING ACTIVITIES			
Purchase of non-trading investments and others		**(5,634,119)**	(3,588,613)
Proceeds from sale or redemption of non-trading investments		**4,512,404**	2,541,851
Additional investment in associate		**(45,818)**	-
Sale of investment subsidiary		**990**	-
Net decrease in investment properties		**11,841**	-
Net increase in premises and equipment		**(56,328)**	(49,382)
Dividends received from associates		**15,952**	13,293
Net cash flows used in investing activities		**(1,195,078)**	(1,082,851)
FINANCING ACTIVITIES			
Distribution on Perpetual Tier 1 Capital Securities and sukuk	21j	**(46,606)**	(46,606)
Repayment of term debt	17	**(175,000)**	(350,000)
Repayment of subordinated liabilities	19	**(9,462)**	-
Additional term agreements	17	**-**	1,094,462
Dividends and other appropriations paid		**(278,698)**	(304,034)
Dividends paid to non-controlling interests		**(17,954)**	(8,837)
Net cash flows (used in) from financing activities		**(527,720)**	384,985
NET CHANGE IN CASH AND CASH EQUIVALENTS		**(1,232,790)**	1,067,974
Net foreign exchange difference		**(51,111)**	(48,409)
Cash and cash equivalents at 1 January		**3,629,091**	2,609,526
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	24	**2,345,190**	3,629,091
Additional cash flow information:			
Profit received		**2,567,062**	1,700,662
Profit paid		**1,457,337**	769,267

The attached notes 1 to 42 form part of these consolidated financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2023

	Attributable to the owner 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$'000***	***Equity attributable to the owner US$'000***	***Perpetual Tier 1 Capital Securities and Sukuk* US$'000***	***Non-controlling interests* US$'000***	***Total US$'000***
Balance at 1 January 2023	**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**
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)]	-	-	-	**(17,394)**	-	-	**(17,394)**	**(17,394)**	-	**(5,856)**	**(23,250)**
Ordinary share dividend paid [note 21(i)]	-	-	-	-	**(278,698)**	-	**(278,698)**	**(278,698)**	-	-	**(278,698)**
Dividends of subsidiaries	-	-	-	-	-	-	-	-	-	**(17,954)**	**(17,954)**
Donations	-	-	-	-	**(2,000)**	-	**(2,000)**	**(2,000)**	-	-	**(2,000)**
Bonus shares issued	-	-	-	-	-	-	-	-	-	-	-
Transfer from OCI reserve	-	-	-	**(55,252)**	-	**55,252**	-	-	-	-	-
Movement in associates	-	-	-	**(10,159)**	-	-	**(10,159)**	**(10,159)**	-	-	**(10,159)**
Movement in subsidiaries	-	**(9)**	-	-	-	-	**(9)**	**(9)**	-	**999**	**990**
Total comprehensive income for the year	-	-	-	**667,256**	-	**(123,636)**	**543,620**	**543,620**	-	**40,350**	**583,970**
Transfer to statutory reserve [note 21(c)]	-	-	**66,726**	**(66,726)**	-	-	-	-	-	-	-
Proposed dividend on ordinary shares [note 21(i)]	-	-	-	**(278,698)**	**278,698**	-	-	-	-	-	-
Proposed donations	-	-	-	**(2,000)**	**2,000**	-	-	-	-	-	-
Balance at 31 December 2023	**2,786,983**	**752,540**	**886,815**	**721,844**	**280,698**	**(841,372)**	**1,800,525**	**4,587,508**	**1,000,000**	**471,434**	**6,058,942**

* comprising of amounts attributable to the owner of the Bank and held for sale

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2023

	Attributable to the owner 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$'000*	*Equity attributable to the owner US$'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	-	-	-	-	(304,034)	-	(304,034)	(304,034)	-	-	(304,034)
Dividends of subsidiary	-	-	-	-	-	-	-	-	-	(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	-	-	-	(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 42 form part of these consolidated financial statements

1 CORPORATE INFORMATION

Ahli United Bank B.S.C. (c) ("AUB" or "the Bank") was incorporated in the Kingdom of Bahrain on 31 May 2000. The Bank and its subsidiaries (collectively known as "the Group") are engaged in banking business, global fund management and private banking services 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 Islamic banking license issued by the Central Bank of Bahrain ("CBB"). 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. KFH is a public shareholding company incorporated in the State of Kuwait on 23 March 1977 regulated as an Islamic bank with Central Bank of Kuwait and its ordinary shares are listed in the Boursa Kuwait and Bahrain Bourse. KFH is regulated and supervised by the Central Bank of Kuwait.

During 2023, the Bank's ordinary shares were de-listed both at Bahrain Bourse and Kuwait Boursa. Further, the Bank was converted to a closed Bahraini shareholding company and name was changed on 14 June 2023 to Ahli United Bank B.S.C. (c).

In line with the Bank's plan to convert its operations in compliance with the Islamic Shari'ah principles, during the year after complying all the requirements and guidelines by the Central Bank of Bahrain and Shari'ah Supervisory board of the Bank, the Bank has converted its Bahrain based conventional operations in line with the Islamic Shari'ah principles and commenced its operations under the licence of an Islamic retail bank in Bahrain effective 10 December 2023. From that date, all activities in Bahrain are conducted in accordance with the Islamic Shari'ah principles, as approved by the Bank’s Shari'ah Supervisory Board.

The Central Bank of Bahrain and Shari’ah Supervisory Board have approved to convert all conventional investments and products of the Bank in line with the Islamic Shari’ah principles within a specific time frame. All income and expenses from Non Shari’ah compliant activities are included in the consolidated statement of income, and surplus of conventional income over conventional expenses from 10 December 2023 until the completion of the complete conversion of the Group, if any, is treated based on guidelines by the Shari’ah Supervisory Board.

During 2023, KFH made an announcement in the Kuwait and Bahrain stock exchanges that “In the light of completion of the acquisition procedures and phases, KFH has reached an Initial agreement regarding the merger by combination with Ahli United Bank K.S.C.P. ("AUBK"), whereby Kuwait Finance House K.S.C.P. is the merging company, and Ahli United Bank - Kuwait as the merged company". Based on the approval of the extraordinary general assemblies’ meetings of both banks during fourth quarter of the financial year 2023, the merger will be effective from 22 February 2024 and accordingly the Group has classified net assets and liabilities of AUBK as held for sale. Refer note 42 for detail.

On 7 December 2023, AUB sold its 100% stake in its insurance subsidiary Al Hilal Life B.S.C. (c) to Solidarity Bahrain B.S.C.

The consolidated financial statements for the year ended 31 December 2023 were authorised for issue in accordance with a resolution of the Board of Directors dated 27 February 2024.

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 the 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. Subsequent to issuance of Islamic Retail Banking license on 10 December 2023, the Bank is required to prepare its financial statements under AAOIFI accounting framework as per Central Bank of Bahrain rule book Volume II. However, since for majority of period during the year ended 31 December 2023, the Bank was operating as a licensed retail conventional bank, the Bank has prepared the financial statements under IFRS accounting framework for the year ended 31 December 2023.

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 2023 and 2022. 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:

		Group's nominal holding	
Name	***Incorporated in***	***2023***	*2022*
Ahli United Bank (U.K.) PLC ("AUBUK")	United Kingdom	**100.0%**	100.0%
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%
Ahli United Bank K.S.C.P. ("AUBK")*	State of Kuwait	**67.3%**	67.3%
Al Hilal Life B.S.C. (c) ("AHL")	Kingdom of Bahrain	**-**	100.0%

* Effective holding 74.8% (2022: 74.9%).

2 ACCOUNTING POLICIES (continued)

2.4 New and amended standards and interpretations

The following standards and interpretations are effective for the period beginning on or after 1 January 2023:

- International Tax Reform – Pillar Two Model Rules (Amendments to IAS 12)
  The amendments to IAS 12 have been introduced in response to the OECD's BEPS Pillar Two rules and include:

  - A mandatory temporary exception to the recognition and disclosure of deferred taxes arising from the jurisdictional implementation of the Pillar Two model rules; and

  - Disclosure requirements for affected entities to help users of the financial statements better understand an entity's exposure to Pillar Two income taxes arising from that legislation, particularly before its effective date.

  In periods in which Pillar Two legislation is (substantively) enacted but not yet effective, the amendment requires disclosure of known or reasonably estimable information that helps users of financial statements understand the entity's exposure arising from Pillar Two income taxes including both qualitative and quantitative information about its exposure to Pillar Two income taxes at the end of the reporting period.

  In 2021, OECD's Inclusive Framework (IF) on Base Erosion and Profit Shifting (BEPS) had agreed to a two-pillar solution in order to address tax challenges arising from digitalization of the economy. Under Pillar 2, multinational entities whose revenue exceeds EUR 750 million are liable to pay corporate income tax at a minimum effective tax rate of 15%.

  The Bank has determined that it is not subjected to Pillar Two taxes as it does not operate in any jurisdictions where Pillar 2 regulations are effective for the year ended 31 December 2023. Therefore, as the related Pillar Two disclosures are not required, the amendments will have no impact on the Bank financial statements at 31 December 2023.

  Pillar Two 15% minimum tax GloBE rules have been enacted and become effective as from 1 January 2024 in the United Kingdom where the Bank operates. There is no clarity yet on the exact measures and timing that will be implemented in Bahrain, or other jurisdictions where the Bank operates.

  The Bank continues to monitor developments relating to the implementation of Pillar Two legislation in jurisdictions where it operates and has engaged tax specialists to assist with an assessment of its exposure to Pillar Two top up tax for when the legislation comes into effect. Due to the complexities in applying the legislation, the future quantitative impact is not yet reasonably estimable.

- Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2
  In February 2022, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements, in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

- Definition of Accounting Estimates - Amendments to IAS 8
  In February 2022, 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.

  All above amendments to IFRS which are effective for annual accounting period starting from 1 January 2023 did not have any material impact on the accounting policies, financial position or performance of the Group.

2 ACCOUNTING POLICIES (continued)

2.5 New and amended standards and interpretations issued but not yet effective

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

  In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:
  - What is meant by a right to defer settlement;
  - That a right to defer must exist at the end of the reporting period ;
  - That classification is unaffected by the likelihood that an entity will exercise its deferral right; and
  - That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification.

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

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

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

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

  The above amendments are not expected to have a material impact on the financial statements of the Bank.

- General requirements for disclosure of sustainability-related financial information (IFRS S1) and Climate-related disclosures (IFRS S2)

  In June 2023 the International Sustainability Standards Board (ISSB) issued its first two IFRS Sustainability Disclosure Standards, IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and IFRS S2 Climate-related Disclosures. IFRS S1 includes the core framework for the disclosure of material information about sustainability-related risks and opportunities across a Group's value chain. IFRS S2 is the first thematic standard issued that sets out requirements for entities to disclose information about climate-related risks and opportunities. The standard requires an entity to disclose information about climate-related risks and opportunities that could reasonably be expected to affect the entity's cash flows, its access to finance or cost of capital over the short, medium or long term.

  The Group is currently evaluating the impact of these amendments. The Group will adopt these requirements when the amendments become effective.

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.

2 ACCOUNTING POLICIES (continued)

2.6 Significant accounting judgements and estimates (continued)

i) Business model (continued)

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 profits or generating capital gains.

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

The measurement of the ECL for financial assets measured at amortised cost and sukuk 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 obligor 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 giving due considerations to 'buy-in' arrangements with takaful companies. The cost of the defined benefit pension plan in the UK subsidiary 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.

2 ACCOUNTING POLICIES (continued)

2.6 Significant accounting judgements and estimates (continued)

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.

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 enhancement to the expected credit loss model, valuation estimates and judgements as at and for the year ended 31 December 2023.

The Group has taken note of the current economic situation post the end of regulatory forbearance measures, forecast economic recession in Europe, expected rise in benchmark rates and continued inflationary pressures in many countries across the globe and ongoing geopolitical tensions. The Group has also considered the impact of the challenging economic environment post COVID-19, other geo-political conditions 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 supplemented with management overlays.

2.7 Summary of material 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.

2 ACCOUNTING POLICIES (continued)

2.7 Summary of material accounting policies (continued)

(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.

(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 profit rate method and taken to financing income or finance cost as appropriate.

Financial instruments include contracts with the Bank's customers in accordance with conventional banking contracts for comparative period.

The Bank converted a certain portion of its financial instruments to Shari'ah compliant instruments through controlled special purpose entities as approved by the Shari'ah Supervisory Board of the Bank.

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.

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

(i) Deposits with central banks
Deposits with central banks are initially recognised at amortised cost. Premiums and discounts are amortised to their maturity using the effective profit rate method.

2 ACCOUNTING POLICIES (continued)

2.7 Summary of material accounting policies (continued)

(c) Financial instruments (continued)

(ii) Deposits with banks, other financial institutions and financing receivables

Deposits with banks (including nostro accounts) and other financial institutions and Financing receivables are financial assets with fixed or determinable payments and fixed maturities. Financing receivables with renegotiated terms are Financing receivable, 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 profit 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 profit rate. The amortisation is included in "Finance income" in the consolidated

Following contracts are primarily used to structure the financing receivables based on shari'ah principles:

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.

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.

Other financing receivables and advances

Other financing receivables and advances are financial assets with fixed or determinable payments and fixed maturities. After initial recognition, they are subsequently measured at amortized cost using the effective profit rate method, adjusted to reflect actual fair value hedges, less any amounts written off and allowance for credit losses. Amortized cost is calculated by considering any discount or premium on acquisition and fees that are an integral part of the effective profit rate.

2 ACCOUNTING POLICIES (continued)

2.7 Summary of material accounting policies (continued)

(c) Financial instruments (continued)

(iii) Debt instruments
Debt instruments are measured at amortised cost using the effective profit 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 profit ("SPPP") 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. ‘profit’ 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 SPPP, 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 Profit (SPPP) 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".

(iv) 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.

(v) 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.

(vi) 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.

2 ACCOUNTING POLICIES (continued)

2.7 Summary of material accounting policies (continued)

(c) Financial instruments (continued)

(vii) Deposits, Sukuk payable and term financing 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".

The depositors' accounts of the Bank comprise the following:

- 1) Non-investment deposits in the form of current accounts: These deposits are not entitled to any profits nor do they bear any risk of loss as the Bank pays to the related balances on demand. Accordingly, these deposits are considered Qard Hasan from depositors to the Bank under Islamic Shari'ah.
- 2) Investment deposits: These have fixed maturity deposits as specified in the term of the contract, based on the Mudaraba or Wakala contracts and are automatically renewable for the same periods unless notified to the contrary in writing by the depositor. Investment call / savings accounts are valid for an unlimited period. In all cases, the investment deposits receive a proportion of the profit as determined by the Bank, or bear a share of loss based on the results of the financial year.

(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 as they transition from IBORs to RFRs. In addition to the profit 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 profit 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 EPR (Effective Profit Rate).

(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 "obligations under repurchase agreements". The difference between the sale price and repurchase price is treated as finance cost and is accrued over the life of the agreement using the effective profit rate method.

2 ACCOUNTING POLICIES (continued)

2.7 Summary of material 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 profit-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 profit 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 financing 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.

2 ACCOUNTING POLICIES (continued)

2.7 Summary of material accounting policies (continued)

(g) Impairment of financial assets (continued)

Expected credit loss model (continued)
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 profit. 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.

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 prescribed by regulators has elapsed from the date on which the account qualifies for reclassification.

2 ACCOUNTING POLICIES (continued)

2.7 Summary of material accounting policies (continued)

(g) Impairment of financial assets (continued)

Incorporation of forward looking information

The Group incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of 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 profit 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 profit 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.

Sukuk or similar instruments measured at fair value through OCI

The ECL for sukuks 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.

(h) Hedge accounting

In the ordinary course of business, the Group enters into currency swaps, profit rate swaps, forward foreign exchange and forward commodity contracts (“Islamic derivative financial instruments”) and other derivative instruments to mitigate foreign currency and profit rate risk. The Islamic currency swaps and forward commodity contracts are based on Wa'ad (promise) structure between two parties to buy a specified Shari’ah compliant commodity at an agreed price on the relevant date in future. It is a conditional promise to purchase a commodity through unilateral purchase undertaking. For profit rate swaps, counterparties generally exchange fixed and floating rate profit payments based on a notional value in a single currency. For currency swaps, fixed or floating payments as well as notional amounts are exchanged in different currencies. For Islamic profit rate swaps, counterparties generally exchange fixed and floating rate profit payments based on a notional value in a single currency through series of transactions to buy a specified Shari’ah compliant commodity at an agreed price on the relevant date in future based on Wa'ad (promise) structure. The currency swaps, profit rate swaps, forward foreign exchange and forward commodity contracts are being used for hedging purpose. Embedded swaps and profit rate contracts are balances with banks and financial institutions with rates of return tied to changes in value of precious metals.

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 "other assets" and derivatives with negative market values are included in "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.

2 ACCOUNTING POLICIES (continued)

2.7 Summary of material accounting policies (continued)

(h) Hedge accounting (continued)

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 profit 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.

2 ACCOUNTING POLICIES (continued)

2.7 Summary of material accounting policies (continued)

(h) Hedge accounting (continued)

(ii) Cash flow hedges (continued)

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.

(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) Financing and similar income and finance and similar cost

For all profit bearing financial instruments, finance income or expense is recorded using the effective profit 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 finance income is suspended on Financing receivables where profit 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 finance income on a gross basis.

As the Bank was not operating as an Islamic banking licensed entity up to 10 December 2023, financing income and deposit cost includes yield earned and cost incurred on the conventional portfolio of financial Instruments.

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 profit, 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.

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

(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 profit 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.

2 ACCOUNTING POLICIES (continued)

2.7 Summary of material accounting policies (continued)

(j) Revenue recognition (continued)

(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 profit 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.

(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

2 ACCOUNTING POLICIES (continued)

2.7 Summary of material accounting policies (continued)

(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 profit 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 shareholder. 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.

(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.

2 ACCOUNTING POLICIES (continued)

2.7 Summary of material accounting policies (continued)

(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 shareholder.

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 financing 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. Financing 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 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 “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 profit 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 profit 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 Non-current assets held for sale

The Group classifies non-current assets as held for sale if their carrying amounts are recovered principally through a sale transaction rather than through continuing use. The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. When the Group is committed to a sale plan, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale. Non-current assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell unless the items presented in the assets are not part of the measurement scope as defined in IFRS 5 Non-current Assets held for Sale and Discontinuing Operations.

3 NET FINANCING AND SIMILAR INCOME

	2023	*2022*
	US$'000	*US$'000*
(a) FINANCING AND SIMILAR INCOME		
Deposits with banks and central banks	**239,426**	218,437
Financing receivables	**1,012,253**	680,403
Non-trading investments	**643,823**	339,849
	1,895,502	1,238,689

Financing income consists income from FVTOCI investments amounting to US$ 139.9 million (2022: US$ 137.0 million).

	2023	*2022*
	US$'000	*US$'000*
(b) FINANCE AND SIMILAR COST AND DISTRIBUTION TO DEPOSITORS		
Deposits from banks	**113,215**	69,719
Repurchase agreements with banks	**215,707**	90,054
Customers' deposits	**661,609**	355,956
Sukuk payable and term financing	**122,459**	65,438
	1,112,990	581,167
NET FINANCING AND SIMILAR INCOME	**782,512**	657,522

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

4 FEES AND COMMISSIONS - NET

	2023	*2022*
	US$'000	*US$'000*
Fees and commission income		
- Transaction banking services	**93,696**	80,918
- Management, performance and brokerage fees*	**8,110**	9,432
Fees and commission expense	**(5,117)**	(3,011)
	96,689	87,339

* This includes US$ 1.5 million (2022: US$ 1.8 million) of fee income relating to trust and other fiduciary activities.

5 TRADING INCOME

	2023	2022
	US$'000	*US$'000*
Foreign exchange	**17,954**	7,829
Proprietary trading	**9,551**	11,953
	27,505	19,782

6 (a) CASH AND BALANCES WITH CENTRAL BANKS

	2023	2022
	US$'000	*US$'000*
Cash and balances with central banks, excluding mandatory reserve (note 24)	**426,860**	605,561
Mandatory reserve with central banks	**746,619**	1,037,631
	1,173,479	1,643,192

6 (b) DEPOSITS WITH CENTRAL BANKS

	2023	2022
	US$'000	*US$'000*
Central Bank of Bahrain	**597,044**	1,369,785
Central Bank of Kuwait	**-**	777,551
Central Bank of Egypt	**289,386**	127,650
Central Bank of Iraq	**26,619**	55,318
US treasury bills	**-**	10,000
	913,049	2,340,304

The deposits with central banks are local currency denominated and are match funded by underlying respective local currencies. Deposit with Central bank and Assets classified as held for sale includes deposit with Central Bank of Kuwait amounting US$ 675.7 million as mandatory reserve (2022: US$ 777.6 million).

7 FINANCING RECEIVABLES

	2023		2022	
	US$ '000	***%***	*US$ '000*	*%*
a) By industry sector				
Consumer / personal	**1,113,507**	**9.7**	3,291,836	14.8
Residential mortgage	**1,378,999**	**12.0**	1,707,559	7.7
Trading and manufacturing	**3,619,038**	**31.5**	5,684,996	25.7
Real estate	**1,688,842**	**14.7**	5,993,288	27.0
Banks and other financial institutions	**585,548**	**5.1**	757,716	3.4
Services	**2,162,805**	**18.8**	4,228,384	19.1
Government / public sector	**428,700**	**3.7**	198,023	0.9
Others	**513,052**	**4.5**	310,539	1.4
	11,490,491	**100.0**	22,172,341	100.0
Less: ECL allowances (Stage 1 and 2)	**(357,154)**		(587,336)	
Less: ECL allowances (Stage 3)	**(225,939)**		(363,680)	
	10,907,398		21,221,325	

7 FINANCING RECEIVABLES (continued)

	2023		2022	
	US$ '000	***%***	*US$ '000*	*%*
b) By geographic region				
GCC countries	**6,119,517**	**53.2**	17,319,535	78.1
United Kingdom	**1,744,357**	**15.2**	1,603,663	7.3
Arab Republic of Egypt	**2,619,142**	**22.8**	2,419,873	10.9
Europe (excluding United Kingdom)	**376,982**	**3.3**	208,588	0.9
Asia (excluding GCC countries)	**301,685**	**2.6**	215,044	1.0
Others	**328,808**	**2.9**	405,638	1.8
	11,490,491	**100.0**	22,172,341	100.0
Less: ECL allowances (Stage 1 and 2)	**(357,154)**		(587,336)	
Less: ECL allowances (Stage 3)	**(225,939)**		(363,680)	
	10,907,398		21,221,325	

c) Credit quality of financing receivables

	2023			
	Stage 1	***Stage 2***	***Stage 3***	***Total***
	US$ '000	***US$ '000***	***US$ '000***	***US$ '000***
High standard grade				
Retail	**1,861,541**	**166,310**	**-**	**2,027,851**
Corporate	**3,809,619**	**83,894**	**-**	**3,893,513**
Standard grade				
Retail	**81,682**	**91,205**	**-**	**172,887**
Corporate	**3,501,846**	**1,620,530**	**-**	**5,122,376**
Credit impaired				
Retail	**-**	**-**	**93,270**	**93,270**
Corporate	**-**	**-**	**180,594**	**180,594**
	9,254,688	**1,961,939**	**273,864**	**11,490,491**
Less: ECL allowances	**(82,490)**	**(274,664)**	**(225,939)**	**(583,093)**
	9,172,198	**1,687,275**	**47,925**	**10,907,398**

7 FINANCING RECEIVABLES (continued)

c) Credit quality of financing receivables (continued)

	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

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

d) Age analysis of past due but not credit impaired financing receivables

	2023			
	Up to 30 days	***31 to 60 days***	***61 to 89 days***	***Total***
	US$ '000	***US$ '000***	***US$ '000***	***US$ '000***
Retail	**86,933**	**33,059**	**25,320**	**145,312**
Corporate	**66,243**	**74,728**	**28,929**	**169,900**
	153,176	**107,787**	**54,249**	**315,212**

	2022			
	Up to 30 days	*31 to 60 days*	*61 to 89 days*	*Total*
	US$ '000	*US$ '000*	*US$ '000*	*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

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

7 FINANCING RECEIVABLES (continued)

e) Individually credit impaired Financing receivables

	2023		
	Retail	***Corporate***	***Total***
	US$ '000	***US$ '000***	***US$ '000***
Gross credit impaired financing receivables	**93,270**	**180,594**	**273,864**
ECL allowances (Stage 3)	**(71,983)**	**(153,956)**	**(225,939)**
	21,287	**26,638**	**47,925**
ECL coverage on credit impaired financing receivables	**77.2%**	**85.2%**	**82.5%**
Gross financing receivables	**2,294,008**	**9,196,483**	**11,490,491**
Credit impaired financing receivables ratio	**4.1%**	**2.0%**	**2.4%**

	2022		
	Retail	*Corporate*	*Total*
	US$ '000	*US$ '000*	*US$ '000*
Gross credit impaired financing receivables	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 financing receivables	84.0%	84.6%	84.5%
Gross financing receivables	4,411,302	17,761,039	22,172,341
Credit impaired financing receivables ratio	2.1%	1.9%	1.9%

The fair value of collateral that the Group holds relating to financing receivables individually determined to be credit impaired at 31 December 2023 amounted to US$ 386.0 million (31 December 2022: US$ 491.2 million). The collateral consists of cash, securities and properties.

The carrying amount of restructured credit facilities was US$ 739.8 million on which the Group maintained ECL provision of US$ 112.5 million as at 31 December 2023 (31 December 2022: restructured credit facilities was US$ 552.1 million on which ECL provision of US$ 77.5 million).

f) Impairment allowance for financing receivables

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

i) Loss allowances for financing receivables - Retail

	2023			
	Stage 1	***Stage 2***	***Stage 3***	***Total***
	US$ '000	***US$ '000***	***US$ '000***	***US$ '000***
At 1 January 2023	**55,797**	**23,839**	**77,556**	**157,192**
Transfer from Stage 1	**(1,049)**	**574**	**475**	**-**
Transfer from Stage 2	**844**	**(3,059)**	**2,215**	**-**
Transfer from Stage 3	**-**	**169**	**(169)**	**-**
Net remeasurement of ECL allowances	**(4,002)**	**(2,759)**	**50,383**	**43,622**
Amounts written-off *	**-**	**-**	**(5,257)**	**(5,257)**
Transfer to held for sale	**(32,733)**	**(9,255)**	**(60,844)**	**(102,832)**
Exchange rate and other adjustments	**(161)**	**(27)**	**7,624**	**7,436**
At 31 December 2023	**18,696**	**9,482**	**71,983**	**100,161**

7 FINANCING RECEIVABLES (continued)

f) Impairment allowance for financing receivables (continued)

i) Loss allowances for financing receivables - Retail (continued)

	2022			
	Stage 1	*Stage 2*	*Stage 3*	*Total*
	US$ '000	*US$ '000*	*US$ '000*	*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

ii) Loss allowances for financing receivables - Corporate

	2023			
	Stage 1	***Stage 2***	***Stage 3***	***Total***
	US$ '000	***US$ '000***	***US$ '000***	***US$ '000***
At 1 January 2023	**134,650**	**373,050**	**286,124**	**793,824**
Transfer from Stage 1	**(3,186)**	**3,102**	**84**	**-**
Transfer from Stage 2	**242**	**(39,294)**	**39,052**	**-**
Transfer from Stage 3	**-**	**17,577**	**(17,577)**	**-**
Net remeasurement of ECL allowances	**22,577**	**22,528**	**(32,515)**	**12,590**
Amounts written-off *	**-**	**-**	**(55,410)**	**(55,410)**
Transfer to held for sale	**(78,425)**	**(101,129)**	**(57,470)**	**(237,024)**
Exchange rate and other adjustments	**(12,064)**	**(10,652)**	**(8,332)**	**(31,048)**
At 31 December 2023	**63,794**	**265,182**	**153,956**	**482,932**

	2022			
	Stage 1	*Stage 2*	*Stage 3*	*Total*
	US$ '000	*US$ '000*	*US$ '000*	*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

* Represents the full carrying value of the financing receivables written-off.

The contractual amount outstanding on financing receivables that have been written off during the year, but were still subject to legal action was US$ 15.2 million at 31 December 2023 (2022: US$ 167.5 million).

7 FINANCING RECEIVABLES (continued)

g) Provision for credit losses and others

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

	2023	*2022*
	US$ '000	*US$ '000*
Net remeasurement of ECL on financing receivables (note 7f)	**56,212**	145,744
Recoveries from financing receivables during the year (from fully provided financing receivables written-off in prior years)	**(4,588)**	(7,266)
Net remeasurement of ECL for non-trading investments (note 8c)	**(25,514)**	72,081
Net remeasurement of ECL on off-balance sheet exposures and others	**4,757**	10,407
Net provision charge on investment/acquired properties	**49,605**	-
Net other provision charge (write-back)	**23,638**	(34,070)
	104,110	186,896

8 NON-TRADING INVESTMENTS

a) By sector

	2023			
	Held at amortised cost	***Held at FVTOCI***	***Held at FVTPL***	***Total***
	US$'000	***US$'000***	***US$'000***	***US$'000***
Quoted investments				
GCC government Sukuk and similar instruments	**2,930,592**	**662,741**	**-**	**3,593,333**
Other government Sukuk and similar instruments	**510,576**	**332,158**	**-**	**842,734**
GCC government entities' securities	**1,210,302**	**184,424**	**-**	**1,394,726**
Sukuk and similar instruments:				
- banks and other financial institutions	**1,154,988**	**243,911**	**-**	**1,398,899**
- corporates	**2,427,288**	**370,518**	**-**	**2,797,806**
Equity instruments	**-**	**17,325**	**1,457**	**18,782**
	8,233,746	**1,811,077**	**1,457**	**10,046,280**
Unquoted investments				
Sukuk and similar instruments:				
- issued by banks and other financial institutions	**12,370**	**66,743**	**-**	**79,113**
Equity instruments	**-**	**77,357**	**8,432**	**85,789**
	12,370	**144,100**	**8,432**	**164,902**
Total	**8,246,116**	**1,955,177**	**9,889**	**10,211,182**
Less: ECL allowances	**(23,344)**	**(4,889)**	**-**	**(28,233)**
	8,222,772	**1,950,288**	**9,889**	**10,182,949**

8 NON-TRADING INVESTMENTS (continued)

	2022			
	Held at amortised cost	*Held at FVTOCI*	*Held at FVTPL*	*Total*
	US$'000	*US$'000*	*US$'000*	*US$'000*
Quoted investments				
GCC government Sukuk and similar instruments	3,147,212	48,605	-	3,195,817
Other government Sukuk and similar instruments	917,166	392,398	-	1,309,564
GCC government entities' securities	711,825	224,030	-	935,855
Sukuk and certificates of deposit:				
- banks and other financial institutions	1,502,375	378,279	-	1,880,654
- 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				
Sukuk 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

The fair value of the non-trading investments held at amortised cost is US$ 8,358.7 million as at 31 December 2023 (31 December 2022: US$ 8,574.2 million) of which US$ 8,346.3 million is classified under Level 1 of fair value hierarchy (31 December 2022: US$ 8,563.0 million) and US$ 12.4 million is classified under Level 2 of fair value hierarchy (31 December 2022: US$ 11.2 million).

Gain on FVTPL investments for the year ended 31 December 2023 amounted to US$ 6.3 million (2022: Loss of US$ 0.7 million).

b) Credit quality of non-trading investments

	2023			
	Stage 1	***Stage 2***	***Stage 3***	***Total***
	US$ '000	***US$ '000***	***US$ '000***	***US$ '000***
High standard grade	**7,007,065**	**-**	**-**	**7,007,065**
Standard grade	**2,717,405**	**382,141**	**-**	**3,099,546**
	9,724,470	**382,141**	**-**	**10,106,611**
Less: ECL allowances	**(25,661)**	**(2,572)**	**-**	**(28,233)**
	9,698,809	**379,569**	**-**	**10,078,378**
Equity instruments at fair value				**104,571**
				10,182,949

8 NON-TRADING INVESTMENTS (continued)

b) Credit quality of non-trading investments (continued)

	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

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

c) Reconciliation of ECL allowances

	2023			
	Stage 1 US$ '000	***Stage 2 US$ '000***	***Stage 3 US$ '000***	***Total US$ '000***
At 1 January 2023	**24,571**	**64,398**	**10,873**	**99,842**
Transfer from Stage 1	**(867)**	**867**	**-**	**-**
Net remeasurement of ECL allowances	**4,955**	**(62,734)**	**32,265**	**(25,514)**
Amounts written off during the year	**-**	**-**	**(43,148)**	**(43,148)**
Transfer to held for sale	**(3,069)**	**(284)**	**-**	**(3,353)**
Exchange rate and other adjustments	**71**	**325**	**10**	**406**
At 31 December 2023	**25,661**	**2,572**	**-**	**28,233**

	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

9 INVESTMENT IN ASSOCIATES

The associates of the Group are:

Name	*Incorporated in*	*Group's nominal holding*	
		2023	*2022*
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 all associates was as follows:

	2023	*2022*
	US$ '000	*US$ '000*
Total assets	**9,285,320**	8,417,777
Total liabilities	**7,772,868**	7,083,097
Share of results for the year (Group's share)	**31,548**	32,553
Other comprehensive income (loss) for the year (Group's share)	**6,889**	(2,616)

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

	2023	*2022*
	US$ million	*US$ million*
Ahli Bank S.A.O.G.		
Balance sheet related information		
Financing receivables	**6,997.8**	6,494.5
Total assets	**8,619.1**	7,988.3
Customers' deposits	**6,430.3**	5,964.2
Total liabilities	**7,264.8**	6,791.0
Income statement related information		
Total operating income	**255.9**	238.2
Net profit for the year	**94.7**	85.9
Dividends received during the year	**16.0**	13.3
Cash flow related information		
Net cash (used in) / from operating activities	**(75.4)**	58.9
Net cash used in investing activities	**(37.8)**	(61.7)
Net cash from financing activities	**151.7**	239.2

The market value of AUB's investment in ABO based on the price quoted in the Muscat Securities Market at 31 December 2023 is US$ 333.2 million (31 December 2022: US$ 303.1 million).

10 INVESTMENT PROPERTIES

These represent properties acquired by the Group and are recognised at cost. As at 31 December 2023, the fair value of the investment properties is US$ 121.6 million (31 December 2022: US$ 204.1 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 (2022: Level 3) of the fair value hierarchy.

10 INVESTMENT PROPERTIES (continued)

Movements during the year are as follows:

	2023	*2022*
	US$ '000	*US$ '000*
At 1 January	**189,065**	188,648
Additions	**2,324**	-
Transfer to held for sale	**(66,264)**	-
Disposals	**(11,688)**	-
Depreciation, impairment and other movements	**(8,400)**	417
At 31 December	**105,037**	189,065

11 PROFIT RECEIVABLE, DERIVATIVE AND OTHER ASSETS

	2023	*2022*
	US$ '000	*US$ '000*
Profit receivable	**286,774**	275,117
Derivative assets (note 28)	**500,604**	750,140
Tax assets (note 22)	**1,515**	793
Repossessed real estate assets	**261,951**	306,104
Prepayments and others	**53,200**	225,184
	1,104,044	1,557,338

Profit receivable includes US$ 35.8 million (2022: US$ 33.4 million) relating to financial assets held at FVTOCI and US$ 251.0 million (2022: US$ 241.7 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:

	2023	*2022*
	US$ '000	*US$ '000*
Freehold land	**42,774**	96,011
Freehold buildings	**23,670**	29,081
Fixtures and improvements	**5,661**	30,131
IT equipment and others	**91,957**	86,281
Capital work-in-progress	**22,558**	47,540
Right-of-use assets	**17,256**	36,258
	203,876	325,302

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 (2022: Level 3) of the fair value hierarchy. During the years ended 31 December 2023 and 2022, there have been no movements in Level 3 freehold land other than valuation changes.

13 GOODWILL AND OTHER INTANGIBLE ASSETS

	2023			*2022*		
	Goodwill	***Intangible assets***	***Total***	*Goodwill*	*Intangible assets*	*Total*
	US$'000	***US$'000***	***US$'000***	*US$'000*	*US$'000*	*US$'000*
At 1 January	**470,978**	**39,067**	**510,045**	431,021	55,868	486,889
Write off	**-**	**(3,581)**	**(3,581)**	-	-	-
Transfer to held for sale*	**(361,229)**	**-**	**(361,229)**	-	-	-
Additions, exchange rate and other movements	**(1,990)**	**(7,065)**	**(9,055)**	39,957	(16,801)	23,156
At 31 December	**107,759**	**28,421**	**136,180**	470,978	39,067	510,045

During 2022, the Bank acquired consumer banking division of Citibank N.A. in Kingdom of Bahrain and estimated a goodwill of US$ 57.2 million on provisional fair values. During 2023, the Bank assessed and recorded the goodwill and intangible amounting to US$ 53.6 million and US$ 3.6 million respectively.
*Fair value less cost to sell for asset classified as held for sale is lower than the carrying amount of the related assets and liabilities and therefore Group has recorded an impairment of goodwill amounting to US$ 54.4 million as at 31 December 2023.

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.

Key assumptions used in estimating recoverable amounts of cash-generating units
The discount rate used in goodwill impairment testing ranged between 13.5% to 28.9% (2022: 8.9% to 15.6%). 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 any additional impairment.

Intangible assets:
Intangible assets comprises primarily the subsidiaries' banking licenses which have indefinite lives. 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

	2023	*2022*
	US$ '000	*US$ '000*
Demand and call deposits	**280,042**	699,777
Time deposits	**1,933,482**	3,377,452
	2,213,524	4,077,229

15 REPURCHASE AGREEMENTS WITH BANKS

The Group has collateralised obligation lines of credit with various financial institutions through repurchase arrangements, amounting to US$ 7.8 billion (31 December 2022: US$ 8.6 billion).

As at 31 December 2023, the obligations under these agreements were US$ 4.6 billion (31 December 2022: US$ 4.4 billion). The fair value of investment securities that were provided as collateral was US$ 5.3 billion (31 December 2022: US$ 4.6 billion).

16 CUSTOMERS' DEPOSITS

	2023	2022
	US$ '000	US$ '000
Current and call deposits	**3,932,693**	5,073,220
Saving deposits	**872,295**	2,783,631
Time deposits	**9,234,607**	16,536,498
	14,039,595	24,393,349

17 SUKUK PAYABLE AND TERM FINANCING

		2023	2022
		US$ '000	US$ '000
(a)	Term financing:		
	- repayable in 2023	**-**	175,000
	- repayable in 2025	**1,096,685**	1,094,462
(b)	Long term Sukuk payable	**527,725**	508,861
		1,624,410	1,778,323

(a) Term financing carry profit rate 6.7% in 2023 (2022: 4.9% to 6.8%).

(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 PROFIT PAYABLE, DERIVATIVE AND OTHER LIABILITIES

	2023	2022
	US$ '000	US$ '000
Profit payable	**217,271**	210,399
Accruals and other payables*	**156,586**	201,761
Derivative liabilities (note 28)	**290,644**	225,216
Other credit balances**	**280,212**	410,962
Tax liabilities (note 22)	**32,340**	29,793
ECL allowances***	**25,898**	35,234
	1,002,951	1,113,365

* Accruals and other payables include US$ 18.2 million (31 December 2022: US$ 37.0 million) relating to lease liabilities.

** Other credit balances mainly include insurance related 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 nil obligations (31 December 2022: US$ 9.5 million), which was subordinated to the claims of its creditors of a group entity.

20 EQUITY

		2023	2022
		US$ '000	US$ '000
(a)	**Authorised:**		
	Share capital		
	12,000 million shares (2022: 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:

	2023	2022
	US$ '000	US$ '000
Ordinary share capital (US$ 0.25 each)	**2,786,983**	2,786,983
Number of shares (millions)	**11,147.9**	11,147.9

Movement in ordinary shares	2023	2022
	(number in millions)	
Opening balance as at 1 January	**11,147.9**	10,134.5
Add: issuance of bonus shares	-	1,013.4
Closing balance as at 31 December	**11,147.9**	11,147.9

20 EQUITY (continued)

(c) Perpetual Tier 1 Capital Securities and Sukuk

	2023	*2022*
	US$ '000	*US$ '000*
Issued by the Bank (note i)	**400,000**	400,000
Perpetual Tier I Sukuk - held for sale (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.

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.

21 RESERVES (continued)

h) Movements in other reserves

		Other comprehensive income					
				Cumulative changes			
	Capital reserve	*Property revaluation reserve*	*Foreign exchange translation reserve*	*OCI reserve*	*Cash flow hedge reserve*	*Pension fund reserve*	*Total other reserves*
	US$ '000	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*
Balance at 1 January 2023	**17,240**	**38,731**	**(763,201)**	**(30,765)**	**(29)**	**(34,964)**	**(772,988)**
Currency translation adjustments	-	-	**(74,046)**	-	-	-	**(74,046)**
Transfers to consolidated statement of income	-	-	-	**(1,934)**	**29**	-	**(1,905)**
Net fair value movements	-	-	-	**(28,714)**	-	**(20,080)**	**(48,794)**
Transfers to retained earnings on sale of equity investments	-	-	-	**55,252**	-	-	**55,252**
Revaluation of freehold land	-	**1,109**	-	-	-	-	**1,109**
Balance at 31 December 2023	**17,240**	**39,840**	**(837,247)**	**(6,161)**	-	**(55,044)**	**(841,372)**

		Other comprehensive income					
				Cumulative changes			
	Capital reserve	*Property revaluation reserve*	*Foreign exchange translation reserve*	*OCI reserve*	*Cash flow hedge reserve*	*Pension fund reserve*	*Total other reserves*
	US$ '000	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*	*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	(17,605)	3,108
Transfers to retained earnings on sale of equity investments	-	-	-	155	-	-	155
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)

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.

21 RESERVES (continued)

i) Dividends proposed and paid

	2023	2022
	US$'000	US$'000
Proposed for approval at the forthcoming Annual General Assembly of Shareholder		
Total cash dividend proposed on the ordinary shares	**278,698**	278,698
Cash dividend on each ordinary share (US cents per share)	**2.50**	2.50

j) Distribution on Perpetual Tier 1 Capital Securities and Sukuk

	2023	2022
	US$'000	US$'000
Distribution on the Perpetual Tier 1 Capital Securities	**23,356**	23,356
Distribution on the Perpetual Tier 1 Sukuk	**23,250**	23,250
	46,606	46,606

22 TAXATION

	2023	2022
	US$'000	US$'000
Consolidated balance sheet (note 11 and note 18):		
- Current tax asset	**1,515**	706
- Deferred tax asset	**-**	87
	1,515	793
- Current tax liability	**30,641**	21,489
- Deferred tax liability	**1,699**	8,304
	32,340	29,793
Consolidated statement of income:		
- Current tax expense on foreign operations	**56,830**	48,327
- Deferred tax expense (credit) on foreign operations	**1,597**	1,483
	58,427	49,810

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% (2022: 22.5%) and AUBUK is 25.0% (2022: 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 shareholder 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:

	2023	2022
	US$'000	*US$'000*
Net profit for basic and diluted earnings per ordinary share computation		
Net profit attributable to Bank's equity shareholder	**667,256**	546,102
Less: Share of Perpetual Tier 1 Capital Securities and Sukuk distributions	**40,750**	40,766
Adjusted net profit attributable to Bank's ordinary equity shareholder for basic and diluted earnings per ordinary share	**626,506**	505,336
Basic and diluted earnings per ordinary share (US cents)	**5.6**	4.5

	Number of shares (in millions)	
	2023	*2022*
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:

	2023	*2022*
	US$ '000	*US$ '000*
Cash and balances with central banks, excluding mandatory reserve deposits [note 6(a)]	**426,860**	605,561
Deposits with central banks and other banks - with an original maturity of three months or less	**1,918,330**	3,023,530
	2,345,190	3,629,091

25 RELATED PARTY TRANSACTIONS

The Group enters into transactions with Shareholder, 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 financing receivable 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:

	2023 US$ '000					
				Senior Management		
	Shareholder	*Associates*	*Non-Executive Directors*	*Management Directors* [2]	*Others*	*Other related parties*
For the year ended 31 December 2023						
Financing and similar income	**-**	**186**	**196**	**-**	**1**	**97**
Finance and similar cost and distribution to depositors	**8,319**	**217**	**281**	**131**	**61**	**60**
Fees and commissions - net	**-**	**1,331**	**-**	**10**	**5**	**-**
Short term employee benefits	**-**	**-**	**-**	**9,141**	**6,877**	**-**
End of service benefits	**-**	**-**	**-**	**443**	**419**	**-**
Directors' fees and related expenses[3]	**-**	**-**	**2,073**	**-**	**-**	**-**
Net operating income (loss) from discontinuing operations	**(89,075)**	**20**	**(322)**	**(934)**	**-**	**(4,249)**
Provision relating to discontinuing operations (note 42)	**(54,400)**	**-**	**-**	**-**	**-**	**-**
As of 31 December 2023						
Deposits with banks	**-**	**3,001**	**-**	**-**	**-**	**-**
Financing receivables	**-**	**-**	**2,117**	**60**	**185**	**-**
Non-trading investments	**-**	**-**	**-**	**-**	**-**	**-**
Profit receivable, derivative and other assets	**-**	**130**	**134**	**-**	**-**	**-**
Deposits from banks	**97,616**	**28,126**	**-**	**-**	**-**	**17**
Customers' deposits[1]	**206,241**	**2**	**4,337**	**6,713**	**4,307**	**-**
Sukuk payable and term financing	**100,000**	**-**	**-**	**-**	**-**	**-**
Profit payable, derivative and other liabilities	**524**	**2,941**	**13**	**-**	**-**	**-**
Subordinated liabilities	**-**	**-**	**-**	**-**	**-**	**-**
Commitments and contingent liabilities	**1,597**	**21,482**	**-**	**-**	**-**	**-**
Held for Sale:						
Assets classified as held for sale	**311,169**	**-**	**30**	**483**	**-**	**18,577**
Liabilities directly associated with assets as held for sale	**1,959,473**	**970**	**10,330**	**2,150**	**-**	**134,419**
Commitments and contingent liabilities	**315**	**4,003**	**-**	**-**	**-**	**1,809**

25 RELATED PARTY TRANSACTIONS (continued)

	2022					
	US$ '000					
				Senior Management		
	Major shareholder	*Associates*	*Non-Executive Directors*	*Management Directors* [2]	*Others*	*Other related parties*
For the year ended 31 December 2022						
Financing and similar income	-	113	2,430	33	-	78
Finance and similar cost and distributi	17,047	-	4	125	13	79
Fees and commissions	-	1,940	183	15	12	-
Short term employee benefits	-	-	-	10,407	3,717	-
End of service benefits	-	-	-	701	238	-
Directors' fees and related expenses[3]	-	-	1,612	-	-	-
Net operating income (loss) from discontinuing operations	(25,581)	-	12,650	(1,614)	-	6
As of 31 December 2022						
Deposits with banks	325,000	12,052	-	-	-	30,000
Financing receivables	-	-	229,719	488	267	9,839
Non-trading investments	15,000	-	-	-	-	18,332
Profit receivable, derivative and other assets	-	3,762	-	-	-	-
Deposits from banks	78,767	41,088	-	-	-	18,585
Customers' deposits[1]	2,787,380	-	71,153	10,973	878	50,147
Sukuk payable and term financing	100,000	-	-	-	-	-
Profit payable, derivative and other liabilities	5,031	3,912	468	-	-	-
Subordinated liabilities	9,462	-	-	-	-	-
Commitments and contingent liabilities	2,126	13,797	64,876	-	-	1,811

[1]Customers' deposits including the discontinued operations include deposits from GCC government-owned institutions amounting to US$ 2,054.0 million (31 December 2022: US$ 2,787.4 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 2022 were approved by the shareholder in the annual general meeting on 22 March 2023 and the same for 2023 will be presented for shareholders' approval at the forthcoming annual general meeting to be convened in March 2024.

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$ 1,703 thousand (2022: US$ 1,637 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.

In May 2023, the trustees of the Ahli United Bank (U.K.) PLC (AUBUK) Pension Fund invested the fund’s assets in a bulk annuity policy (“buy-in” policy) with a leading takaful company. Under the terms of this “buy-in” policy, the takaful company will make payments into the fund that exactly match the benefit outgo for all covered members. The policy therefore had the effect of removing the fund’s normal funding and investment risks; however, AUBUK remains legally responsible to fund benefits in the unlikely event the takaful company defaults on any payments to covered members.

Defined contribution plans

The Group contributed US$ 6,836 thousand during the year (2022: US$ 6,082 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 2023 was US$ 1,957.6 million (2022: US$ 1,938.9 million).

28 DERIVATIVES

In the ordinary course of business, the Group enters into various types of transactions that involve Shari'ah compliant 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.

Islamic forward agreements (Wa'ad)
The Bank enters into forward foreign exchange agreements (Wa'ad) to mitigate foreign currency risk. A Wa'ad is a financial transaction between two parties where payments are dependent upon movements in price of one or more underlying financial instruments, reference rate or index in accordance with Islamic Shari'ah. The notional amount, disclosed gross, is the amount of a Wa'ad's underlying asset/liability and is the basis upon which changes in the value are measured. The notional amounts indicate the volume of transactions outstanding at the year-end and are neither indicative of the market risk nor credit risk.

Profit rate swaps
Profit rate swaps are contractual agreements between two parties and may involve exchange of profit or exchange of both principal and profit for a fixed period of time based on contractual terms. The notional amounts indicate the volume of transactions outstanding at the period-end and are neither indicative of the market risk nor credit risk. Most of the Group's profit rate swaps are held for hedging.

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. These IBOR benchmark rates are quoted each day and IBOR cash flows are exchanged with its counterparties as usual.

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

	2023		*2022*	
	Derivative assets	***Derivative liabilities***	*Derivative assets*	*Derivative liabilities*
	US$ '000	***US$ '000***	*US$ '000*	*US$ '000*
Derivatives held for trading:				
- Profit rate swaps	**102,635**	**68,886**	95,452	92,001
- Forward foreign exchange contracts	**19,559**	**21,579**	39,080	33,086
- Options	**193**	**193**	1,059	1,389
- Profit rate futures	**-**	**-**	51	-
	122,387	**90,658**	135,642	126,476

28 DERIVATIVES (continued)

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

	2023			*2022*		
	Derivative assets	***Derivative liabilities***	***Notional amounts***	*Derivative assets*	*Derivative liabilities*	*Notional amounts*
	US$ '000	***US$ '000***	***US$ '000***	*US$ '000*	*US$ '000*	*US$ '000*
Derivatives held as fair value hedges:						
- Profit rate swaps on amortised cost instruments	**333,667**	**148,933**	**9,569,455**	557,633	98,471	9,951,349
- Profit rate swaps on FVTOCI instruments	**44,550**	**51,053**	**1,289,222**	56,606	-	532,340
Derivatives held as cash flow hedges:						
- Profit rate swaps	**-**	**-**	**-**	-	14	12,410
- Forward foreign exchange contracts	**-**	**-**	**-**	259	255	22,118
	378,217	**199,986**	**10,858,677**	614,498	98,740	10,518,217

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$ 208.7 million (2022: US$ 117.0 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 profit rate swaps held as fair value hedges as at 31 December 2023 is positive US$ 178.2 million (2022: Negative US$ 515.8 million) which is offset by loss recognised on the hedged item at 31 December 2023, attributable to the hedged risk of US$ 178.2 million (2022: gain of US$ 515.8 million). These offsetting gains and losses are included in "trading income" in the consolidated statement of income during the years ended 31 December 2023 and 2022 respectively.

Hedging instruments are issued to hedge against profit rate and foreign exchange risks pertaining to hedged items. Hedged items include certain Financing receivables amounting to US$ 100.8 million (31 December 2022: US$ 119.7 million), Sukuk payable amounting to US$ 600.0 million (31 December 2022: US$ 600.0 million), non-trading investments amounting to US$ 8,189.9 million (31 December 2022: US$ 8,081.5 million) and customer deposits amounting to US$ 2,406.8 million (31 December 2022: US$ 1,694.5 million).

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	*More than 3 months up to 1 year*	*More than 1 year up to 5 years*	*More than 5 years*	*Total*
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*
At 31 December 2023					
Net cash flows	-	-	-	-	-
At 31 December 2022					
Net cash flows	(1)	(25)	(4)	1	(29)

28 DERIVATIVES(continued)

Cash flow hedges (continued)
No significant hedge ineffectiveness on cash flow hedges was recognised during the years ended 31 December 2023 and 2022.

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 profit 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 profit rate swaps and forward rate agreements to hedge against the profit rate risk arising from specifically identified, or a portfolio of, fixed profit rate sukuk and financing receivables. The Group also uses profit 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 profit rate risk is also carried out by monitoring the duration of assets and liabilities and entering into profit rate swaps to hedge net profit rate exposures.

Derivative financial instruments held for hedging is amounting to US$ 10.9 billion (2022: US$ 10.5 billion) out of which US$ 2.1 billion (2022: US$ 2.5 billion) maturing within one year and balance US$ 8.8 billion (2022: US$ 8.0 billion) above one year.

29 COMMITMENTS AND CONTINGENT LIABILITIES

Credit-related commitments

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

Commitments to extend credit represent contractual commitments to make financing receivables 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 and guarantees 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 profit. However, these contracts are primarily made at floating rates.

The Group has the following credit related commitments:

	2023	*2022*
	US$ '000	*US$ '000*
Contingent liabilities:		
Guarantees	**1,683,246**	3,198,087
Letters of credit	**253,019**	563,737
	1,936,265	3,761,824
Maturity of contingent liabilities is as follows:		
Less than one year	**1,744,425**	2,982,055
Over one year	**191,840**	779,769
	1,936,265	3,761,824
Contingent liabilities relating to held for sale	**1,514,458**	-
Irrevocable commitments:		
Undrawn financing receivables commitments	**156,991**	249,081

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 financing receivables, ijara, cash line facilities, credit cards and fund transfer facilities.
Corporate banking	Principally handling financing receivables 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.

30 SEGMENT INFORMATION (continued)

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. profit is charged/credited to business segments based on a pool rate which approximates the cost of funds.

	Retail banking	*Corporate banking*	*Treasury and investments*	*Private banking*	*Total*
	US$ '000	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*
Year ended 31 December 2023:					
Net financing and similar income	**143,440**	**275,351**	**311,455**	**52,266**	**782,512**
Fees and commissions-net	**34,007**	**47,145**	**5,507**	**10,030**	**96,689**
Other operating income	**3,742**	**21,413**	**174,822**	**94**	**200,071**
OPERATING INCOME	**181,189**	**343,909**	**491,784**	**62,390**	**1,079,272**
Provision for credit losses and others	**19,273**	**100,747**	**(21,740)**	**5,830**	**104,110**
NET OPERATING INCOME	**161,916**	**243,162**	**513,524**	**56,560**	**975,162**
Operating expenses	**95,387**	**65,453**	**92,354**	**27,686**	**280,880**
PROFIT BEFORE TAX	**66,529**	**177,709**	**421,170**	**28,874**	**694,282**
Tax expense					**58,427**
NET PROFIT FOR THE YEAR					**635,855**
Net profit after tax expense for the year from discontinuing operations					**71,824**
Less: Attributable to non-controlling profits					**40,423**
NET PROFIT ATTRIBUTABLE TO THE OWNER OF THE BANK					**667,256**
Inter segment financing income (expense) included in net financing income above	**133,960**	**(221,815)**	**(55,864)**	**143,719**	**-**

	Retail banking	*Corporate banking*	*Treasury and investments*	*Private banking*	*Total*
	US$ '000	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*
As at 31 December 2023:					
Segment assets	**1,668,912**	**9,383,537**	**13,874,355**	**557,133**	**25,483,937**
Goodwill	**83,120**	**4,714**	**19,373**	**552**	**107,759**
Other intangible assets	**7,713**	**10,205**	**9,300**	**1,203**	**28,421**
Investment in associates					**375,313**
Unallocated assets					**1,307,920**
Assets classified as held for sale					**14,596,548**
TOTAL ASSETS					**41,899,898**
Segment liabilities	**3,392,886**	**5,961,539**	**8,651,580**	**4,491,168**	**22,497,173**
Unallocated liabilities					**1,002,951**
Liabilities directly associated with assets as held for sale					**12,340,832**
TOTAL LIABILITIES					**35,840,956**

30 SEGMENT INFORMATION (continued)

	Retail banking	*Corporate banking*	*Treasury and investments*	*Private banking*	*Total*
	US$ '000	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*
Year ended 31 December 2022:					
Net financing and similar income	112,896	274,813	231,951	37,862	657,522
Fees and commissions-net	26,212	45,651	4,295	11,181	87,339
Other operating income (loss)	2,099	18,003	178,655	(109)	198,648
OPERATING INCOME	141,207	338,467	414,901	48,934	943,509
Provision for / (recovery from) credit losses and others	26,150	88,635	72,081	30	186,896
NET OPERATING INCOME	115,057	249,832	342,820	48,904	756,613
Operating expenses	75,104	56,575	89,502	22,368	243,549
PROFIT BEFORE TAX	39,953	193,257	253,318	26,536	513,064
Tax expense					49,810
NET PROFIT FOR THE YEAR					463,254
Profit after tax expense for the year from discontinuing operations					119,043
Less: Attributable to non-controlling profits					36,195
NET PROFIT ATTRIBUTABLE TO THE OWNER OF THE BANK					546,102
Inter segment financing income (expense) included in net financing income above	115,906	(121,965)	(53,022)	59,081	-

	Retail banking	*Corporate banking*	*Treasury and investments*	*Private banking*	*Total*
	US$ '000	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*
As at 31 December 2022:					
Segment assets	3,800,575	16,438,809	16,535,443	2,042,502	38,817,329
Goodwill	199,069	96,318	97,225	78,366	470,978
Other intangible assets	13,211	12,741	11,616	1,499	39,067
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

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***	
	2023	*2022*	***2023***	*2022*
	US$ ’000	*US$ ’000*	***US$ ’000***	*US$ ’000*
GCC Countries	**754,355**	504,230	**28,485,849**	27,574,021
Others	**324,917**	439,279	**13,414,049**	13,986,951
Total	**1,079,272**	943,509	**41,899,898**	41,560,972

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 profit 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.

32 CREDIT RISK (continued)

a) Concentration risk (continued)
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 financing receivables 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.

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 2023	*Gross maximum exposure 2022*
	US$ '000	*US$ '000*
Balances with central banks	**1,096,386**	1,523,752
Deposits with central banks	**913,049**	2,340,304
Deposits with banks	**2,202,025**	3,467,846
Financing receivables	**10,907,398**	21,221,325
Non-trading investments	**10,078,378**	9,850,247
Profit receivable, derivative and other assets	**834,063**	1,215,630
Assets classified as held for sale	**13,951,731**	-
Total	**39,983,030**	39,619,104
Contingent liabilities	**1,936,265**	3,761,824
Undrawn financing commitments	**156,991**	249,081
Contingent liabilities relating to held for sale	**1,514,458**	-
Total credit related commitments	**3,607,714**	4,010,905
Total credit risk exposure	**43,590,744**	43,630,009

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.

32 CREDIT RISK (continued)

c) Credit quality of financial assets

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

	Stage 1	***Stage 2***	***Stage 3***	***Total***
	US$ '000	***US$ '000***	***US$ '000***	***US$ '000***
At 31 December 2023				
Balances with central banks:				
High standard grade	**1,096,386**	**-**	**-**	**1,096,386**
Deposits with central banks:				
High standard grade	**597,042**	**-**	**-**	**597,042**
Standard grade	**26,619**	**289,442**	**-**	**316,061**
Deposits with banks:				
High standard grade	**1,925,741**	**-**	**-**	**1,925,741**
Standard grade	**274,194**	**2,304**	**-**	**276,498**
Financing receivables:				
High standard grade	**5,671,160**	**250,204**	**-**	**5,921,364**
Standard grade	**3,583,528**	**1,711,735**	**-**	**5,295,263**
Credit impaired	**-**	**-**	**273,864**	**273,864**
Non-trading investments:				
High standard grade	**7,007,065**	**-**	**-**	**7,007,065**
Standard grade	**2,717,405**	**382,141**	**-**	**3,099,546**
Credit impaired	**-**	**-**	**-**	**-**
Credit related contingent items:				
High standard grade	**1,408,501**	**19,978**	**-**	**1,428,479**
Standard grade	**1,229,465**	**252,132**	**-**	**1,481,597**
Credit impaired*	**-**	**-**	**25,559**	**25,559**

	Stage 1	*Stage 2*	*Stage 3*	*Total*
	US$ '000	*US$ '000*	*US$ '000*	*US$ '000*
At 31 December 2022				
Balances with central banks:				
High standard grade	1,523,752	-	-	1,523,752
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
Financing receivables:				
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

* After application of credit conversion factors, credit impaired contingent items amounted to US$ 12,778 thousand (31 December 2022: US$ 28,953 thousand).

32 CREDIT RISK (continued)

c) Credit quality of financial assets (continued)

Except for non-trading investments and certain financing receivables 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 Financing receivables 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 Doubtful 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 2023 and 2022 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:

	2023			2022		
	Assets	***Liabilities***	***Contingent liabilities on behalf of customers***	*Assets*	*Liabilities*	*Contingent liabilities on behalf of customers*
	US$ '000	***US$ '000***	***US$ '000***	*US$ '000*	*US$ '000*	*US$ '000*
Geographic region:						
GCC countries	**13,889,301**	**12,433,651**	**931,439**	27,574,021	23,837,100	2,462,984
United Kingdom (UK)	**3,003,803**	**2,314,303**	**6,225**	3,221,754	2,118,580	24,773
Arab Republic of Egypt	**3,886,848**	**3,862,956**	**596,251**	3,467,977	3,431,274	671,558
Europe (excluding UK)	**1,841,981**	**2,349,039**	**81,485**	1,883,479	2,655,661	188,043
Asia (excluding GCC)	**2,050,151**	**2,096,126**	**241,214**	2,436,881	2,682,047	244,404
United States of America	**1,012,179**	**294,408**	**58,192**	1,445,010	551,255	160,492
Rest of the World	**1,619,087**	**149,641**	**21,459**	1,531,850	455,656	9,570
Held for sale	**14,596,548**	**12,340,832**	**1,514,458**	-	-	-
	41,899,898	**35,840,956**	**3,450,723**	41,560,972	35,731,573	3,761,824
Industry sector:						
Banks and other financial institutions	**7,959,605**	**10,696,101**	**88,129**	12,759,752	15,704,884	266,233
Consumer/personal	**1,059,850**	**5,180,424**	**8,582**	3,175,850	7,520,085	19,945
Residential mortgage	**1,356,737**	**2,457**	**-**	1,708,386	22,187	645
Trading and manufacturing	**5,798,325**	**1,680,165**	**799,353**	7,175,544	2,244,804	1,699,669
Real estate	**1,647,805**	**617,435**	**5,101**	5,934,439	793,690	63,216
Services	**2,872,303**	**2,348,963**	**795,347**	4,991,898	3,924,456	1,606,018
Government/public sector	**6,069,696**	**1,798,826**	**2,291**	5,512,806	4,481,035	2,178
Others	**539,029**	**1,175,753**	**237,462**	302,297	1,040,432	103,920
Held for sale	**14,596,548**	**12,340,832**	**1,514,458**	-	-	-
	41,899,898	**35,840,956**	**3,450,723**	41,560,972	35,731,573	3,761,824

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 profit 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.

34 MARKET RISK (continued)

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	*Profit rate*	*Effects of correlation*	*Total*
	US$ '000	*US$ '000*	*US$ '000*	*US$ '000*
31 December 2023	**352**	**54**	**0**	**406**
31 December 2022	841	48	(0)	889

ii) Profit rate risk

Profit rate risk arises from the possibility that changes in profit rates will affect the value of financial instruments or the future profitability of the Group. The Group is exposed to profit 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 profit rate risk by establishing levels of profit rate risk by setting limits on the profit rate gaps for stipulated periods. Profit rate gaps on assets and liabilities are reviewed periodically and hedging strategies are used to reduce the profit rate gaps to within the limits established by the Bank's Board of Directors.

IBOR Transition

Following the decision by global regulators to phase out IBORs and replace them with alternative reference rates and to manage our transition to alternate benchmark profit rates (ABPRs), 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. AUB Group has completed the Group's overall IBOR transition activities through engagement with various stakeholders to support an orderly transition and concluded on the transition plan for the exposures not yet transitioned to ABPRs.

34 MARKET RISK (continued)

ii) Profit rate risk (continued)

IBOR Transition

The table below summarises the exposures to financial instruments referencing benchmark profit rates subject to the reform that are yet to transit to alternative benchmark profit rates as of 31 December 2023. No significant impact as a result of IBOR change on the transition date.

	2023			*2022*		
	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	-	-
USD LIBOR	**-**	**-**	**-**	3,569,421	1,983,209	8,356,950
	-	**-**	**-**	3,574,475	1,983,209	8,356,950

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

	2023			
	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	**304,077**	**-**	**-**	**304,077**
Deposits with central banks	**368,031**	**545,018**	**-**	**913,049**
Deposits with banks	**2,195,288**	**5,187**	**1,550**	**2,202,025**
Financing receivables	**9,377,943**	**979,674**	**549,781**	**10,907,398**
Non-trading investments	**112,932**	**427,626**	**9,537,820**	**10,078,378**
Assets classified as held for sale	**13,012,949**	**-**	**-**	**13,012,949**
	25,371,220	**1,957,505**	**10,089,151**	**37,417,876**
Deposits from banks	**1,148,627**	**1,064,897**	**-**	**2,213,524**
Repurchase agreements with banks	**3,380,114**	**1,239,530**	**-**	**4,619,644**
Customers' deposits	**8,119,328**	**4,470,824**	**1,449,443**	**14,039,595**
Sukuk payable and term financing	**1,096,685**	**-**	**527,725**	**1,624,410**
Subordinated liabilities	**-**	**-**	**-**	**-**
Liabilities directly associated with assets as held for sale	**10,109,397**	**-**	**-**	**10,109,397**
	23,854,151	**6,775,251**	**1,977,168**	**32,606,570**
On balance sheet gap	**1,517,069**	**(4,817,746)**	**8,111,983**	**4,811,306**
Off balance sheet gap	**6,723,088**	**950,183**	**(7,673,271)**	
Total profit sensitivity gap	**8,240,157**	**(3,867,563)**	**438,712**	
Cumulative profit sensitivity gap	**8,240,157**	**4,372,594**	**4,811,306**	

34 MARKET RISK (continued)

ii) Profit rate risk (continued)

	2022			
	Less than three months	*Three months to one year*	*Over one year*	*Total*
	US$ '000	*US$ '000*	*US$ '000*	*US$ '000*
Cash and balances with central banks	302,781	-	-	302,781
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
Financing receivables	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
Repurchase agreements with banks	3,783,972	396,506	179,367	4,359,845
Customers' deposits	15,607,577	6,152,409	2,633,363	24,393,349
Sukuk payable and term financing	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 profit sensitivity gap	3,074,330	(1,006,801)	496,766	
Cumulative profit sensitivity gap	3,074,330	2,067,529	2,564,295	

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 2023 and 2022 including the effect of hedging instruments.

Sensitivity analysis - profit rate risk

		2023	*2022*
		US$ '000	*US$ '000*
At 25 bps - increase (+) / decrease (-)	+/-	**7,992**	5,786

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.

34 MARKET RISK (continued)

iii) Currency risk (continued)

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*	
	2023	*2022*	***2023***	*2022*
	US$ '000	*US$ '000*	***US$ '000***	*US$ '000*
Great British Pound	**247**	214	**24,672**	21,405
Euro	**(129)**	(176)	**(12,942)**	(17,580)
Egyptian Pound	**26**	18	**2,615**	1,812
Iraqi Dinar	**(848)**	(992)	**(84,819)**	(91,177)
Kuwaiti Dinar	**(1,130)**	(2,310)	**(113,005)**	(230,993)

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.

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 2023 and 2022 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.

35 LIQUIDITY RISK (continued)

31 December 2023	Up to three months	Over three months to one year	Above one year	Undated	Total
	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000
Assets					
Cash and balances with central banks	1,173,479	-	-	-	1,173,479
Deposits with central banks	641,364	271,685	-	-	913,049
Deposits with banks	2,185,364	983	15,678	-	2,202,025
Financing receivables	2,081,563	2,494,006	6,331,829	-	10,907,398
Non-trading investments	6,104,381	3,441,064	637,504	-	10,182,949
Investment in associates	-	-	-	375,313	375,313
Investment properties	-	-	-	105,037	105,037
Profit receivable, derivative and other assets	700,332	53,977	349,735	-	1,104,044
Premises and equipment	950	2,850	11,400	188,676	203,876
Goodwill and other intangible assets	-	-	-	136,180	136,180
Assets classified as held for sale	14,596,548	-	-	-	14,596,548
Total	27,483,981	6,264,565	7,346,146	805,206	41,899,898
Liabilities					
Deposits from banks	1,174,057	250,013	789,454	-	2,213,524
Repurchase agreements with banks	3,163,861	1,073,639	382,144	-	4,619,644
Customers' deposits	4,315,058	3,565,921	6,158,616	-	14,039,595
Sukuk payable and term financing	-	-	1,624,410	-	1,624,410
Profit payable, derivative and other liabilities	854,162	105,959	42,830	-	1,002,951
Subordinated liabilities	-	-	-	-	-
Liabilities directly associated with assets as held for sale	12,340,832	-	-	-	12,340,832
Total	21,847,970	4,995,532	8,997,454	-	35,840,956
Net liquidity gap	5,636,011	1,269,033	(1,651,308)	805,206	6,058,942

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

35 LIQUIDITY RISK (continued)

31 December 2022	*Up to three months*	*Over three months to one year*	*Above one year*	*Undated*	*Total*
	US$ '000	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*
Assets					
Cash and balances with central banks	1,643,192	-	-	-	1,643,192
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
Financing receivables	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
Profit receivable, derivative and other assets	630,745	459,702	466,891	-	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	22,114,312	7,788,983	10,318,564	1,339,113	41,560,972
Liabilities					
Deposits from banks	2,994,939	332,183	750,107	-	4,077,229
Repurchase agreements with banks	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
Sukuk payable and term financing	94,462	75,000	1,608,861	-	1,778,323
Profit 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	7,005,453	(360,124)	(2,155,043)	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)

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Group's financial liabilities (including profit) 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.

	Up to One month	*Over one month to three months*	*Over three months to one year*	*Over one year to five years*	*Over five years*	*Total*
	US$ '000	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*
As at 31 December 2023						
Deposits from banks	**955,096**	**224,809**	**257,861**	**908,409**	**-**	**2,346,175**
Repurchase agreements with banks	**3,138,236**	**37,351**	**1,103,135**	**432,538**	**-**	**4,711,260**
Customers' deposits	**6,716,091**	**2,218,187**	**4,698,202**	**699,553**	**164**	**14,332,197**
Sukuk payable and term financing	**-**	**-**	**-**	**1,969,877**	**-**	**1,969,877**
Subordinated liabilities	**-**	**-**	**-**	**-**	**-**	**-**
Profit payable	**79,162**	**41,674**	**77,340**	**19,095**	**-**	**217,271**
Liabilities directly associated with assets as held for sale	**-**	**12,127,338**	**-**	**-**	**-**	**12,127,338**
Total	**10,888,585**	**14,649,359**	**6,136,538**	**4,029,472**	**164**	**35,704,118**
Credit related commitments	**32,717**	**7,784**	**28,263**	**76,851**	**11,376**	**156,991**
Derivatives (net)	**209,960**	**-**	**-**	**-**	**-**	**209,960**

	Up to One month	*Over one month to three months*	*Over three months to one year*	*Over one year to five years*	*Over five years*	*Total*
	US$ '000	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*
As at 31 December 2022						
Deposits from banks	2,072,168	928,710	335,957	791,016	-	4,127,851
Repurchase agreements with banks	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
Sukuk payable and term financing	94,592	-	76,920	1,803,785	-	1,975,297
Subordinated liabilities	-	-	-	10,836	-	10,836
Profit 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

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.

36 OPERATIONAL RISK (continued)

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 financing 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 financing 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.

	2023			
	Level 1	***Level 2***	***Level 3***	***Total***
	US$ '000	***US$ '000***	***US$ '000***	***US$ '000***
Equity instruments at fair value	**613**	**64,172**	**39,786**	**104,571**
Debt instruments (FVTOCI)	**1,793,752**	**66,743**	**-**	**1,860,495**
Financing receivables	**-**	**-**	**13,205**	**13,205**
Derivative assets	**-**	**500,604**	**-**	**500,604**
Derivative liabilities	**-**	**290,644**	**-**	**290,644**

	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

During the years ended 31 December 2023 and 2022, there have been no transfers between Level 1, 2, 3. During the year addition to Level 3 financial instruments were US$ 7.9 million (2022: nil) and fair value movement of US$ 5.9 million (31 December:2022: nil).

For an explanation of valuation techniques used to value these financial instruments, refer to note 2.7(f).

38 FAIR VALUE MEASUREMENT (continued)

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 shareholder's 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 shareholder's value. Capital adequacy for each of the Group entities is also managed separately at individual entity 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 shareholder 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%, including 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's total capital ratio is 17.2% as of 31 December 2023 (31 December 2022: 16.9%).

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 2023 is 120.8% (31 December 2022: 118.0%).

	2023	*2022*
	US$ '000	*US$ '000*
Available Stable Funding:		
Regulatory capital	**6,230,233**	6,155,841
Stable deposits	**8,485,752**	7,346,964
Wholesale funding	**11,258,826**	12,576,583
Others	**814,759**	734,758
Total Available Stable Funding (A)	**26,789,570**	26,814,146
Required Stable Funding:		
High-Quality Liquid Assets (HQLA)	**2,073,404**	1,451,622
Performing financing receivables	**14,741,827**	14,912,508
Securities (other than HQLA)	**2,588,539**	3,046,772
Derivative contracts	**283,378**	290,695
Others	**2,075,887**	2,552,342
Off-Balance sheet items	**421,494**	479,381
Total Required Stable Funding (B)	**22,184,529**	22,733,320
NSFR (%) (A/B)	**120.8%**	118.0%

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.

40 DEPOSIT PROTECTION SCHEME (continued)

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 SUBSIDIARIES

Financial information of subsidiaries that has material non-controlling interests are provided below.

Proportion of equity interest held by non-controlling interests are provided below:

Name	*Incorporated in*	***2023***	*2022*
Ahli United Bank (Egypt) S.A.E. [AUBE]	Arab Republic of Egypt	**4.3%**	4.3%
Commercial Bank of Iraq P.S.C. ("CBIQ")	Republic of Iraq	**19.7%**	19.7%

	2023	*2022*
	US$ '000	*US$ '000*
Accumulated material non-controlling interests as at 31 December:		
Ahli United Bank (Egypt) S.A.E.	**16,899**	17,233
Commercial Bank of Iraq P.S.C.	**47,701**	43,940
Profit allocated to material non-controlling interests:		
Ahli United Bank (Egypt) S.A.E.	**4,125**	4,009
Commercial Bank of Iraq P.S.C.	**2,242**	1,571

Summarised financial information of AUBE and CBIQ is provided below. The information is based on amounts as reported in the consolidated financial statements before inter-company eliminations and adjustments.

	2023	*2022*
	US$ '000	*US$ '000*
Ahli United Bank (Egypt) S.A.E. (AUBE)		
Balance sheet related information		
Financing receivables	**2,019,639**	1,964,502
Non-trading investments	**407,552**	549,188
Total assets	**3,670,438**	3,464,050
Customers' deposits	**2,932,832**	2,842,701
Total liabilities	**3,237,458**	3,033,305
Income statement related information		
Total operating income	**231,166**	269,375
Net profit attributable to shareholders	**107,911**	104,876
Total comprehensive income attributable to shareholders	**96,388**	82,804
Cash flow related information		
Net cash from (used in) from operating activities	**4,297**	(83,779)
Net cash used in investing activities	**(9,046)**	(62,445)
Net cash from financing activities	**1,127**	25,430

41 SUBSIDIARIES (continued)

	2023	2022
	US$ '000	*US$ '000*
Commercial Bank of Iraq P.S.C. ("CBIQ")		
Balance sheet related information		
Financing receivables	**8,619**	8,927
Non-trading investments	**216,500**	181,253
Total assets	**371,272**	362,437
Customers' deposits	**100,753**	114,893
Total liabilities	**128,747**	139,036
Income statement related information		
Total operating income	**25,997**	18,511
Net profit attributable to shareholders	**11,400**	7,988
Total comprehensive income attributable to shareholders	**11,456**	7,887
Cash flow related information		
Net cash (used in) / from operating activities	**(14,679)**	23,005
Net cash from (used in) investing activities	**18,669**	(39,758)
Net cash used in financing activities	**(16,025)**	(433)

42 ASSETS HELD FOR SALE

The board of directors of the Bank on 13 November 2023 approved AUB's shareholding in AUBK being swapped for shares in KFH, at a share exchange ratio of 0.3723118279 KFH shares for each AUBK share. Accordingly, AUBK was classified as a held for sale and as a discontinued operation as per IFRS 5. The sale of AUBK was completed on 22 February 2024.

Fair value less cost to sell for asset classified as held for sale is lower than the carrying amount of the related assets and liabilities and therefore Group has recorded an impairment of goodwill amounting to US$ 54.4 million as at 31 December 2023.

The results of AUBK for the year are presented below:

	2023	2022
	US$ '000	*US$ '000*
Net finance income	**225,956**	251,603
Fees and commissions-net	**16,500**	20,601
Other operating income	**26,402**	21,178
Operating income	**268,858**	293,382
Provision for credit losses and others	**11,545**	44,398
Net operating income	**257,313**	248,984
Operating expenses	**124,662**	124,295
Profit before tax and zakat	**132,651**	124,689
Tax expense and zakat	**6,427**	5,646
Profit after tax expense for the year from discontinuing operations	**126,224**	119,043
Provision relating to discontinuing operations	**(54,400)**	-
Net profit after tax expense for the year from discontinuing operations	**71,824**	119,043
Non-controlling interests from discontinuing operations	**34,056**	30,614
NET PROFIT ATTRIBUTABLE TO THE OWNER OF THE BANK FROM DISCONTINUED OPERATIONS	**37,768**	88,429

42 ASSETS HELD FOR SALE (continued)

The major classes of assets and liabilities of AUBK classified as held for sale as at 31 December 2023 are, as follows:

	2023	*2022*
	US$ '000	*US$ '000*
Assets		
Cash and balances with central banks	**910,193**	572,824
Deposits with central banks	**675,699**	777,551
Deposits with banks	**1,041,748**	903,529
Financing receivables	**10,312,929**	11,021,536
Non-trading investments	**1,028,272**	1,459,069
Investment in associates	**30,686**	28,602
Investment properties	**84,517**	66,264
Profit receivable, derivative and other assets	**68,396**	124,360
Premises and equipment	**137,279**	133,321
Goodwill	**306,829**	361,727
Assets classified as held for sale	**14,596,548**	15,448,783
Liabilities		
Deposits from banks	**150,670**	604,546
Customers' deposits	**11,852,131**	12,172,807
Profit payable, derivative and other liabilities	**338,031**	310,707
Liabilities directly associated with assets as held for sale	**12,340,832**	13,088,060
Net assets	**2,255,716**	2,360,723

Comparative figures for major classes of assets and liabilities of AUBK classified as held for sale is not required to be disclosed as per IFRS standards. However, comparative amounts are presented for better understanding of the information.

The net cash flows incurred by AUBK are, as follows:

	2023	*2022*
	US$ '000	*US$ '000*
Net cash (used in) / from operating activities	**(263,080)**	746,672
Net cash from / (used) in investing activities	**474,010**	(311,669)
Net cash used in financing activities	**(81,905)**	(58,256)
Net cash inflow	**129,025**	376,747