البنك الأهلي المتحد
ahli united bank

Combining Synergies

2023 Annual Report

AHLI UNITED BANK B.S.C. (c)
ANNUAL REPORT 2023

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COMBINING EXCELLENCE

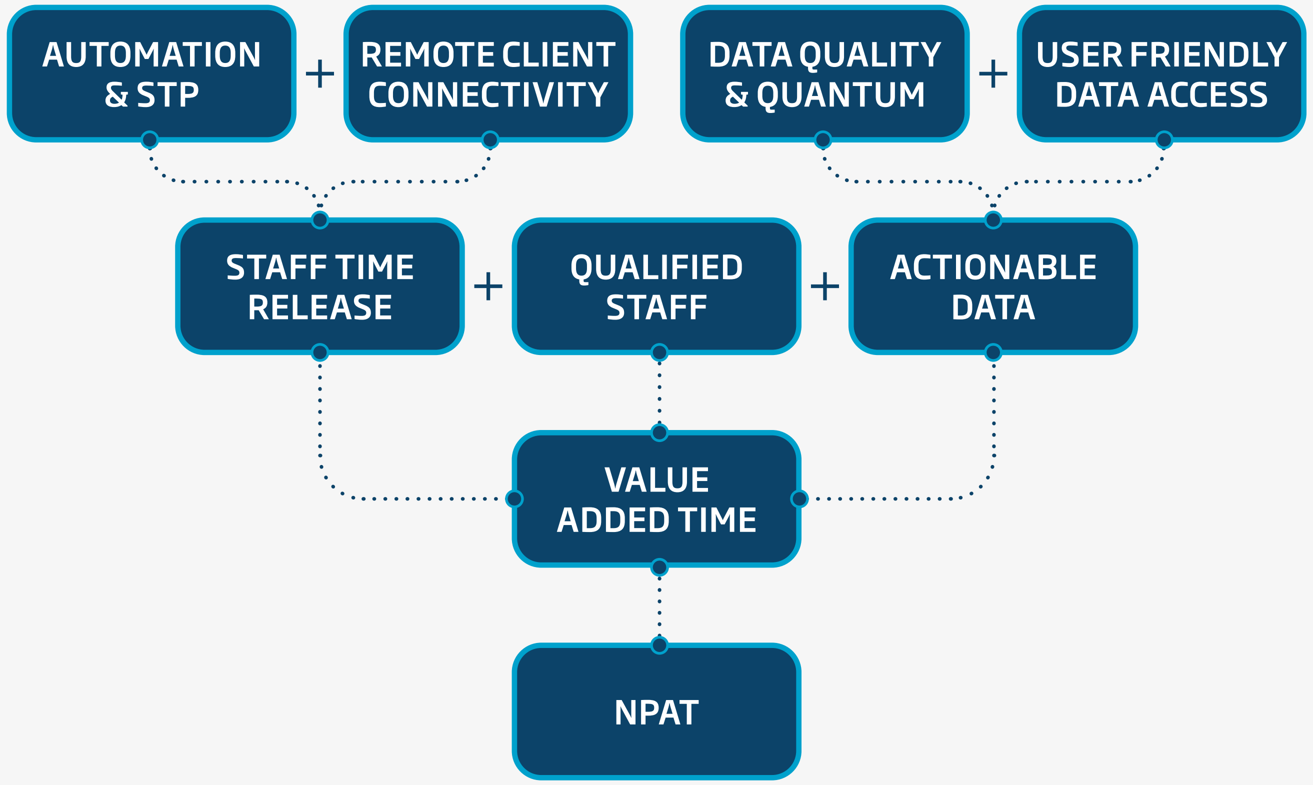
BRINGING TOGETHER A FORMIDABLE COMBINATION OF STRENGTHS, EXPERTISE, AND RESOURCES. BY UNIFYING OUR TALENTS AND CAPABILITIES, WE WILL BE ABLE TO UNLEASH OUR COLLECTIVE POTENTIAL, DRIVING REMARKABLE ACHIEVEMENTS AND SETTING NEW BENCHMARKS.

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

OBJECTIVES

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

VALUE ADDED TIME = NPAT



AUB OPERATING DIVISIONS

CORPORATE BANKING

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

- Corporate and Trade Finance
- Commercial Property Finance
- Residential Property Finance
- Acquisition and Structured Finance
- Correspondent Banking

PRIVATE BANKING & WEALTH MANAGEMENT

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

- Private Banking and Asset Management
- Real Estate Fund Management

RETAIL BANKING

This division offers Shari'ah Compliant individual customers' deposits, financing receivables, credit cards and residential mortgages.

TREASURY AND INVESTMENTS

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

- Money Market Services
- Foreign Exchange Services
- Hedging and Trading Solutions
- Structured Products
- Investment Management

RISK MANAGEMENT

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

- Risk Management
- Legal
- Compliance

AUDIT

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

SUPPORT SERVICES

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

- Finance
- Strategic Development
- Information Technology
- Operations
- Services
- Human Resources
- Shari'ah

WE PROVIDE OUR CLIENTS WITH INTERNATIONAL GROWTH OPPORTUNITIES. OUR NETWORK IS CONSTANTLY GROWING, AND TODAY WE ARE PROUD TO MANAGE SUBSIDIARIES AND ASSOCIATES ACROSS 8 COUNTRIES THROUGH A WIDE NETWORK OF BRANCHES.

GLOBAL NETWORK

A REGIONAL BANK PRESENT IN 8 COUNTRIES IN THE MIDDLE EAST AND THE UK.

8	COUNTRIES
162	BRANCHES
4,353	EMPLOYEES

AUB: UNITED KINGDOM	100%
CIBIQ: IRAQ	80.3%
UBCI: LIBYA	40%
AUB: EGYPT	95.7%
AUB: BAHRAIN	100%
AUB: KUWAIT	74.8%
AUB (DIFC): UAE	100%
AB: OMAN	35%

STRENGTH, RESILIENCE, AND POTENTIAL FOR ACCELERATED GROWTH.

Net Profit
US$'000
667,256

Financing Receivables*
US$'000
10,907,398*

Total Assets
US$'000
41,899,898

Owner's Equity
US$'000
4,587,508

* Financing receivables excludes AUBK related financing receivables as AUBK is classified as Held for Sale

Net Profit
US$'000

	Net Profit
2023	667,256
2022	546,102
2021	607,244
2020	452,244
2019	730,501
2018	697,534

Financing Receivables
US$'000

	Financing Receivables
2023	10,907,398 *
2022	21,221,325
2021	22,075,148
2020	20,719,878
2019	20,742,360
2018	19,503,961

Total Assets
US$'000

	Total Assets
2023	41,899,898
2022	41,560,972
2021	41,913,370
2020	40,071,167
2019	40,280,051
2018	35,507,577

Owner's Equity
US$'000

	Owner's Equity
2023	4,587,508
2022	4,375,504
2021	4,469,704
2020	4,001,640
2019	4,265,527
2018	3,908,701

* Financing receivables excludes AUBK related financing receivables as AUBK is classified as Held for Sale

FINANCIAL HIGHLIGHTS
(Continued)

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

	US $ '000s					
	Dec 2023	Dec 2022	Dec 2021	Dec 2020	Dec 2019	Dec 2018
Net profit (i)	667,256	546,102	607,244	452,244	730,501	697,534
Total assets	41,899,898	41,560,972	41,913,370	40,071,167	40,280,051	35,507,577
Financing receivables (ii)	10,907,398	21,221,325	22,075,148	20,719,878	20,742,360	19,503,961
Total liabilities	35,840,956	35,731,573	35,995,405	35,034,809	34,918,522	30,535,569
Owner's equity	4,587,508	4,375,504	4,469,704	4,001,640	4,265,527	3,908,701
Non-controlling interest (iii)	64,600	453,895	448,261	434,718	496,002	463,307
Return on average assets (ROAA) (iv)	1.8%	1.4%	1.6%	1.2%	2.1%	2.2%
Return on average equity (ROAE) (v)	15.3%	12.3%	14.7%	10.4%	17.7%	18.1%
Cost to income ratio	26.0%	25.8%	29.5%	29.3%	28.6%	27.1%
Financial leverage	7.7	7.4	7.3	7.9	7.3	7.0
Risk assets ratio	17.2%	16.9%	17.0%	16.1%	16.4%	16.9%
Net finance margin (vi)	2.68%	2.28%	2.24%	2.06%	2.62%	2.88%
Earnings per share (US cents)	5.6	4.5	5.1	3.8	6.2	6.0

i. Attributable to Bank's Owner
ii. Financing receivables including AUBK 21,220,327
iii. Non controlling interest including AUBK 471,434
iv. ROAA excluding Goodwill impairment loss 1.9%
v. ROAE excluding Goodwill impairment loss 16.5%
vi Net finance margin excluding AUBK 3.25%

PRINCIPAL SUBSIDIARIES

KUWAIT: AHLI UNITED BANK K.S.C.P. (i)

	KD '000s					
	Dec 2023	Dec 2022	Dec 2021	Dec 2020	Dec 2019	Dec 2018
Net profit	42,527	36,407	31,221	29,729	55,017	51,255
Total assets	4,498,937	4,711,687	4,573,435	4,369,998	4,351,404	3,913,653
Financing receivables	3,194,681	3,405,004	3,342,148	3,113,685	3,018,755	2,799,906
Total liabilities	3,814,112	4,044,527	3,925,780	3,866,795	3,835,246	3,422,251
Shareholders' equity	504,165	486,500	466,995	442,563	455,518	430,762
Return on average assets	0.9%	0.8%	0.7%	0.7%	1.4%	1.4%
Return on average equity	8.7%	7.7%	6.9%	6.6%	12.7%	12.4%
Cost to income ratio	43.7%	41.4%	39.1%	36.6%	37.3%	30.6%
Financial leverage	7.6	8.3	8.4	8.7	8.4	7.9
Risk assets ratio	19.9%	18.4%	18.2%	15.7%	16.0%	16.6%
Earnings per share (KD - fils)	15.7	13.0	10.9	11.7	22.9	21.3

(i) AUBK is classified as Held for Sale as of 31 December 2023

UNITED KINGDOM: AHLI UNITED BANK (UK) PLC

	US $ '000s					
	Dec 2023	Dec 2022	Dec 2021	Dec 2020	Dec 2019	Dec 2018
Net profit	46,986	39,462	18,893	25,752	40,814	35,185
Total assets	2,925,213	2,837,717	2,998,843	2,828,031	3,210,261	2,909,856
Loans and advances	1,536,066	1,454,873	1,602,103	1,735,370	1,670,090	1,451,715
Total liabilities	2,590,485	2,506,008	2,674,599	2,549,641	2,911,244	2,621,474
Shareholders' equity	334,727	331,709	324,244	278,390	299,017	288,382
Return on average assets	1.6%	1.4%	0.6%	0.8%	1.4%	1.2%
Return on average equity	14.3%	12.1%	6.6%	9.0%	14.4%	12.8%
Cost to income ratio	35.8%	35.7%	58.4%	43.6%	35.3%	44.7%
Financial leverage	7.7	7.6	8.2	9.2	9.7	9.1
Risk assets ratio	19.4%	19.9%	22.5%	19.2%	20.4%	23.6%
Earnings per share (US cents)	23.5	19.8	9.4	12.9	20.4	17.6

FINANCIAL HIGHLIGHTS
(Continued)

PRINCIPAL SUBSIDIARIES (Continued)

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

	IQD Millions					
	Dec 2023	Dec 2022	Dec 2021	Dec 2020	Dec 2019	Dec 2018
Net profit	15,077	11,662	13,009	35,457	6,554	10,864
Total assets	486,366	528,984	512,312	616,949	449,596	443,946
Loans and advances	11,291	13,030	27,136	18,841	11,447	11,933
Total liabilities	168,658	202,926	197,769	309,195	177,364	159,987
Shareholders' equity	317,708	326,058	314,543	307,755	272,232	283,958
Return on average assets	2.9%	2.3%	2.0%	7.4%	1.5%	2.4%
Return on average equity	4.9%	3.7%	4.2%	13.0%	2.3%	3.8%
Cost to income ratio	46.9%	55.3%	61.6%	29.4%	64.1%	45.6%
Financial leverage	0.5	0.6	0.6	1.0	0.7	0.6
Risk assets ratio *	139.3%	100.8%	98.9%	73.7%	529.2%	657.6%
Earnings per share (IQD - Fils)	60.3	46.6	52.0	141.8	26.2	43.5

*Under BASEL III from 2020.

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

	EGP '000s					
	Dec 2023	Dec 2022	Dec 2021	Dec 2020	Dec 2019	Dec 2018
Net profit	3,325,217	2,040,904	1,175,628	1,217,264	1,284,708	1,462,981
Total assets	113,391,206	85,712,688	64,462,686	56,362,418	47,288,176	51,488,260
Loand and advances	62,392,903	48,608,208	36,716,271	29,698,946	26,261,571	22,983,062
Total liabilities	100,015,114	75,054,281	55,288,633	48,155,980	39,626,232	44,423,636
Shareholders' equity	13,376,092	10,658,407	9,174,053	8,206,438	7,661,944	7,064,624
Return on average assets	3.4%	2.8%	2.0%	2.4%	2.6%	2.9%
Return on average equity	27.7%	21.4%	13.9%	15.9%	18.8%	22.4%
Cost to income ratio	20.8%	19.6%	32.1%	28.0%	28.5%	19.3%
Financial leverage	7.5	7.0	6.0	5.9	5.2	6.3
Risk assets ratio	14.5%	16.2%	18.2%	19.9%	18.3%	17.0%
Earnings per share (EGP)	4.2	2.6	1.5	1.5	1.7	2.0

PRINCIPAL ASSOCIATE

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

	OMR '000s					
	Dec 2023	Dec 2022	Dec 2021	Dec 2020	Dec 2019	Dec 2018
Net profit	36,452	33,090	27,606	23,968	31,015	28,786
Total assets	3,318,345	3,075,466	3,052,556	2,702,477	2,518,527	2,290,414
Loand and advances	2,694,160	2,500,435	2,401,979	2,218,897	2,054,986	1,870,677
Total liabilities	2,796,951	2,614,527	2,625,559	2,314,127	2,129,332	1,931,410
Shareholders' equity	372,394	311,939	302,997	264,350	265,195	255,004
Return on average assets	1.1%	1.1%	1.0%	0.9%	1.3%	1.3%
Return on average equity	10.7%	10.8%	9.7%	9.1%	11.9%	11.3%
Cost to income ratio	43.8%	43.9%	43.2%	42.1%	39.6%	37.4%
Financial leverage	7.5	8.4	8.7	8.8	8.0	7.6
Risk assets ratio	17.4%	16.3%	16.7%	15.7%	16.9%	17.5%
Earnings per share (Baiza)	11.8	11.6	8.9	7.2	11.0	15.2

BOARD OF DIRECTORS' REPORT

The Directors of Ahli United Bank B.S.C. (c) ("AUB" or the "Bank") are pleased to submit the accompanying consolidated Financial Statements for the year ended 31 December 2023.

GENERAL OPERATING ENVIRONMENT

During 2023, the global economy continued to be impacted by tight monetary policies to rein in decades-high inflation, restrictive credit conditions, and weaker global trade and investment as well as the ongoing conflicts in Ukraine and Gaza resulting in disruption in energy and food markets. Due to the above factors, the World Bank has estimated that the global economic growth rate slowed down from 3.0% in 2022 to 2.6% in 2023.

As per the World Bank estimates, economic growth in Middle East and North Africa (MENA) region slowed sharply to 1.9% in 2023 as compared to 5.8% in the previous year. This is primarily due to factors like increased geopolitical uncertainty in the region which has already faced multiple headwinds including oil production cuts, elevated inflation, currency devaluation and weak private sector activity.

As per the World Bank, global growth is projected to further slowdown from an estimated 2.6% in 2023 to 2.4% in 2024 reflecting softening labor markets, elevated real profit rates, reduced savings buffers, waning pent-up demand for services, and fiscal consolidation. However, assuming there is no further escalation of the ongoing regional conflict, growth rate in MENA is expected to pick up to c. 3.5% in 2024, mainly on account of expected rebound in oil activity and export growth in 2024 reversing the effect of deep production cuts in 2023.

PERFORMANCE OVERVIEW

Based on the approval of EGMs by Kuwait Finance House K.S.C.P. (KFH) and Ahli United Bank Kuwait (AUBK) during Q4/2023, the merger by amalgamation between AUBK and KFH completed on 22 February 2024. The transaction entailed AUB swapping its stake in AUBK with KFH shares. Consequently, in accordance with IFRS 5, AUBK has been classified as "Held for Sale" in AUB's 2023 financial statements.

I The Income Statement

The income statement does not consolidate AUBK income on a line-by-line basis for FY 2023 or for the comparative FY 2022. Instead, it shows total income contribution from AUBK during FY 2023 and FY 2022 in one line as contribution from discontinued operations. AUB achieved very strong results in 2023 for the continuing operations as explained below:

- Total operating income increased by 14.4% to US$ 1,079.3 million in 2023 (2022: US$ 943.5 million) through growth in net financing income.
- Net financing income for 2023 was higher at US$ 782.5 million (2022: US$ 657.5 million), an increase of 19.0%, primarily because of increase in net financing margins supported by higher benchmark rates.
- The provision charge for 2023 was significantly lower at US$ 104.1 million (2022: US$ 186.9 million).
- Despite increase in the operating cost post Citibank acquisition, the cost to income ratio for 2023 was maintained at 26.0% (2022: 25.8%) reflecting AUB's continuing efforts to enhance operational efficiencies through the digitization initiatives as part of the AUB Group's transformation plan and the gradually harvesting benefits of its data initiatives.
- AUB's consolidated NPAT includes an amount of US$ 71.8 million as a profit after tax expense for the year from discontinuing operations of AUBK. Accordingly, consolidated net profit (NPAT), attributable to the Bank's equity shareholder, of US$ 667.3 million was 22.2% higher than US$ 546.1 million in 2022.

II The Balance Sheet

The reported FS does not consolidate AUBK assets and liabilities in FY 2023 on a line-by-line basis and are instead included in one line (classified as "Held for Sale") under assets and liabilities respectively. However, as per specific IFRS 5 requirements, 2022 comparative Balance Sheet numbers in the reported FS have not been restated and include AUBK numbers on a line- by-line consolidation basis:

- The AUB Group's total assets as at 31 December 2023 increased by 0.8% to US$ 41.9 billion (31 December 2022: US$ 41.6 billion) which includes US$ 14.6 billion representing total assets of AUBK.
- The total financing receivable as at 31 December 2023 is reported as US$ 10.9 billion compared to US$ 21.2 billion. However, the total financing receivables including AUBK's financing receivables at 31 December 2023 was US$ 21.2 billion, unchanged from 2022.
- The non-trading investment portfolio is reported as US$ 10.2 billion compared to US$ 10.0 billion at 31 December 2022. However, including AUBK's non-trading investments balance, overall non trading investments showed a strong growth to reach US$ 11.2 billion at 31 December 2023.
- The increase in financing receivable and non-trading investments was primarily supported by strong growth in customer deposits which increased to US$ 25.9 billion (including AUBK's customer deposits of US$ 11.9 billion) as at 31 December 2023 from US$ 24.4 billion in 2022.
- Gross non-performing financing receivable (Stage 3) ratio is reported at 2.4% (31 December 2022: 1.9%). However, including AUBK's Stage 3 financing receivable for 31 December 2023, it remained unchanged at 1.9%. The provision coverage ratio for Stage 3 financing receivable at 31 December 2023 was 82.5%.

  The specific coverage ratio is calculated on a cash provision basis excluding the value of the substantial additional non-cash (real estate and securities) assigned collaterals available against non-performing financing was US$ 386.0 million in value.
- The Group's equity attributable to owner as at 31 December 2023 increased by 4.8% to US$ 4.6 billion (31 December 2022: US$ 4.4 billion). Return on Average Equity for 2023 increased significantly to 15.3% (2022: 12.3%) driven by improved profitability and Return on Average Assets increased to 1.8% for 2023 (2022: 1.4%).

STRATEGIC & CORPORATE DEVELOPMENTS

- **Conversion to an Islamic Bank:**

  Following acquisition by KFH, AUB obtained shareholders' approval through an EGM in February 2023 to convert the Bank into a Shari'ah compliant bank and change the license to an Islamic Retail Banking license. During 2023, AUB Bahrain successfully converted to a Shari'ah' compliant bank as it obtained a new Islamic Retail Banking license from the Central Bank of Bahrain and commenced its operations in Bahrain as an Islamic Bank from 10 December 2023. Necessary steps are being undertaken, to convert its other banking subsidiaries to Islamic banks during 2024.
- **Sale of AUB Kuwait Stake:**

  As a part of KFH's plan to consolidate Group's banking operations in Kuwait under a single entity, KFH and AUB Kuwait extraordinary general meetings have approved merger of AUB Kuwait into KFH through amalgamation. Accordingly, on 22 February 2024, AUB's shareholding in AUB Kuwait was swapped for 627.34 million shares in KFH.

RECOGNITION

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

Awards Provider	Name of the Awards
Global Finance	• Best Bank in Bahrain – 2023 • Best FX Provider in Bahrain – 2023 • Best Private Bank in Bahrain – 2023 • Best Trade Finance Provider – 2023 • Best Bank for Cash Management – 2023 • Best SME Bank in Bahrain – 2024
Private Banker International	• Best Private Bank (Kuwait) – 2023
MEED	• Best Remittance Service in ME 2023 • Excellence in Customer Protection/Fraud Control 2023 • MENA Islamic Banker of the Year 2023 (Kuwait) • Best Private Bank – Oman 2023

DIRECTORS' AND EXECUTIVE MANAGEMENT'S REMUNERATION

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

Name	Fixed remunerations				Variable remunerations						
	Remunerations of the Chairman and BOD	Total allowance for attending Board and Board committee meetings	Others	Total	Remunerations of the Chairman and BOD	Incentive plans	Others	Total	End-of-service award	Aggregate Amount (Does not include expense allowance)	Expenses Allowance
First: Independent Directors:											
Abdulghani M.S.Y. Behbehani [1]	9,284	9,284	-	18,568	-	-	-	-	-	18,568	-
Abdullah Mudhaf Al Mudhaf [1]	8,577	8,577	-	17,154	-	-	-	-	-	17,154	-
1. Jamal Abdel Razzaq Al-Naif [2]	41,611	41,611	-	83,222	-	-	-	-	-	83,222	-
2. Khalid Mohamed Najibi [3]	37,464	37,464	-	74,928	-	-	-	-	-	74,928	-
3. Dr. Anwar Al Mudhaf [4]	33,223	33,223	-	66,446	-	-	-	-	-	66,446	-
Second: Non-Executive Directors:											
PIFSS (Ahmad Ghazi Al-Abduljalil) [1]	8,200	8,200	-	16,400	-	-	-	-	-	16,400	-
SIO (Khalid Mohamed Najibi) [2]	10,603	10,603	-	21,206	-	-	-	-	-	21,206	-
Mohammad Al-Ghanim (Deputy Chairman) [1]	12,017	12,017	-	24,034	-	-	-	-	-	24,034	-
1. Hamad Abdulmohsen Al Marzouq (Chairman) [4]	77,756	77,756	-	155,512	-	-	-	-	-	155,512	-
2. Adel A. El-Labban (Deputy Chairman) [4]	36,051	36,051	-	72,102	-	-	-	-	-	72,102	-
3. Khalid Salem Al-Nisf [4]	36,758	36,758	-	73,516	-	-	-	-	-	73,516	-
4. Muad Suad Al Osaimi [4]	36,758	36,758	-	73,516	-	-	-	-	-	73,516	-
Third: Executive Directors:											
1. Haitham AbdulAziz Al Terkait [4 & 5]	21,206	21,206	-	42,412	-	-	-	-	-	42,412	-
2. Khaled Yousef Al Shamlan [4 & 5]	21,206	21,206	-	42,412	-	-	-	-	-	42,412	-
Total	**390,714**	**390,714**	**-**	**781,428**	**-**	**-**	**-**	**-**	**-**	**781,428**	**-**

1 Resigned on 21 March 2023
2 Resigned on 21 March 2023 and re-elected to reconstituted BoD on 22 March 2023
3 Appointment as Independent Director on re-election to reconstituted BoD on 22 March 2023
4 Appointment to reconstituted BoD on 22 March 2023.
5 Executive by virtue of being employees of Parent, not AUB B.S.C. (c)

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

DIRECTORS' AND EXECUTIVE MANAGEMENT'S REMUNERATION (CONTINUED)

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

Executive Management	Total paid salaries and allowances	Total paid remuneration (Bonus)	Any other cash/ in kind remuneration for 2023	Aggregate Amount
Top 6 remunerations for executives, including CEO* and Senior Financial Officer**	1,203,858	1,038,348	578,449	2,820,655

Note: All amounts must be stated in Bahraini Dinars.

* The highest authority in the executive management of the company, the name may vary: (CEO, President, General Manager (GM), Managing Director...etc.

** The company's highest financial officer (CFO, Finance Director, ...etc)

APPROPRIATIONS

On the basis of the results of the Bank for the year ended 31 December 2023, the Board of Directors recommends the following appropriations for approval by the shareholders:

- Cash dividend at 2.5 US cents per share (2022: cash dividend of US cents 2.5 per share)
- Transfer to statutory reserve of US$ 66.7 million
- Donations of US$ 2.0 million

CONCLUSION

As we transition into 2024, our recent conversion to an Islamic Bank represents a key milestone event which we believe will open many avenues of growth. We will continue to implement our strategic plans in a focused and committed manner with continued emphasis on meeting client needs and also fulfill the aspirations of all our stakeholders. It is very important to state that our achievements, were only made possible through the guidance of our regulators and the Shari'ah Board, the support and trust of our clients, business partners, customers and most importantly the dedication, professionalism and resilience of our management and staff.

HAMAD AL-MARZOUQ
Chairman
27 February 2024

Combining Synergies

POWERED BY INNOVATION

By combining synergies powered by innovation, we seek to differentiate ourselves in the market and provide a competitive edge. We aim to deliver cutting-edge financial solutions that not only meet but exceed customer expectations, while driving growth and maintaining our position as a leading Islamic financial institution.

BOARD OF DIRECTORS

MR. HAMAD ABDUL MOHSEN AL MARZOUQ
(Non-Executive Director)
Chairman of the Group Board and Chairman of the Group Board Executive Committee

Director since 22 March 2023

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

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

Mr. Al Marzouq served as a Member of the Board of Trustees of the Arab Academy for Financial and Banking Sciences from 2004 until 2009 and was a Board Member of the Union of Arab Banks from 2003 until 2010.

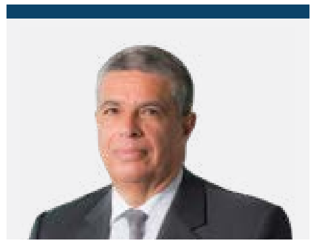
Mr. Al Marzouq has a diverse professional experience in Banking and Finance both in Kuwait and abroad spanning more than 36 years as he has held many prominent positions in various banking, financial and regulatory institutions. Mr. Al Marzouq holds the positions of Chairman of Kuwait Finance House (Kuwait) since 2014 and Chairman of Kuwait Turk Participation Bank in Turkey since 2015. He also held the positions of Chairman of Kuwait Finance House (Bahrain) from 2015 until 2023 and Chairman of Kuwait Finance House Berhad in Malaysia from 2015 until 2016.

Mr. Al Marzouq was Vice Chairman then Chairman and Managing Director of Ahli United Bank – Kuwait from 2001 until 2014, and was Vice Chairman of Ahli United Bank – U.K. from 1998 until 2014. Mr. Al Marzouq was Vice Chairman of Ahli United Bank – Egypt from 2006 until 2014, and served as Vice Chairman of Ahli United Bank – Bahrain from 2000 until 2014. Mr. Al Marzouq served as Vice Chairman of Ahli Bank – Oman from 2007 until 2014, and served as Vice Chairman of the Commercial Bank of Iraq from 2006 until 2014. Mr. Al Marzouq served as a Board Member, Vice Chairman, and Chairman of Kuwait and Middle East Financial Investment Company in Kuwait from 2002 until 2010. He held the position of Vice Chairman of Middle East Financial Investment Company in the Kingdom of Saudi Arabia from 2009 until 2013 and was Vice Chairman of Ahli Bank in Qatar from 2004 until 2013.

Mr. Al Marzouq previously held several executive positions at the Central Bank of Kuwait including the position of Deputy Manager of the Technical Affairs Office in 1990. In addition, Mr. Al Marzouq served as the Deputy Manager of Financial Control Department from 1992 until 1996 and then served as Manager of Financial Control Department from 1996 until 1998.

Mr. Al Marzouq commenced his professional career as an Investment Officer in the U.S. Equity Portfolios and Derivatives at the Investment Department at Kuwait Investment Company from 1987 until 1990.

37 years of experience in the financial services sector.



MR. ADEL A. EL-LABBAN
(Non-Executive Director)
Deputy Chairman of the Group Board and Member of the Group Board Executive Committee

Director since 30 July 2000.

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

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

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

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

BOARD OF DIRECTORS
(Continued)

MR. KHALID MOHAMED NAJIBI
(Independent Director)
Deputy Chairman of the Group Board, Chairman of the Group Board Risk Committee, Member of the Group Board Audit & Compliance Committee and Member of the Group Board Nominating, Remuneration and Corporate Governance Committee

Director since 23 April 2019

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

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

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

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

MR. KHALID SALEM AL NISF
(Non-Executive Director)
Member of the Group Board Executive Committee and Member of the Group Board Risk Committee

Director since 22 March 2023

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

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

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

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

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

MR. MUAD SAUD AL OSAIMI
(Non-Executive Director)
Member of the Group Board Executive Committee and Member of the Group Board Audit & Compliance Committee

Director since 22 March 2023

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

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

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

15 years of experience in the Banking sector.

MR. HAITHAM ABDULAZIZ AL-TERKAIT
(Executive Director)
Member of the Group Board Nominating, Remuneration and Corporate Governance Committee

Director since 22 March 2023

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

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

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

11 years of experience in Research sector (Kuwait Institute for Scientific Research.)

23 years of experience in Banking sector (KFH and Warba Bank.)

MR. KHALED YOUSIF AL-SHAMLAN
(Executive Director)
Member of the Group Board Nominating, Remuneration and Corporate Governance Committee

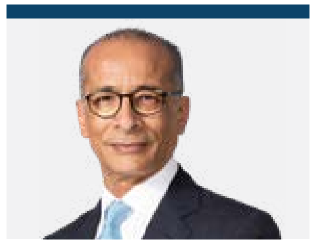
Director since 22 March 2023

Mr. Al Shamlan received his BA in Economics from Kuwait University in 1995. He has completed numerous specialized courses in Leadership, Financial Analysis and Risk Management, such as the Managing Strategically and Leading for Results conducted by Harvard Business School and a 2-year specialized training program for graduates at Kuwait Investment Authority (KIA).

Currently, Mr. Al Shamlan has been the Group Chief Executive Officer KFH Kuwait since August 2023. Also, he serves as a board member of KFH Capital Investment Company and the Shared Electronic Banking Company (KNET).

His extensive experience in the banking industry spans over 25 years, and has been accumulated over an extended professional career. He held numerous leadership roles at Kuwait Finance House including Group Chief Retail and Private Banking Officer from March 2022 to August 2023, Group General Manager Retail Banking from January 2021 to March 2022 and General Manager Corporate Banking -Kuwait from January 2018 to January 2021.

26 years of experience in Banking sector.



MR. JAMAL ABDEL RAZZAQ AL-NAIF
(Independent Director)
Chairman of the Group Board Audit & Compliance Committee, Member of the Group Board Risk Committee and the Group Board Nominating, Remuneration and Corporate Governance Committee.

Director since 29 March 2018

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

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

43 years of experience in financial service sector.

DURING 2023, AUB BAHRAIN SUCCESSFULLY CONVERTED TO A SHARI'AH COMPLIANT BANK AS IT OBTAINED A NEW ISLAMIC RETAIL BANKING LICENSE FROM THE CENTRAL BANK OF BAHRAIN AND COMMENCED ITS OPERATIONS IN BAHRAIN AS AN ISLAMIC BANK FROM 10 DECEMBER 2023. NECESSARY STEPS ARE BEING UNDERTAKEN, TO CONVERT ITS OTHER BANKING SUBSIDIARIES TO ISLAMIC BANKS DURING 2024.

CHAIRMAN'S STATEMENT

"THE CONVERSION OF AUB TO AN ISLAMIC BANK WILL PROVIDE SIGNIFICANT GROWTH OPPORTUNITIES IN BAHRAIN AND IN THE WIDER REGION."

On behalf of the Board of Directors, I am pleased to report an excellent AUB Group performance for the Year 2023.

The global economy in 2023 was impacted by continued pressures from tight monetary policies, elevated inflation, challenging credit conditions, and softening of international trade and investment. Additionally, conflict in Ukraine and Gaza impacted the energy and supply chains in the region and internationally. Estimated global economic growth by the World Bank indicated a decrease to 2.6% in 2023 from 3.0% in 2022.

A much sharper decline was estimated for the Middle East and Africa (MENA) region, down from 5.8% in 2022 to 1.9% in 2023, principally attributed to factors like lower oil output, higher inflation, and a decline in private sector activity.

For 2024, there are mixed growth forecasts from the World Bank with global economic growth further projected to slowed down to 2.4%; whereas growth in the MENA region is projected to improve to 3.5%, due to expected recovery in oil demand and export growth.

Despite the continuing challenges in operating environment, Ahli United Bank B.S.C. (c) reported an excellent 22.2% increase in net profit for 2023 to US$ 667.3 million from US$ 546.1 million the previous year. These strong results reflect a solid performance across the AUB Group underpinned by the well-established business model of cross-border flows, diversification, prudent risk management and well-managed use of capital resources.

One of the key focus areas for 2023 was the conversion of AUB to a Shari'ah compliant banking institution, following its earlier acquisition by Kuwait Finance House K.S.C.P. (KFH). During December 2023, AUB successfully obtained the new Islamic retail banking license from the Central Bank of Bahrain and commence operating as an Islamic Bank from 10 December 2023 onwards. It is a remarkable achievement on the part of the management to complete the successful and seamless conversion of AUB Bahrain within a record time. This was made possible due to excellent support and guidance provided by all stakeholders including the Central Bank of Bahrain, KFH Group, Advisors and complete dedication and commitment of all the employees of AUB Group.

The conversion of AUB to an Islamic bank will provide significant growth opportunities in Bahrain and in the wider region. The Shari'ah conversion of AUB Bahrain has further strengthened KFH Group's position as a leading regional and global Shari'ah compliant bank. In line with the plan to consolidate its banking operations in Kuwait, KFH completed the merger by amalgamation with AUB Kuwait through a share swap transaction during February 2024.

The Citibank Consumer Banking Business in Bahrain has been well absorbed and integrated with AUB's operations translating into tangible benefits to the bank and its customer base. In addition, the Group's ongoing commitment to digitalization, as part of the Transformation Plan, has led to strengthening of its operational efficiencies, improvement in the customer-centricity measures and delivery of customer service enhancements.

It is very satisfying to note that the excellent performance of bank has been recognized with several prestigious industry awards in 2023 including "Best Bank in Bahrain" by the leading international publication Global Finance along with several other awards from the same publication. In addition, AUB has received awards for Best Remittance Service in the Middle East and Excellence in Customer Protection/Fraud Control from MEED.

As the Chairman of the Board, I am pleased to record my grateful appreciation of the constant support and confidence of our shareholders, client base and business partners. My grateful thanks are also extended to our regulators in each of the jurisdictions where we operate, and to my fellow Directors of the Board. The success of the Group is due in no small part to the dedication of our management and staff, to whom, I offer my appreciation.

HAMAD ABDUL MOHSEN AL MARZOUQ
Chairman

Combining Synergies

DRIVEN BY PURPOSE

We are guided by a clear vision and a set of values that inspire and propels us forward and enables us to achieve extraordinary success. This purpose-driven approach not only enhances our own satisfaction and fulfillment but also empowers us to make a positive difference in the societies where we operate.

"OUR ABILITY TO OFFER A COMPLETE AND COMPREHENSIVE RANGE OF SHARI'AH-COMPLIANT SERVICES AND PRODUCTS WILL STRENGTHEN THE POSITION AS A LEADING ISLAMIC BANK."

The year 2023 was a landmark year for AUB Group, with the successful conversion to a Shari'ah-compliant bank in Bahrain following the earlier acquisition by Kuwait Finance House (KFH).

The conversion of AUB to an Islamic bank will provide significant growth opportunities in Bahrain and in the wider region. In jurisdictions such as Egypt and the UK, the ongoing conversion of AUB's subsidiaries into Shari'ah-compliant banking will be a catalyst for further growth opportunities.

I have no doubt that going forward, our ability to offer a complete and comprehensive range of Shari'ah-compliant services and products will strengthen the position as a leading Islamic bank.

During 2023, there were several external market challenges including the conflict in Gaza, and the lingering effect of the Ukraine/Russia situation. In addition, lower oil production in the region and softer trade flows continued to impact the regional economies.

Notwithstanding these challenges, AUB Group performed very well, with a 22.2% rise in net profit from US$ 546.1 million to US$ 667.3 million in FY 2023. The growth in profitability was driven by an improvement in core income. Total operating income increased 14.4% from US$ 943.5 million in 2022 to US$ 1,079.3 million in 2023.The increase in net financing margins during the year resulted in net financing income of US$ 782.5 million, up 19% from US$ 657.5 million in 2022. The key cost to income ratio was steady at 26.0% (2022:25.8%). The total assets also increased to reach US$ 41.9 billion at the end of the year 2023.

The Group continues to move forward and has made significant progress on its multi-faceted Transformation Plan, with its technology, data and HR dimensions, to deliver customer-centric data driven automated process solutions. Successful continued transformation initiatives across the AUB Group have reaffirmed the Group's adherence to key pillars such as customer-centricity, service efficiency and the intelligent spend philosophy. These changes have been embraced across all our business platforms in each of the jurisdictions we operate.

Among the other key developments during the year, AUB divested from its insurance subsidiary Al Hilal Life which was acquired by Solidarity Bahrain during December 2023. Further during February 2024, KFH completed the merger by amalgamation with AUB Kuwait through a share swap transaction to enable consolidating its operations in Kuwait.

Our achievements would not have been possible without the support and guidance of our Board of Directors. My sincere thanks are also extended to all my colleagues and staff of the AUB Group whose dedication, commitment to excellence and hard work have contributed to the excellent performance achieved by the bank.

AHMED SOUD ALKHARJI
Group Chief Executive Officer

Combining Synergies

INSPIRED BY VALUES

By incorporating synergies and being guided by values, Ahli United Bank aims to provide comprehensive and innovative financial solutions to its customers. It seeks to build long-term relationships based on trust and mutual benefit while contributing to the overall development and prosperity of the markets it operates in.

CORPORATE GOVERNANCE

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

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

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

SHAREHOLDER INFORMATION

The Bank's shareholders are invited by the AUB Chairman to attend the Annual General Meeting ("AGM"). The AUB Chairman and other Directors attend the AGM and are available to answer any questions. The Bank's Extraordinary General Meeting and the AGM were held on 14 February 2023 and 22 March 2023, respectively.

The ordinary shareholders, as at 31 December 2023, holding 5% and above of the total issued ordinary shares of the Bank are as below:

No.	Name / Entity	Country of Origin	No. of Shares	% Ownership
1	Kuwait Finance House K.S.C.P. (Direct and Indirect)	Kuwait	11,147,931,458	100%

Distribution of AUB Shares

Distribution of AUB ordinary shares by threshold as at 31 December 2023:

Threshold	No. of Shares	No. of Shareholders
50% and above	11,147,931,458	1
20% to 49.99%	-	-
10% to 19.99%	-	-
5% to 9.99%	-	-
Total	**11,147,931,458**	**1**

Distribution of AUB ordinary shares by nationality as at 31 December 2023:

No.	Name	No. of Shares	% of Total Shares
1	**Kuwait**		
	Government & Quasi Government	-	-
	Individuals and Corporates	11,147,931,458	100%
Total		**11,147,931,458**	**100%**

The Group Board

The composition of the Group Board represents an appropriate mix of professional skills and expertise. Following the acquisition of the Bank by Kuwait Finance House K.S.C.P. (c) ("KFH"), a new Group Board was appointed on 22 March 2023 for a board term ending no later than 31 March 2026. The Board periodically reviews its composition and performance, as well as the performance of each Director. There are no females on the Group Board. In compliance with the Corporate Governance requirements of the Central Bank of Bahrain ("CBB"), the Group Board has outlined its criteria and materiality thresholds for the definition of "Independence" in relation to Directors. The independence criteria are reassessed annually by the Group Board and for the year 2023, the 9 Directors comprising the Group Board were classified as follows:

- 4 Non-Executive Directors
- 2 Executive Directors
- 3 Independent Directors

The Group Board (continued)

The classification of each Director is set out below:

Directors	Classification
Mr. Hamad Abdul Mohsen Al Marzouq – Chairman	Non-Executive
Mr. Adel A. El-Labban – Deputy Chairman	Non-Executive
Mr. Khalid Mohamed Najibi – Deputy Chairman	Independent
Mr. Khalid Salem Al Nisf	Non-Executive
Mr. Muad Saud Al Osaimi	Non-Executive
Mr. Haitham Abdulaziz Al-Terkait	Executive
Mr. Khaled Yousif Al-Shamlan	Executive
Dr. Anwar Ali Al Mudhaf*	Independent
Mr. Jamal Abdel Razzaq Al-Naif	Independent

*Dr. Anwar Ali Al Mudhaf resigned from his position as a Board member of the Bank in January 2024.

The CBB Rulebook Module HC-3.2.2 recommends that the Chairman of the Group Board should be an Independent Director. Although the AUB Chairman is classified as a Non-Executive Director due to his position as the Chairman of KFH, the shareholder of the Bank, this did not compromise the Bank's high standards of Corporate Governance as the Bank follows strict policies to manage conflict of interests relating to decisions of the Group Board.

The Role and Responsibilities of the Group Board

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

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

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

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

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

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

When carrying out their responsibilities, Directors are required to:

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

Group Board Meetings and Attendance

The Group Board is required to meet at least four (4) times per year. A schedule for the Group Board's regular meetings is submitted to the Directors annually in advance. Additional meetings may be convened on an ad hoc basis at the invitation of the Chairman or otherwise in accordance with the provisions of the Commercial Companies Law. The Board met six (6) times during 2023.

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

The previous Group Board, which was appointed prior to the acquisition of the Bank by KFH, met once in 2023. Meeting date and attendance of each Director at such meeting are detailed below:

DIRECTORS	MEETING DATES
	02/02/2023
Mr. Meshal AbdulAziz Alothman*	×
Mr. Mohammad Fouad Al-Ghanim*	✓
Mr. Abdulghani M.S.Y. Behbehani*	✓
Mr. Ahmad Ghazi Al-Abduljalil*	✓
Mr. Abdullah Mudhaf Al Mudhaf*	✓
Mr. Khalid Mohamed Najibi	✓
Mr. Jamal Abdel Razzaq Al-Naif	✓

* The Group Board membership of Messrs Alothman, Al-Ghanim, Behbehani, Al-Abduljalil and Al-Mudhaf terminated on 22 March 2023.

Following the acquisition of the Bank by KFH, a new AUB Group Board was appointed on 22 March 2023 for a three-year board term ending no later than 31 March 2026. Meeting and attendance of each Director at each such meeting are detailed below:

Directors	Meeting Dates						
	22/03/2023	30/05/2023	19/09/2023	13/11/2023	20/12/2023	Total number of Meetings Attended	Percentage Attendance
Mr. Hamad Abdul Mohsen Al Marzouq	✓	✓	✓	✓	✓	5	100%
Mr. Adel A. El-Labban	✓	✓	✓	✓	✓	5	100%
Mr. Khalid Mohamed Najibi*	✓	✓	✓	✓	✓	6	100%
Mr. Khalid Salem Al Nisf	✓	✓	✓	✓	✓	5	100%
Mr. Muad Saud Al Osaimi	✓	✓	✓	✓	✓	5	100%
Mr. Haitham Abdulaziz Al-Terkait	✓	✓	✓	✓	✓	5	100%
Mr. Khaled Yousif Al-Shamlan	✓	✓	✓	✓	✓	5	100%
Dr. Anwar Ali Al Mudhaf**	✓	✓	✓	✓	✓	5	100%
Mr. Jamal Abdel Razzaq Al-Naif*	✓	✓	✓	✓	✓	6	100%

* Messrs Najibi and Al-Naif were re-appointed as directors on the AUB Group Board on 22 March 2023 for a board term ending no later than 31 March 2026.

**Dr. Anwar Ali Al Mudhaf resigned from his position as a Board member of the Bank in January 2024.

The CBB Rulebook Module HC-3.1.8 requires individual Directors to attend at least 75% of all Group Board meetings held in each financial year whether in person or virtually (if needed). During 2023, all Directors complied with the requirements of Module HC-3.1.8.

Appointment and Termination of Appointment of Directors

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

Induction and Training of Directors

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

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

Access to Advice and Information

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

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

Directors' and Related Parties' Interests

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

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

Note 25 to the audited consolidated financial statements of the AUB Group for the year ended 31 December 2023, sets out the relevant disclosures of related party transactions.

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

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

Employment of Relatives

The Bank does not encourage the employment of relatives. However, under exceptional conditions and based on specific requests and needs, the Bank may decide in favour of employing relatives, on a temporary or permanent basis, subject to a comprehensive review and only in cases where there is no conflict of interest or operational risk to the Bank involved. The Group Board has approved a policy on the employment of relatives which is part of the HR Policy on 19 July 2016 (last reviewed and approved by the Board of Directors on 04 December 2023), which has established a recruitment committee to review the recruitment requests of relatives of Bank employees of up to the third degree and recommend the hiring of relatives of Approved Persons occupying Controlled Functions to the GCEO. Human Resources annually discloses to the Group Board or the Group Board Nomination, Remuneration and Corporate Governance Committee, the names of all relatives of any Approved Persons occupying Controlled Functions, last disclosed on 14 November 2023.

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

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

Material Transactions

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

Group Board Committees

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

Following the appointment of the Group Board on 22 March 2023, the Group Board has constituted a number of board committees, membership of which is drawn from the Directors and to which it has delegated specific responsibilities, through Terms of Reference, which are reviewed and adopted by the Group Board on an annual basis **("Group Board Committees")**.

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

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

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

Post 22 March 2023, the names and principal responsibilities of the Group Board Committees are detailed below:

Group Board Executive Committee (GBEC)

The Group Board Executive Committee assists the Group Board in discharging its responsibilities relating to the AUB and AUB group of companies **("AUB Group")** including those relating to matters including credit and investment risk approvals. The Committee, acting for the Board of Directors of AUBUK, deputises only in relation to credit and market risk approvals.

The Group Board Executive Committee included four (4) members, comprising 4 Non-Executive Directors (including the Chairman).

Group Board Audit & Compliance Committee (GBACC)

The Group Board Audit and Compliance Committee assists the Group Board (i) in discharging its oversight responsibilities relating to the Bank's accounting, internal audit, internal controls, Shari'ah Audit recommendations, compliance procedures, financial reporting functions; and (ii) in liaising with the Bank's external auditors, independent external Shari'ah compliance auditors, Sharia Supervisory Board ("SSB") and regulators to ensure compliance with all relevant regulatory requirements and iii) in achieving uniformity with best market practices. The Committee does not oversee the day-to-day work of management and has no executive powers. The Group Board Audit and Compliance Committee carries out its principal responsibilities in respect of the Bank (as the parent company) and has oversight of the related responsibilities of the Audit and Compliance Committees of the Bank's subsidiaries and managed affiliates.

The Group Board Audit and Compliance Committee included four (4) members, comprising three (3) Independent Directors (including the Chairman) and one (1) Non-Executive Director.

Group Board Risk Committee (GBRC)

The Group Board Risk Committee assists the Group Board in fulfilling its oversight responsibilities related to present and emerging risks, strategies and risk appetite associated with Ahli United Bank Group's credit activities, banking operations and investments. The Group Board Risk Committee reviews, manages and monitors adherence of AUB group of companies ("AUB Group") to the risk appetite, policies and procedures and acts as a general forum for the discussions of any risks facing or which could potentially face AUB Group resulting in financial or reputational loss. It also oversees the activities of the Group Management Risk Committee, through the DGCEO – Risk, Legal & Compliance in his capacity as the Chairperson of the Group Management Risk Committee. The Committee oversees Enterprise-Wide risk through a holistic, proactive, dynamic and data-driven framework based on key risk indicators and early warning triggers.

The Group Board Risk Committee included four (4) members, comprising three (3) Independent Directors (including the Chairman) and one (1) Non-Executive Director.

Group Board Nomination, Remuneration and Corporate Governance Committee (GBNRCGC)

The Group Board Risk Committee assists the Group Board in relation to nominating and remuneration matters pursuant to applicable laws and regulations and to instil a best practice approach to the matters assigned to its responsibilities, at all times acting within the criteria set by the licensing and regulating authorities such as the CBB and the Ministry of Industry, Commerce (the "MOIC") in the Kingdom of Bahrain for the Bank and any other applicable legislation following a fair and balanced approach. The Committee also supports the Board in performing its supervisory responsibilities relevant to overseeing the sound governance of the Bank including developing a set of governance guidelines and policies, and monitoring compliance with the application of these guidelines, policies, and the Corporate Governance Policy of the Bank pursuant to CBB and MOIC laws and regulations as well as any other applicable laws and regulations.

During 2023, the names of the Group Board members and their memberships in the Group Board Committees are detailed below:

Directors	Classification	GBEC	GBACC	GBRC	GBNRCGC
Mr. Hamad Abdul Mohsen Al Marzouq	Non-Executive	✓ (Committee Chairman)	-	-	-
Mr. Adel A. El-Labban	Non-Executive	✓	-	-	-
Mr. Khalid Mohamed Najibi	Independent	-	✓	✓ (Committee Chairman)	✓
Mr. Khalid Salem Al Nisf	Non-Executive	✓	-	✓	-
Mr. Muad Saud Al Osaimi	Non-Executive	✓	✓	-	-
Mr. Haitham Abdulaziz Al-Terkait	Executive	-	-	-	✓
Mr. Khaled Yousif Al-Shamlan	Executive	-	-	-	✓
Dr. Anwar Ali Al Mudhaf*	Independent	-	✓	✓	✓ (Committee Chairman)
Mr. Jamal Abdel Razzaq Al-Naif	Independent	-	✓ (Committee Chairman)	✓	✓

*Dr. Anwar Ali Al Mudhaf resigned in January 2024.

The attendance at meetings of Board Committees held during 2023 are detailed below:

Group Board Executive Committee Meetings

Members	Classification	Meeting Dates	
		02/02/2023	30/05/2023
Mr. Hamad Abdul Mohsen Al Marzouq - Chairman	Non-Executive	-*	✓
Mr. Adel A. El-Labban	Non-Executive	-*	✓
Mr. Khalid Salem Al Nisf	Non-Executive	-*	✓
Mr. Muad Saud Al Osaimi	Non-Executive	-*	✓
Mr. Meshal AbdulAziz Alothman	Non-Executive	×	-**
Mr. Mohammad F. Al-Ghanim	Non-Executive	✓	-**
Mr. Khalid Mohamed Najibi	Independent	✓	-**

*Messrs Al-Marzouq, El-Labban, Al-Nisf and Al-Osaimi were appointed as members of the Group Board Executive Committee on 22 March 2023.

**Membership of Messrs Alothman, Al-Ghanim and Najibi on the Group Board Executive Committee terminated on 22 March 2023.

Group Board Audit and Compliance Committee Meetings

Members	Classification	Meeting Dates						
		01/02/2023	18/04/2023	29/05/2023	06/08/2023	17/09/2023	23/10/2023	12/11/2023
Mr. Jamal Abdel Razzaq Al-Naif* - Chairman	Independent	✓	✓	✓	✓	✓	✓	✓
Mr. Muad Saud Al Osaimi**	Non-Executive	-	✓	✓	✓	✓	✓	✓
Dr. Anwar Ali Al Mudhaf** (Resigned in January 2024)	Independent	-	✓	✓	✓	✓	✓	✓
Mr. Khalid Mohamed Najibi**	Independent	-	✓	✓	✓	✓	✓	✓
Mr. Abdulghani M.S.Y. Behbehani	Independent	✓	-***	-***	-***	-***	-***	-***
Mr. Ahmad G. Al-Abduljalil	Non-Executive	✓	-***	-***	-***	-***	-***	-***
Mr. Abdullah M. Al Mudhaf	Independent	✓	-***	-***	-***	-***	-***	-***

*Mr. Al Naif was re-appointed as a member and was appointed as Chairman of the Group Board Audit & Compliance Committee on 22 March 2023.

**Mr. Al Osaimi, Dr. Al Mudhaf and Mr. Najibi were appointed as members of the Group Board Audit & Compliance Committee on 22 March 2023.

***Membership of Messrs Behbehani, Al-Abduljalil and Al Mudhaf on the Group Board Audit & Compliance Committee terminated on 22 March 2023.

Group Board Risk Committee* Meetings

Members	Classification	Meeting Dates		
		29/05/2023	17/09/2023	12/11/2023
Mr. Khalid Mohamed Najibi - Chairman	Independent	✓	✓	✓
Mr. Khalid Salem Al Nisf	Non-Executive	✓	✓	✓
Dr. Anwar Ali Al Mudhaf (Resigned in January 2024)	Independent	✓	✓	✓
Mr. Jamal Abdel Razzaq Al-Naif	Independent	✓	✓	✓

*The Group Board Risk Committee was formed on 22 March 2023.

Group Board Nominating, Remuneration and Corporate Governance Committee Meetings

Members	Classification	Meeting Dates	
		01/02/2023	14/11/2023
Dr. Anwar Ali Al Mudhaf - Chairman (Resigned in January 2024)	Independent	-*	✓
Mr. Haitham Abdulaziz Al-Terkait	Executive	-*	✓
Mr. Khaled Yousif Al-Shamlan	Executive	-*	✓
Mr. Khalid Mohamed Najibi	Independent	-*	✓
Mr. Jamal Abdel Razzaq Al-Naif	Independent	✓	✓

*Group Board Nominating, Remuneration and Corporate Governance Committee was formed on 22 March 2023 to replace the previous Board Nominating Committee and Board Compensation Committee. Meeting of the previous Board Compensation Committee was held on 01 February 2023 and was attended by Messrs. Abdullah Al Mudhaf, Abdulghani M.S.Y. Behbehani and Jamal Abdelrazzaq Al Naif.

Group Board and Board Committees Evaluation

The Board & Board Committees Evaluations are under progress on the performance of the Group Board and each Director during 2023, results of which shall be reported to the shareholders once finalized.

Senior Management:

Names	Title
Ahmed Saud Alkharji	Group Chief Executive Officer
Rajeev Gogia	Deputy Group CEO - Finance & Strategy
Iman Al-Madani	Deputy Group CEO - HR, Transformation and Development
Oliver Schwarzhaupt	Deputy Group CEO - Risk & Compliance*
Othman Hijazi	Deputy Group CEO - Corporate Banking
Samih Abutaleb	Deputy Group CEO - Technology & Operations
Suvrat Saigal	Deputy Group CEO - Retail Banking
Talal Kaiksow	Deputy Group CEO - Private Banking & Wealth Management
Bassam Alali	Group Head - Treasury (Acting Deputy Group CEO - Treasury & Investment)
Khaled Alnaser	Head of Internal Audit (Acting Group Head Audit)
Philip Crawford	CEO - Ahli United Bank (UK) P.L.C.**
Hala Sadek	CEO - Ahli United Bank (Egypt) S.A.E.
Ayman El-Gammal	CEO - United Bank for Commerce & Investment S.A.L.
Bassam Jaber	CEO - Commercial Islamic Bank of Iraq

* Joined on 10 March 2024

** Joined on 03 January 2024

Management Committees

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

Group Management Committee

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

Group Asset and Liability Committee

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

Group New Product Committee

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

Group Information Technology and Transformation Steering Committee

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

Group Credit Committee

The Group Credit Committee (GCC) reviews and approves AUB group credit applications, non-performing facilities and related matters in accordance with the Bank's credit risk appetite and credit policies approved by the AUB Group Board of Directors. It acts as a forum for the discussion and approval of requests related to credit including non-performing accounts of AUB group of companies. It also oversees the operation of the Bahrain Risk Committee, the Group Operational Risk Committee, the Group Special Assets Committee, and the Working Committee on IFRS9 impairment provisioning. It is chaired by the GCEO and has six other members.

Group Operational Risk Committee

The Group Operational Risk Committee (GORC) has been established to administer the management of operational risk throughout AUB and the AUB Group Companies. It monitors material operational & fraud risks faced by AUB Group. Approve controls to mitigate these risks and ensure meeting regulatory requirements. Ensure consistent application of the OR policy across the Group. Review fraud procedures to ensure the immediate escalation & reporting of material fraud incidences to EM. Act as the default CMT in a crisis scenario and ensure that FBM, DR & BC are adequate. Report the operational and fraud risks quarterly report to BRC. Review the ORSA, controls efficiency, correlation between the findings and actual OR incidents and prepare Quarterly reports. Review reports from entity ORCs within the Group on OR & Data Governance & Protection issues. It is chaired by the DGCEO Risk, Legal & Compliance and has ten other members.

Group Management Risk Committee

The Group Management Risk Committee (GMRC) supports and helps management to understand and oversee group key risk exposures, optimize group enterprise risk profile within the context of the approved strategy, risk appetite and regulatory requirements and to embed and maintain a risk aware culture within AUB Group. The main role of the Committee is to advise, facilitate, monitor and follow up the execution of the decisions and recommendations of the AUB Group Board Risk Committee ("GBRC") to successfully achieve its duties and objectives set by the AUB Board of Directors and maintain a high-risk governance standard. The Committee reports to the GBRC through its Chairman (DGCEO - Risk, Legal & Compliance). The Committee oversees Enterprise-Wide risk through a holistic, proactive, dynamic and data-driven framework based on key risk indicators and early warning triggers. It is chaired by Deputy Group CEO – Risk, Legal & Compliance and has nine other members.

Group Investment Committee

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

AUB Solo Management Committee

The Solo Management Committee (MC) is the senior collective management forum of AUB, the parent Bank, providing a formal framework for effective consultation and transparent decision-making on cross-organizational matters. The Committee focuses on AUB onshore and offshore businesses which are booked in Bahrain. The MC is chaired by the GCEO and comprises of the Bank's other Deputy Group CEOs and Group Head Treasury, Group Head Information Technology, Group Head Finance and Head Credit Risk (Bahrain). Further on a quarterly basis the MC is attended by Group Head of Audit, Group Head Human Resources and Group Head Compliance.

AUB Solo Assets and Liability Committee

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

Group Data Analytics Governance Committee

The Group Data and Analytics Governance Committee (GDAGC), in conjunction with the Data Management Department (DMD), ensures fact-based decision making through deeper insights across all business and support lines based on a single, unified data strategy, guided by the Group Data Policy, as approved by the AUB Group Board of Directors and by the rules and processes set by the Committee for application across the AUB and the AUB group of companies. It is chaired by GCEO and has fifteen other members.

Group Information & Cyber Security Risk Committee

The Group Information & Cyber Security Risk Committee (GICSC) is a senior level governance committee and chaired by the DGCEO-Risk, Legal and Compliance and has six other members. GICSC and has been established to administer the management of Information and Cyber Security risk throughout AUB and the AUB Group of companies. The committee oversees and review the information and cyber security risk posture, emerging risks, the Bank's preparedness and mitigations and their effectiveness in addressing the risks. Oversee the actions and progress to mitigate the risks. It ensures consistent application of the AUB Group Information Security Framework and Policy across all business lines and entities within the AUB Group. This includes the promotion of a culture of disciplined Information and Cyber Security awareness and policy adherence to all staff across the AUB Group.

Other Governance Measures

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

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

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

Other Governance Measures (Continued)

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

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

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

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

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

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

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

AUB GROUP REMUNERATION FRAMEWORK AND GOVERNANCE

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

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

1. The Remuneration System

The remuneration system represents a balanced risk-based remuneration consisting of:

- Fixed remuneration for employees (Paid in the form of monthly salaries and allowances) and directors (Director Fees based on contribution to and on attendance of meetings);
- Employee benefits; and
- Annual variable remuneration for performing employees aligned to business performance and market conditions for business functions or adherence to control functional mandates for control functions as per rules and guidelines outlined by regulators in AUB markets.

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

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

2. The Remuneration Policy

The Remuneration Policy (Forms part of the HR Policy) is annually reviewed by the Board of Directors. The Policy incorporates the mandatory regulations issued by the regulators, which are applicable to specified group of risk-takers/ functions of the Bank. The Policy and related schemes are also approved by the shareholders of the Bank and apply to performance-related employee remuneration payments made for each financial year.

The policy incorporates the mandatory regulations issued under the CBB High-Level Controls module, (HC-6: Remuneration of Approved Persons and Material Risk-Takers), applicable to Approved Persons and Material Risk-Takers of the Bank whose total annual remuneration (including all benefits) is more than BD100,000 or equivalent. The Policy and related schemes have been approved by the shareholders of the Bank at the Annual General Meeting held on 31 March 2015 and have been applied to performance related employee remuneration payments made for each financial year.

The policy outlines the basis and methodology for arriving at variable remuneration, making allocations, implementing risk adjustments to remuneration, the framework for remuneration of risk takers, conditions for deferral, malus and claw-back clauses including compliance and disclosure requirements.

Equity schemes are limited so as not to exceed an aggregate 10% of the total issued outstanding ordinary share capital of the Bank, at any given time.

3. Role of the Board Nomination, Remuneration and Corporate Governance Committee in Governance and Oversight over Remuneration.

The Board of Directors has established a Board Nomination, Remuneration and Corporate Governance Committee (the “Committee”) and has delegated certain of its powers and responsibilities to the Committee through its Terms of Reference. The primary responsibilities of the Committee are to provide effective oversight of and governance over the remuneration strategy, structure and systems, to ensure that these are properly implemented. The aggregate remuneration/ fees paid to the Committee members for 2023 amounted to US$71,500 (2022: US$15,000). (Previous Compensation Committee was replaced by the Board Nomination, Remuneration and Corporate Governance Committee in April 2023).

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

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

4. Main Duties of the Board Nomination, Remuneration and Corporate Governance Committee

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

Action	Approved by
a) Approve the Bank’s annual performance bonus pool funding model based on KPI and KRI adjustments.	Board Nomination, Remuneration and Corporate Governance Committee
b) Approve the Bank’s annual performance bonus pool based on the determined performance bonus pool funding model.	
c) Approve the criteria for performance-based distribution of the Bank’s annual performance bonus.	
d) Approve the performance scores, annual increment % and annual performance bonus monthly salary multiples for Approved Persons and Material Risk-Takers whose total annual remuneration is more than BD100,000 or equivalent in the Bank.	
e) Approve the aggregate performance distribution, annual actual salary increments and actual performance bonus amounts for the Bank.	

5. External Consultants

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

6. Remuneration of the Board of Directors

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

The Bank is in compliance with its Articles of Association requiring that total remuneration for Directors (excluding sitting fees) is capped at 10% of the Bank’s NPAT for 2023, after all the required deductions outlined in Article 188 of the Bahrain Commercial Companies Law, 2001.

The remuneration of Non-Executive Directors for 2023 does not include any performance-related elements such as shares, share options or other deferred stock-related incentive schemes, bonuses or pension benefits, in compliance with the CBB Rule Book HC Module 5.5.1.

The Approved Persons and Material Risk Takers of the Bank do not receive remuneration, incentives, performance payments, commission, fees, shares, consideration in kind or other direct benefits of any kind from any projects or investments managed by the Bank or promoted to its customers or potential customers.

This applies to all Approved Persons and Material Risk Takers including those appointed as members of the Board of any special purpose vehicles or other operating companies set up by the Bank for special projects or investments.

The Approved Persons and Material Risk Takers of the Bank do not receive any additional remuneration for their participation in any management committees.

Remuneration Regulation	Compliance by AUB
CBB Rule Book High Level Controls Module Article No.3.6 (g) requires that remuneration of the Board of Directors (“The BoD”) of an Islamic Bank is linked to attendance and performance.	AUB BoD and its related committees’ remuneration is pro-rated on the basis of ½ of the fees being paid on actual attendance of meetings by Directors with the remainder paid as membership remuneration unrelated to attendance. • **In Compliance**
CBB Rule Book High Level Controls Module Article No.6.1.21 requires that the remuneration of non-executive directors must not include performance-related elements such as grants of shares, share options or other deferred stock-related incentive schemes, bonuses, or pension benefits.	No performance-related remuneration is included in the remuneration of AUB Non-Executive Directors. • **In Compliance**
The Bank’s Articles of Association require that total remuneration for Directors (excluding sitting fees) is capped at 10% of the Bank’s NPAT, after all the required deductions outlined in Article 188 of the Bahrain Commercial Companies Law, 2001 in any financial year, notwithstanding the requirements of shareholders’ approval.	For 2023, the recorded NPAT is US$ 667.3 million (2022: US$ 546.1 million) and therefore, no further approval is required from the shareholders for the payment of Director Fees and Expenses. • **In Compliance** AUB B.S.C. (c) Board of Director Fees & Expenses for 2023 amounts to US$ 2.129 million (2022: US$ 1.612 million) falling within the above defined limit as per the regulation and the guidelines specified by Article 188. As per the regulation and the guidelines specified by Article 188, the Board of Director fees and expenses cap for 2023 is estimated at US$ 41.8 million (2022: US$30.9 million) and is calculated as per below:

	US$ Million
NPAT for 2023	**667.3**
Less 10% transferred to Legal Reserve	(66.7)
Balance	**600.6**
Less Min. 5% Dividend to Shareholders on Issued Shares	(139.4)
Balance	**461.2**
Less profit paid for AT1 Issue attributable to AUB equity shareholders	(40.8)
Balance	**420.4**
Less transferred to Donation reserve	(2.0)
Balance	**418.4**
10% limit on Director Fees and Expenses as per law	**41.8**

• **In Compliance**

7. AUB Remuneration Framework, Performance Bonus Pool Calculation and Risk Adjustments

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

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

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

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

CORPORATE GOVERNANCE
(Continued)

8. Review of Performance and Remuneration arrangements at AUB

The performance measurement and the remuneration arrangements for all staff is reviewed and approved The performance measurement and the remuneration arrangements for the Bank is reviewed and approved by the Committee each financial year and is subject to changes in total individual remuneration and/ or to changes in the organizational structure and business model. The performance measurement and the remuneration arrangements for designated Approved Persons and Material Risk Takers of the Bank whose total annual remuneration (including all benefits) is more than BD100,000 or equivalent, who are part of the Senior Management of the Bank is reviewed and approved by the Committee in alignment with business performance and compliance to the risk framework. Performance assessment of regulated roles is undertaken as per the following framework:

Level	Area	Bank (Business) Objectives	Function Objectives
CEO	(Business)	100%	-
Others	(Business)	60%	40%
	(Support)	40%	60%
	(Control)	-	100%

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

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

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

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

The variable remuneration awarded to the Approved Persons and Material Risk-Takers is based on the Bank's short- or long-term financial performance as adjusted for all types of risk and are subject to reduction in case of the Bank's poor or negative financial performance. The Remuneration report for the Bank includes the regulated roles for 2023 who are Approved Persons and Material Risk-Takers in business lines - 15 (2022: 7), Approved Persons in control functions - 11 (2022: 9) and no other material risk takers. Other staff, Bahrain operations – 684 (2022: 711).

9. Compliance with Remuneration Rules

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

(i) Framework & Methodology

Compensation Regulation	Compliance by AUB
Governance	• Members of the Board Nomination, Remuneration and Corporate Governance Committee are nominated/ elected from the Board of Directors. • The Committee sets the principles, parameters and governance framework of the Group's Remuneration Policy applicable to all employees and reviews the Bank's compliance to the Board Risk Framework.
Management of Subsidiaries/ SPV's/ Projects/ Investments	• AUB employees do not take remuneration, incentives, performance payments, commission, fees, shares, consideration in kind or other direct benefits of any kind from any projects or investments managed by the Bank or promoted to its customers or potential customers. • The above rule applies also to those staff appointed as members of the Board of any special purpose vehicles or other operating companies set up by the Bank for projects or investments.
External Review	• The Remuneration Policy is reviewed annually by the external auditors of the Bank for compliance with Chapter HC-6 (Module "HC") issued by the Central Bank of Bahrain and reported independently by the auditors to the CBB.
Personal Hedging Strategies	• Approved Persons and Material Risk-Takers with deferred variable remuneration of the Bank provide acknowledgements to the Bank, not to use personal hedging strategies or remuneration and liability-related insurance to undermine the risk alignment effects embedded in their deferred variable remuneration arrangements.
Employees in Control functions are independent and are compensated based on functional objectives	• Individuals in Control functions have independent reporting lines through their respective functions rather than through the business. • Control functions are represented in all senior management committees. • Control functions, especially in key areas of Risk Management and Internal Audit have direct reporting lines to their respective Board Committees. • Performance and remuneration related recommendations and inputs are taken from the Chairpersons of the respective Board Committees for evaluating performance or for setting remuneration for heads of Control functions.
Performance Measures	• KPI's and measure the actual financial and operational performance against budgets and KRI's measure the actual compliance as per the Board approved Risk Framework and include Net Profit after Tax (NPAT), Return on average assets (ROAA), Return on average equity (ROAE), Cost to income ratio, Audit ratings, Net Provisions on Financing (NPF) as % of gross financing and/ or capital adequacy ratio. • Performance-related variable remuneration at the Bank aims at recognizing and rewarding employee's contribution beyond their regular job requirements, particularly those contributions that increase Bank's productivity and profitability in a prudent and sustainable manner with effective control of risk.
Business Performance and KPI's and KRI's	• The Committee reviews and ensures the framework linking individual performance to the Bank's performance adjusts the annual accrual of the Variable Remuneration pool for the Bank based on achievement of specified Key Performance Indicators ("KPI") which reflects Bank Performance for each financial year. • The Committee reviews and ensures the Key Risk Indicators ("KRI") which reflects the compliance of the Bank as per the Board approved Risk Framework for each financial year.
Total performance bonus pool does not limit the Bank's ability to strengthen capital base	• Funding of the Bank's performance bonus pool is based on profitability of the Bank, capital adequacy and returns to shareholders are also an important factor in calculation of the bonus pool. • The performance bonus pool for the Bank is based on evaluation of financial performance and compliance to objectives outlined in the Risk Framework.

9. Compliance with Remuneration Rules (Continued)

(i) Framework & Methodology (Continued)

Compensation Regulation	Compliance by AUB
Performance bonus adjusts for all types of current and future risks	• NPAT performance is adjusted for appropriate current and future risks. • The Committee exercises its judgement to ensure the performance bonus pool reflects the overall performance of the Group including compliance to the Board approved Risk Framework.
Guaranteed/ Sign-on Bonus	• The Bank does not provide any form of guaranteed performance bonus as part of the employment offer or contract to any employee. Severance remuneration (except notice period for a maximum period of 3 months) is restricted except when the Bank provides for it as ex-gratia or as participants in a voluntary retirement, job redundancy or liquidation of the business or on closure of a unit.
Performance bonus pool calculation	• The performance bonus pool is aligned to and accrued based on the Bank's short- or long-term financial performance and adjusted for compliance to the risk framework and/ or as per profit-sharing regulations set out in country regulations. • The Committee reviews the accrual of the performance bonus pool for the Bank and ensures it is based on the overall performance of the Bank and is accrued as a percentage of Net Profit after Tax (the "NPAT") for the preceding financial year and complies to the risk-adjusted performance as per the Board approved Risk Framework. • Fines, penalties by regulators and non-compliance to the Risk Framework results in reduction in the overall profit achievement as assessed by the Committee.
Reduction of bonus pool	• The Committee at its discretion may propose to reduce or reduce to nil the distribution of the performance bonus pool for the Bank and each line of business and/ or the allocation pool of accrued bonus to businesses if there is a material reduction in the profitability of the Bank or the individual line of business. • The Committee shall use its discretion to determine whether the business is incurring losses due to a start-up or turnaround situation, in which case, bonus pay-out may be allowed to occur.
Review of Performance and Remuneration arrangements of Approved Persons and Material Risk Takers in Senior Management	• The performance measurement and the remuneration arrangements for designated senior management and regulated roles of the Bank for each year is reviewed and approved by the Committee and is subject to changes in total individual remuneration and/ or to changes in the organizational structure and business model. • The CBB mandates that the variable performance bonus for Approved Persons and Material Risk-Takers whose annual salaries are BD100K (-c.US$256K) be deferred. • The variable remuneration awarded to the senior managers and risk-takers in the Bank is based on the Bank's short- or long-term financial performance as adjusted for all types of risk and are subject to reduction in case of the Bank's poor or negative financial performance.
Deferral of performance bonus	• In geographies where regulations mandate that the variable performance bonus be deferred, then deferral mechanisms are followed. • Awards of deferred variable remuneration for the designated Approved Persons and Material Risk Takers of the Bank shall be reduced in case of losses by the Bank and/ or business line during the vesting period of deferred remuneration awards because of Malus and/or claw-back as defined in the HR Policy.
Deferral arrangements for Approved Persons and MRT's in Senior Management	• For the GCEO and the Approved Persons reporting to him and Top 5 Material Risk Takers in business functions: 1. 40% of variable performance-based remuneration paid upfront in cash. 2. 60% of variable performance-based remuneration is deferred. • For the Approved Persons in control and support functions: 1. 50% of variable performance-based remuneration paid upfront in cash. 2. 50% of variable performance-based remuneration is deferred.

Details of Remuneration paid to Members of the Board of Directors

Total Value of Remuneration for the fiscal year:	2023 (Amounts in US$' 000)	2022 (Amounts in US$' 000)
Remuneration for the Board of Directors and related committees	2,073	1,612
Others (Expenses for the Board)	56	-

Details of Remuneration Paid to Employees

	2023				
	Fixed Remuneration		Variable Remuneration		Total Remuneration
	Unrestricted cash and allowances	Unrestricted others[1]	Cash	Deferred	
Approved persons - business lines	5,239	1,811	1,406	1,971	10,427
Approved persons – control	3,871	1,505	982	1,237	7,595
Other staff – Bahrain operations	38,940	11,490	10,811	0	61,241
Total	**48,050**	**14,806**	**13,199**	**3,208**	**79,263**

	2022				
	Fixed Remuneration		Variable Remuneration		Total Remuneration
	Unrestricted cash and allowances	Unrestricted others[1]	Cash	Deferred	
Approved persons - business lines	3,015	651	1,295	1,943	6,904
Approved persons – control	2,847	855	551	551	4,804
Other staff – Bahrain operations	33,631	7,176	10,380	0	51,187
Total	**39,493**	**8,682**	**12,226**	**2,494**	**62,895**

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

Deferred Variable Remuneration Arrangements

	2023				
Awards	Cash	Units		Others	Total
	(US$' 000)	Nos.	(US$' 000)	(US$' 000)	(US$' 000)
Opening balance	-	-	-	-	-
Awarded during the year	-	-	3,207	-	3,207
Vested during the year	-	-	-	-	-
Risk Adjustments	-	-	-	-	-
Closing balance	-	-	3,207	-	3,207

	2022				
Awards	Cash	Units		Others	Total
	(US$' 000)	Nos.	(US$' 000)	(US$' 000)	(US$' 000)
Opening balance	-	-	637	-	637
Awarded during the year	-	-	2,494	-	2,494
Vested during the year	-	-	3,131	-	3,131
Risk Adjustments	-	-	-	-	-
Closing balance	-	-	-	-	-

GROUP BUSINESS AND RISK REVIEW

Corporate Banking

In the past fiscal year, the Corporate Banking Group (CBG) has demonstrated strong performance, showcasing robust growth across key metrics. The department has seen market leading expansion in both assets and liabilities, affirming the strong commitment to fostering lasting partnerships with corporate clients across the Middle East and beyond. The past year has been marked by notable achievements in various facets of financial performance, as evidenced by the robust growth in assets, liabilities and income. CBG's asset base has grown by 8.8% vs 2022. This growth reflects the commitment to effectively managing and deploying resources, to meet the evolving needs of corporate clientele. Furthermore, the 12% growth in liabilities signifies CBG's capacity to attract and retain deposits, underscoring the trust and confidence reposed in the Bank by stakeholders.

CBG has achieved satisfactory growth of 1.6% in gross operating income. The notable uptick in operating income can be in part attributed to a strong growth of 3.3% in fees and commissions from the previous year. The growth across key pillars not only reflects Bank's ability to generate sustainable returns but also underpins the commitment and resilience to deliver superior results and also highlights the trust and confidence placed in it by CBG clients.

In the past year, AUB Bahrain and DIFC Branch underwent a transformative journey, transitioning into an Islamic bank without compromising its commitment to business excellence. This significant shift was met with wholehearted acceptance and support from its valued clients. Embracing the principles of Islamic finance, the Bank has seamlessly integrated Shari'ah-compliant practices into its business and operations, fostering a more inclusive and sustainable financial ecosystem.

Looking ahead, numerous opportunities present themselves for corporate banking as a division, whilst the focus remains steadfast on the seamless conversion of the remaining group entities into Islamic banks, while concurrently ensuring sustainable business growth.

By remaining agile, adaptive, and customer-centric, CBG is poised to navigate the challenges and capitalize on the opportunities that lie ahead by embracing technological advancements and digital innovations. This will be pivotal in enhancing operational efficiency, streamlining processes, and delivering superior customer experiences.

Retail Banking

The post-COVID impacts were increasingly felt by consumers in 2023. There were two major drivers. Firstly, sharply higher profit rates depressed demand for financing by increasing the cost and reducing the amount that could be financed. On the deposits side, higher rates drove a shift from transactional accounts to Term Deposits by customers seeking attractive yields. The second impact was due to the closure of the payment holiday in Bahrain in June 2022. Customers who had become accustomed to higher cash flows during COVID, now had to make the adjustment to significantly lower monthly cash flows. This led to lower monthly spending and negatively impacted credit conditions.

Key strategic initiatives for 2023 included the integration of the Citibank Bahrain Consumer business into AUB, and the seamless conversion of AUB into an Islamic bank. Advances were seen in the digital offerings covering Mobile/Online Banking, CRM systems and ATM channels in Bahrain providing a market-leading array of digital services to the Bank's customers. Record deposit growth was achieved in both Egypt and Bahrain, driven by the profit rate environment and attractive product offerings. The migration of Citi's Customers and staff to AUB was completed.

AUBE achieved significant progress towards the strengthening of its franchise, marked by robust client acquisition (21% growth in clientele base in 2023), Deposits growth (+30%), Financing Receivables (38%), successful product launches, reduced funding concentration risk, optimization of its branch network and further enhancement of digital penetration rates to 89% up from 37% in 2022.

Several new products were launched in 2023. The AUB Global wallet, which allows customers to automatically conduct Foreign Currency transactions in 4 currencies was introduced. AUB Rewards and Premium Credit cards were introduced with unique features including a new Rewards platform. In Egypt, the Premium 3 Years CDs witnessed high subscription from existing and new clients, while the credit card portfolio in Egypt nearly doubled in size driven by innovative campaigns.

Our focus will continue to be on growth in key target segments and geographies particularly on transactional accounts and financing. AUB desires to grow its client base, build diversified funding sources that support future growth and to further simplify client experiences across all channels by leveraging digital technologies. We are also refining our value propositions in order to better meet the needs of our target segments.

Treasury

In 2023, US policy makers focused on combating inflation through aggressive rate hikes during the first half of the year. This move was followed by most GCC central banks, which includes the Central Bank of Bahrain. Despite the aggressive monetary policy and adverse geopolitical developments in the region, GCC economies continued expanding. That is while other developed economies, mainly in Europe, continued to struggle with supply chain issues and logistical challenges.

Global inflation indexes have decelerated from peak levels with several indicators returning to normalized ranges. The US Treasury yield curve continues to be inverted indicating a recessionary outlook projected by the market. The FED denotes its intention to stay data dependent before starting the rate cut cycle in its efforts to slow down growth without leading to a full economic collapse.

AUB Treasury maintained a healthy and strong balance sheet structure in 2023, which was compliant with all regulatory requirements. A key focus for the year was to convert all assets, liabilities, and off-balance sheet instruments into a Shari'ah compliant structure. The conversion process also focused on ensuring systems, policies, and procedures are all updated to support the new product line introduced. Group Treasury will now shift its focus to its subsidiaries in Iraq, Egypt, and the UK to replicate the Islamic conversion in Bahrain.

Treasury (Continued)

Some of the challenges foreseen post conversion are related to the smaller pool of Shari'ah compliant options available for liquidity management, hedging instruments, and investment products. Therefore, the team has invested time and resources in establishing new partnerships and collaborations in the Islamic banking space. This included identifying suitable partners to work with, and negotiating new Shari'ah compliant agreements and documentation.

The bank also concluded its LIBOR transition initiative which replaced the now discontinued benchmark with each currency's respective alternative reference rate. This was led and managed by Treasury across the entire AUB Group. Digital transformation continues to be an area of focus for Treasury. Various projects continued to roll out during the year. Most significantly, the integration of the FX electronic trading platform to both mobile banking and internet banking channels.

In 2024, Treasury will focus on repositioning its balance sheet to suit the expected lower rate environment. That is in addition to finding synergistic opportunities through the integration into the KFH Group, continuing the effective management of liquidity, diversifying funding sources, and providing an array of Shari'ah compliant hedging solutions and structured products to clients.

Private Banking & Wealth Management

Investors entered 2023 with global central banks continuing to raise profit rates to counter high inflation, resulting in concern for the potential economic impact and return to recession during the first half of the year. The reality was that as the US Federal Reserve raised rates another 4 times during the year, inflation continued to rise. The economy however, remained resilient, despite the obvious headwinds early in the year created by the US regional banking credit crunch caused by significant bond losses, and increased geopolitical tensions towards the end of 2023. The year ended with Fed fund officials in December indicating that rates were unlikely to be raised further, with rate cuts expected in 2024.

2023 provided a return to positive performance for equities, bonds, and most other asset classes (with the exception of oil and Chinese equities). Global equities rallied more than 20% in 2023, benefiting from a sound economy, an expected end to the Fed's rate hikes, and corporate earnings that beat expectations. Technology stocks, represented by the NASDAQ, increased by 43%, a result of expectations of rate cuts and the increased focus on Artificial Intelligence technology developments. Bond investors were equally buoyed after bonds turned positive at the end of the year, avoiding yet another year of losses with US treasuries up by just under 5% and global corporate bonds up by more than 8%. The US 10-year Treasury bond demonstrated significant volatility, with its yield starting the year at 3.8%, before reaching a 17 year high of 5% in October, with prices recovering to yield 3.8% at the end of the year.

Despite these uncertainties, Private Banking grew its operating income by 27.5% to $62.4m in 2023, driven by strong net financing income growth given the rising rate backdrop. The division demonstrated robust balance sheet growth with Private Banking clients across the Group taking advantage of higher profit rates, with cash and deposits increasing by 45% to $4.5bn.

During 2023, the key focus of Private Banking was on converting the existing Bahrain and Dubai Private Banking business into fully Shari'ah compliant offerings. Throughout this process, clients were proactively engaged and kept updated on the conversion in a seamless, client-focused manner to ensure minimal disruption to clients. This successful conversion template will continue to be rolled out to other jurisdictions to complete conversion in 2024.

In addition to conversion, Private Banking focused on building a strong foundation for an Islamic wealth proposition with opportunities sourced both regionally and globally, with a rigorous due diligence and governance process. In this way, Private Banking was able to add to its strong Sukuk execution service capability and Islamic Structured Deposits capability, whilst identifying Shari'ah compliant ETFs and mutual funds across asset classes to be made available to clients.

Private Banking's client-focused approach, wealth management offerings and relationship management service quality has been acknowledged by leading institutions and it is honoured to have received several industry leading awards during 2023 including from Private Banker International: Best Private Bank for Islamic Services and Outstanding Private Bank-Middle East; from PWM/The Banker: Best Private Bank in Egypt and Best Private Bank in Kuwait; and from Global Finance, Best Private Bank in Bahrain.

In 2024, the biggest challenge to the operating environment will be continued market volatility due to geopolitical events, Fed policy actions versus expectations and the impact of elections in more than 70 countries which account for more than 60% of global GDP. The current environment with elevated rates subduing economic growth but not causing economies to fall into recession, coupled with a continued expectation for rates to fall due to a lower inflationary environment and analyst expectations of S&P500 earnings in 2024 to rise by some 11%, provide an opportunity for clients. In particular, they can continue to benefit from attractive profit rates on deposits, higher yields on fixed income securities and continued positive momentum from equities whilst reducing downside risk via structured investments and alternative investment asset classes to lower portfolio volatility.

The main strategic focus for Private Banking & Wealth Management will be to continue to prioritize and develop its service delivery and advice, in order for clients to grow their assets, liabilities, and AUM base. From a product solutions perspective, the Islamic investment solutions provided will be strengthened by offering Regional fixed income and equity portfolio solutions, as well as enhancing its real estate investment offering. In addition, the aim is to continue to increase the range of Islamic ETFs, mutual fund and structured investment solutions made available to clients.

Private Banking clients will continue to benefit from its global presence to receive services and solutions to meet their cross-border requirements. Continued collaboration with other divisions and jurisdictions of the Group, (Corporate Banking, Premium Banking and Treasury) will enable these important stakeholders and their underlying clients to avail themselves of a wider service offering. The focus will remain on growing the clients' wealth and preserving legacy.

GROUP BUSINESS AND RISK REVIEW
(Continued)

Group Information Technology ,Operations

The Information and Operations department has made significant investments in both personnel and technology. We have completed several technology upgrades aimed at automating internal processes using rapid development tools and have enhanced our infrastructure in conjunction with business process re-engineering efforts. Notably, we have successfully completed major programs, including the seamless migration of clients from Retail Citibank Bahrain within the established timelines and budgets. This was followed by the Islamic conversion and migration of the conventional portfolio, which was bolstered by initiatives in straight-through-processing and automation.

Incorporating our commitment to sustainability and Environmental, Social, and Governance (ESG) principles, AUB has embarked on a transformative journey towards paperless operations. This initiative is a cornerstone of our sustainability strategy, significantly reducing our environmental impact by minimizing paper consumption. Over the past three years, we have achieved a 90% reduction in paper usage, a milestone that underscores our dedication to environmental stewardship. This paperless transition not only aligns with our ESG goals but also streamlines our processes, reflecting our adaptability and innovation in the digital age. Our success in this initiative highlights our commitment to delivering sustainable value to our clients and stakeholders, and it exemplifies AUB's leadership in sustainable banking practices. We remain steadfast in our pursuit of a sustainable future, continually integrating ESG values into every facet of our operations.

The department has maintained a steadfast focus on delivering exceptional client value and experiences, while equipping the business with the necessary tools and technologies. Amidst the Retail Citibank Bahrain migration and Islamic conversion, the Information Technology and Operations teams have also continued to advance our committed Transformation initiatives. Concurrently, we have fulfilled all regulatory and mandatory updates. Additionally, we have invested considerable effort in fortifying our systems, working in close collaboration with the Information Security team to ensure robust protection.

With the implementation of a transformed infrastructure, the adoption of cloud services for major applications, cutting-edge middleware, and new reusable architectural components, the Operations team has played a pivotal role in modernizing the bank's infrastructure. This has facilitated faster integration of new products and services, ensuring smooth transitions and minimal service disruptions. AUB now stands in a significantly advantageous position to swiftly respond to new market opportunities. Noteworthy developments include the Citibank customer migration, the launch of the new Mobile Banking app, enhanced automation of operations through RM Workbench & CRM, paperless operations via the Global Reports Portal, and resiliencies of Production and Disaster Recovery sites. Additionally, the Islamic conversion, A-Z Automation, and Asset Efficiency are key highlights of the Information Technology and Operations department's achievements.

AUB's Digital Factory has been bolstered with the addition of core middleware resources that support key initiatives across the group.

The department has conducted several training modules, including Islamic banking, technology online courses, and forums. The organizational structure has been optimized to ensure functional governance with clearly defined roles and responsibilities across units, aligning with AUB's strategic objectives and operational efficiency.

AUB recognizes Transformation as the pivotal element that adapts to the ever-changing socio-economic landscapes and evolving customer expectations. The bank has experienced significant Transformation in recent years, propelled by the automation and digitalization of products and services. This transformation is anticipated to persist into the year 2024, with a concentrated effort on distinguishing AUB's services from competitors by creating unique customer experiences and value propositions. The ongoing commitment to Transformation is expected to further enhance AUB's ability to meet and exceed customer needs in the dynamic banking environment.

Human Resources

A year of transformation and commitment to our staff marked 2023 for the Group HR, which played a pivotal role in facilitating the bank's transformational journeys. Two journeys were embarked upon that fundamentally reshaped the Bank's identity and propelled it forward. First, the seamless integration of the Citibank Bahrain consumer business; secondly, the conversion from a conventional bank to a fully-fledged Islamic bank, marked an organizational milestone.The acquisition and integration of Citibank Bahrain's consumer business which included the onboarding, induction and integration of 83 full time employees and 100 outsourced employees mapped as per their skills and job roles was completed in 2023.

The Human Resources function at AUB managed a large-scale cultural and operational change through training, communication, workshops, re-skilling and changes to processes and procedures, enabling CBB's issue of an Islamic Banking license to AUB by December 2023.

The extensive range of initiatives undertaken by Group HR during the year included Group Islamic Banking & Finance training; ongoing Transformation Culture Change and Owner-User Mindshift Change; Competency-based Career Development Mapping; Enhanced Quantitative Meritocratic Assessment; Ongoing staff Training and Development creating a flexible, rewarding and modern work culture; and the Automation of Enterprise HR A-Z Processes.

AUB Group (including all associates) employed 4,353 Permanent staff as at 31 December 2023 (2022 Headcount: 4,304). Participation of women in the Group workforce is 34% as of December 2023.

Local participation in the workforce in all markets in which AUB operates is a key strategic and mandatory objective for the Group. All AUB Group banks are compliant to mandated localization ratios in Bahrain, Kuwait and Libya.

GROUP BUSINESS AND RISK REVIEW
(Continued)

Human Resources (Continued)

Ongoing priorities will include further empowering the workforce, driving engagement, to develop and implement training programs for Shari'ah compliant banking tailored to the specific cultural and regulatory contexts of AUB Egypt, UK, and Iraq; to utilize online platforms and interactive tools to deliver engaging and accessible Islamic banking training/education across geographically dispersed teams; and the facilitation of knowledge sharing and peer-to-peer learning between employees in all entities, fostering a united understanding of Islamic principles.

Further initiatives will embrace employing a sprint-based approach with clear milestones, leveraging technology and external partnerships to achieve maximum learning impact in minimal time; implementing a hybrid working/training model combining microlearning modules and localized workshops, delivered by both internal champions and external experts, to efficiently reach geographically dispersed staff; prioritizing transparency and open communication, empowering employees with cross-training and flexible work.

Compliance

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

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

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

Risk Management

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

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

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

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

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

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

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

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

Credit Risk

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

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

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

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

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

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

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

Market Risk

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

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

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

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

Liquidity Risk

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

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

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

Operational Risk

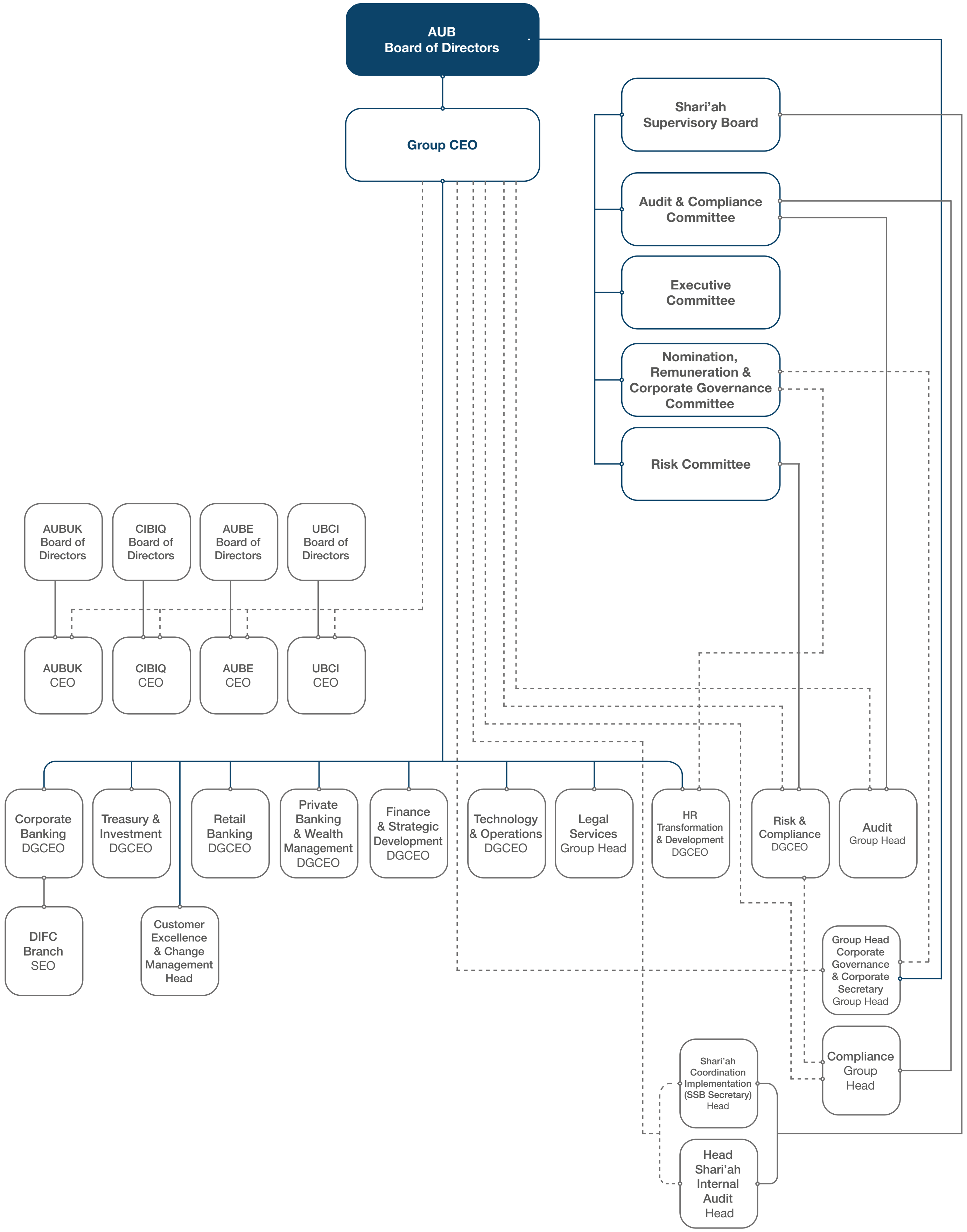
Operational Risk is "the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events."

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

The Group's independent audit function regularly evaluates operational procedures and advises senior management and the Board of any potential problems. Additionally, the Group maintains adequate insurance coverage and business continuity contingency plans utilizing offsite data storage and backup systems.

The Group has also adopted a Flexible Business Management approach to business continuity and disaster recovery with the aim of continuing to conduct business as usual to the extent possible on a remote basis even under diverse scenarios of unavailability of premises, infrastructure or resources, with scalability for any duration of time. The adequacy of the Bank's business continuity plans is confirmed by a programme of regular testing with oversight being provided by GORC. On 31 January 2023, CBB imposed a penalty of BD 20,000 based on their examination of ATM physical and logical security measures and the report issued in this regard on 15 December 2022. AUB paid the penalty amount on 21 March 2023.

GROUP MANAGEMENT ORGANIZATION STRUCTURE



GROUP MANAGEMENT

AHMED SOUD ALKHARJI
Group Chief Executive Officer

Current positions

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

Former positions

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

(Total years of experience: 25 years)

RAJEEV GOGIA
Deputy Group Chief Executive Officer – Finance & Strategy

Second Deputy Chairman, Ahli United Bank S.A.O.G., Oman; Deputy Chairman, Al Ahli Real Estate Company W.L.L, Bahrain; Former: Group Head of Strategic Development, Ahli United Bank B.S.C., Bahrain; Director, Ahli United Bank (Egypt) SAE; Director, Ahli United Bank K.S.P.C., Kuwait; Director, Kuwait & Middle East Financial Investment Company K.S.P.C.; Director, Al Hilal Life B.S.C.(c) and Al Hilal Takaful B.S.C.(c), Bahrain, Senior Division Head – Strategic Development, National Bank of Dubai, UAE. Held various positions in the consulting and advisory practice of KPMG UAE and in a financial institution in India. Associate Member of the Institute of Chartered Accountants of India (Rank holder).

(Total years of experience: 26 years)

IMAN AL-MADANI
Deputy Group Chief Executive Officer – HR, Transformation & Development

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

(Total years of experience: 40 years)

OLIVER SCHWARZHAUPT
Deputy Group Chief Executive Officer – Risk & Compliance

Former: Group Chief Risk Officer, TNG Holdings, Vietnam; Advisor to the Board Audit & Risk Committee, Trusted Novus Bank, Gibraltar; Chairman of the Board of Directors, PG Bank, Vietnam; Deputy CEO cum Chief Risk Officer, Maritime Bank, Vietnam; Group Chief Risk Officer, Al Khaliji Bank (now: Masraf Al Rayan), Qatar; Member of the Board of Directors, Qatar Capital Ltd., DIFC, Dubai; Deputy Chief Risk Officer / Head of Group Risk, Senior Vice President, Emirates NBD Group, UAE; Head of Rating Methods, Vice President, Commerzbank AG, Germany; Co-Head Risk Standards & Regulatory Issues, Commerzbank AG, Germany; and Head of Credit Risk Management Team, SGZ-Bank (now: DZ Bank), Germany. Holds a Master's degree in Economics from Justus-Liebig University, Germany.

(Total years of experience: 31 years)

OTHMAN HIJAZI
Deputy Group Chief Executive Officer – Corporate Banking

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

(Total years of experience: 30 years)

SAMIH ABUTALEB
Deputy Group Chief Executive Officer – Technology & Operations

Director, United Bank for Commerce & Investment S.A.C., Libya; Director, Benefit Company, Bahrain. Former: Director, Ahli United Bank Egypt; Director, Ahli United Bank K.S.C.P., Kuwait; Acting Group Head of Information Technology, Operations, and Administration, Ahli United Bank B.S.C, Bahrain; Group Head of Information Technology, Ahli United Bank B.S.C, Bahrain; Group Head of Digital Transformation, Ahli United Bank B.S.C, Bahrain; Director of Digital Transformation – Digital Office, Al Hilal Bank, UAE; Vice President – Group Digital Office, Emirates NBD Group, UAE; Head of Agile Delivery – Group IT, Emirates NBD, UAE; Vice President, Application Management – Alternative Channels, Emirates NBD, UAE; Program Executive Director – Credit Card Transfer Project – Emirates NBD, UAE; Senior Integration Specialist, TIBCO/MENA eSolutions, UAE; Software Engineer, Turah Center for Computer Research, Jordan. Holds a bachelor's degree in computer science & engineering from Zarka University in Jordan and Master of Information Technology Management from University of Wollongong, Australia. Also holds a mini-MBA, Executive Management Leadership Program, from Harvard Business School, USA.

(Total years of experience: 24 years)

SUVRAT SAIGAL
Deputy Group Chief Executive Officer – Retail Banking

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

(Total years of experience: 34 years)

TALAL KAIKSOW
Deputy Group Chief Executive Officer – Private Banking & Wealth Management

Former: CEO and Head of Private Banking, EFG Bank, Bahrain; Senior Private Banker, BSI Private Bank, Bahrain; Executive Director, Kaiksow Family Office, Bahrain; Executive Director, Capivest Investment Bank, Bahrain; Principal, Khaleej Finance & Investment, Bahrain. Holds a Post Graduate Degree in Marketing Communication from University of Westminster, UK.

(Total years of experience: 25 years)

BASSAM ALALI
Group Head – Treasury (Acting Deputy Group CEO – Treasury & Investment)

Director, United Bank for Commerce and Investment, Libya. Previously, held several key roles within Ahli United Bank B.S.C., Bahrain. These include Head of Treasury, Regional Head of Treasury ALM, Head of Treasury ALM, Chief Dealer for Foreign Exchange and Money Markets. Prior to banking, worked as a Senior Engineer at MTC-Vodafone (ZAIN), Bahrain. Holds a Bachelor of Applied Science in Computer Engineering from University of Ottawa, Canada and a Master of Science in Quantitative Finance from University of Westminster, UK. CFA Charterholder from CFA Institute, USA.

(Total years of experience: 21 years)

KHALED ALNASER
Head of Internal Audit (Acting Group Head Audit)

Former: Chief Internal Audit, Bahrain Islamic Bank, Bahrain; Head of Internal Control, Bahrain Islamic Bank, Bahrain; Head of Financial Accounting and Reporting, Bahrain Islamic Bank, Bahrain; Assistant Manager, Ernst & Young, Bahrain. Holds a bachelor's degree in managerial accounting from New York Institute of Technology, Bahrain. He is also a Certified Islamic Professional Accountant (CIPA), a Certified Public Accountant (CPA), a Certified Internal Auditor (CIA), and a Chartered Global Management Accountant (CGMA).

(Total years of experience: 17 years)

PHILIP CRAWFORD
Chief Executive Officer – AUBUK

Former: Managing Director - Global Market Head, Saudi Arabia & Oman, HSBC Private Bank, Switzerland; Managing Director - Head of International, HSBC Private Banking, UK; Managing Director - Business Head Middle East & North Africa, HSBC Private Bank (UK) Limited; Head of Private Banking, HSBC Bank Middle East, Oman; Director, Head of International Private Banking, Head of Middle East, Vice President, Senior Relationahip Manager, Credit Suisse Private Banking, UK; Assistant Director Relationship Manager, Barclays Private Banking, UK. Chartered Fellow (FSCI) of the Chartered Institute for Securities & Investment and holds a post-graduate Diploma in Islamic Banking & Insurance from the Institute of Islamic Banking & Insurance, London.

(Total years of experience: 37)

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

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

(Total years of experience: 35)

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

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

(Total years of experience: 40 years)

BASSAM JABER
Chief Executive Officer CIBIQ Iraq PSC

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

(Total years of experience: 30 years)

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CONSOLIDATED FINANCIAL STATEMENTS

CONTENTS

Building a better working world

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C.R. No. 29977-1

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Ahli United Bank B.S.C.(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.

1. Expected Credit Loss on financing receivables

Key audit matter	How our audit addressed the key audit matter
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.	Our approach included testing the controls associated with the relevant processes for estimating the ECL and performing substantive procedures on such estimates. We involved our internal specialists where their specific expertise was required. Our key audit procedures focused on the following: • We obtained an understanding of the design and tested the operating effectiveness of relevant controls over the ECL model, including model build and approval, ongoing monitoring / validation, model governance and mathematical accuracy. We have also checked completeness of the data used in the ECL calculation. • We assessed: o the Group's ECL policy including determination of the significant increase in credit risk and consequent staging criteria with the requirements of IFRS 9 and regulatory guidelines; o the significant modelling and macroeconomic assumptions, including evaluation of forward-looking information and scenarios against the requirements of the Group's ECL policy; and o the basis of determination of the management overlays. • We reviewed a sample of credit files and performed procedures to assess: o timely identification of exposures with a significant increase in credit risk and appropriateness of the staging; o the process of collateral valuation; and o ECL recalculation • We considered the adequacy of the disclosures in the consolidated financial statements in relation to ECL for financing receivables as per the applicable financial reporting standards.

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

Key audit matters (continued)

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.

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 SHAREHOLDERS 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
Chairman

Adel A. El-Labban
Deputy Chairman

Ahmed AlKharji
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 US$ '000	2022 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
Chairman

Adel A. El-Labban
Deputy Chairman

Ahmed AlKharji
Group Chief Executive Officer

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

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$'000	Equity attributable to the owners US$'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

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)

For the year ended 31 December 2023

	Attributable to the owners of the Bank										
		Reserves									
	Ordinary share capital US$ '000	Share premium US$ '000	Statutory reserve US$ '000	Retained earnings US$ '000	Proposed appro-priations US$ '000	Other reserves [Note 21(h)] US$ '000	Total reserves US$'000	Equity attributable to the owners US$'000	Perpetual Tier 1 Capital Securities and Sukuk US$ '000	Non-controlling interests US$'000	Total US$'000
Balance at 1 January 2022	2,533,621	752,538	765,479	600,122	306,034	(488,090)	1,936,083	4,469,704	1,000,000	448,261	5,917,965
Distribution on Perpetual Tier 1 Capital Securities [note 21(j)]	-	-	-	(23,356)	-	-	(23,356)	(23,356)	-	-	(23,356)
Distribution related to Perpetual Tier 1 Sukuk [note 21(j)]	-	-	-	(17,410)	-	-	(17,410)	(17,410)	-	(5,840)	(23,250)
Ordinary share dividend paid	-	-	-	-	(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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2023

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.

2. ACCOUNTING POLICIES (continued)

2.3 Basis of consolidation (continued)

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 Islamic Bank of Iraq P.S.C ("CIBIQ")	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%).

2.4 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.

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.

2. ACCOUNTING POLICIES (continued)

2.6 Significant accounting judgements and estimates (continued)

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

The measurement of the ECL for financial assets measured at amortised cost and 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.

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. ACCOUNTING POLICIES (continued)

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.

(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 statement of income.

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.

(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.

2. ACCOUNTING POLICIES (continued)

2.7 Summary of material accounting policies (continued)

(c) Financial instruments (continued)

(iii) Debt instruments (continued)

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.

(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.

2. ACCOUNTING POLICIES (continued)

2.7 Summary of material accounting policies (continued)

(d) Derecognition of financial assets and financial liabilities (continued)

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.

(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.

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.

2. ACCOUNTING POLICIES (continued)

2.7 Summary of material accounting policies (continued)

(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.

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.

(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.

2. ACCOUNTING POLICIES (continued)

2.7 Summary of material accounting policies (continued)

(k) Business combinations, goodwill and other intangible assets (continued)

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

(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.

2. ACCOUNTING POLICIES (continued)

2.7 Summary of material accounting policies (continued)

(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.

(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.

2. ACCOUNTING POLICIES (continued)

2.7 **Summary of material accounting policies** (continued)

(y) **Leases** (continued)

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.

(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 US$ '000	2022 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 US$ '000	2022 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 US$ '000	2022 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.

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5. TRADING INCOME

	2023 US$ '000	2022 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 US$ '000	2022 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 US$ '000	2022 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 US$ '000	2023 %	2022 US$ '000	2022 %
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 US$ '000	Stage 2 US$ '000	Stage 3 US$ '000	Total 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

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

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7. FINANCING RECEIVABLES (continued)

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

	2023 Up to 30 days US$ '000	31 to 60 days US$ '000	61 to 89 days US$ '000	Total 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 US$ '000	31 to 60 days US$ '000	61 to 89 days US$ '000	Total US$ '000
Retail	91,709	52,601	30,309	174,619
Corporate	56,336	36,345	59,350	152,031
	148,045	88,946	89,659	326,650

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.

e) Individually credit impaired Financing receivables

	2023 Retail US$ '000	Corporate US$ '000	Total 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 US$ '000	Corporate US$ '000	Total 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).

7. FINANCING RECEIVABLES (continued)

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 US$ '000	Stage 2 US$ '000	Stage 3 US$ '000	Total 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

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

ii) Loss allowances for financing receivables - Corporate

	2023			
	Stage 1 US$ '000	Stage 2 US$ '000	Stage 3 US$ '000	Total 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 US$ '000	Stage 2 US$ '000	Stage 3 US$ '000	Total US$ '000
At 1 January 2022	117,178	318,881	381,781	817,840
Transfer from Stage 1	(20,199)	2,408	17,791	-
Transfer from Stage 2	-	(10,986)	10,986	-
Net remeasurement of ECL allowances	44,693	83,891	89,843	218,427
Amounts written-off *	-	-	(205,157)	(205,157)
Exchange rate and other adjustments	(7,022)	(21,144)	(9,120)	(37,286)
At 31 December 2022	134,650	373,050	286,124	793,824

* 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 US$ '000	2022 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 US$ '000	Held at FVTOCI US$ '000	Held at FVTPL US$ '000	Total 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)

	Held at amortised cost US$ '000 (2022)	Held at FVTOCI US$ '000 (2022)	Held at FVTPL US$ '000 (2022)	Total US$ '000 (2022)
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 certificate of deposits:				
- 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 certificate of deposits:				
- 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

	Stage 1 US$ '000 (2023)	Stage 2 US$ '000 (2023)	Stage 3 US$ '000 (2023)	Total US$ '000 (2023)
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

	Stage 1 US$ '000 (2023)	Stage 2 US$ '000 (2023)	Stage 3 US$ '000 (2023)	Total US$ '000 (2023)
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.

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8. NON-TRADING INVESTMENTS (continued)

c) Reconciliation of ECL allowances

	Stage 1 US$ '000 (2023)	Stage 2 US$ '000 (2023)	Stage 3 US$ '000 (2023)	Total US$ '000 (2023)
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

	Stage 1 US$ '000 (2022)	Stage 2 US$ '000 (2022)	Stage 3 US$ '000 (2022)	Total US$ '000 (2022)
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	Group's nominal holding 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 US$ '000	2022 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.

9. INVESTMENT IN ASSOCIATES (continued)

	2023 US$ million	2022 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.

Movements during the year are as follows:

	2023 US$ '000	2022 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 US$ '000	2022 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.

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12. PREMISES AND EQUIPMENT

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

	2023 US$ '000	2022 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 US$ '000	Intangible assets US$ '000	Total US$ '000	Goodwill US$ '000	Intangible assets US$ '000	Total 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 US$ '000	2022 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 US$ '000	2022 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 US$ '000	2022 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 US$ '000	2022 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.

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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

(a) Authorised:

	2023 US$ '000	2022 US$ '000
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 US$ '000	2022 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 (number in millions)	2022
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

(c) Perpetual Tier 1 Capital Securities and Sukuk

	2023 US$ '000	2022 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.

21. RESERVES (continued)

c) Statutory reserve

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

d) Property revaluation reserve

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

e) Foreign exchange translation reserve

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

f) Other comprehensive income reserve

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

g) Cash flow hedge reserve

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

h) Movements in other reserves

		Other comprehensive income					
				Cumulative changes			
	Capital reserve US$ '000	Property revaluation reserve US$ '000	Foreign exchange translation reserve US$ '000	OCI reserve US$ '000	Cash flow hedge reserve US$ '000	Pension fund reserve US$ '000	Total other reserves US$ '000
Balance at 1 January 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 US$ '000	Property revaluation reserve US$ '000	Foreign exchange translation reserve US$ '000	OCI reserve US$ '000	Cash flow hedge reserve US$ '000	Pension fund reserve US$ '000	Total other reserves US$ '000
Balance at 1 January 2022	17,240	36,574	(476,737)	(6,421)	(41,387)	(17,359)	(488,090)
Currency translation adjustments	-	-	(286,464)	-	-	-	(286,464)
Transfers to consolidated statement of income	-	-	-	(3,698)	(156)	-	(3,854)
Net fair value movements	-	-	-	(20,801)	41,514	(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)

21. RESERVES (continued)

h) Movements in other reserves (continued)

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

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

i) Dividends proposed and paid

	2023 US$ '000	2022 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 US$ '000	2022 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

Consolidated balance sheet (note 11 and note 18):	2023 US$ '000	2022 US$ '000
- 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 US$ '000	2022 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 US$ '000	2022 US$ '000
Weighted average ordinary shares outstanding during the year adjusted for bonus shares	11,147.9	11,147.9
Weighted average number of ordinary shares for diluted earnings per share	11,147.9	11,147.9

24. CASH AND CASH EQUIVALENTS

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

	2023 US$ '000	2022 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 distribution to depositors	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 US$ '000	**Derivative liabilities US$ '000**	Derivative assets US$ '000	Derivative liabilities 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

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

	2023			2022		
	Derivative assets US$ '000	**Derivative liabilities US$ '000**	**Notionals amounts US$ '000**	Derivative assets US$ '000	Derivative liabilities US$ '000	Notionals amounts US$ '000
Derivatives held as fair value hedges:						
- 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.

28. DERIVATIVES (continued)

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

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.

29. COMMITMENTS AND CONTINGENT LIABILITIES (continued)

The Group has the following credit related commitments:

	2023 US$ '000	2022 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.

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.

Year ended 31 December 2023:	Retail banking US$ '000	Corporate banking US$ '000	Treasury and investments US$ '000	Private banking US$ '000	Total US$ '000
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	-

30. SEGMENT INFORMATION (continued)

As at 31 December 2023:	Retail banking US$ '000	Corporate banking US$ '000	Treasury and investments US$ '000	Private banking US$ '000	Total US$ '000
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

Year ended 31 December 2022:	Retail banking US$ '000	Corporate banking US$ '000	Treasury and investments US$ '000	Private banking US$ '000	Total US$ '000
Net 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	-

As at 31 December 2022:	Retail banking US$ '000	Corporate banking US$ '000	Treasury and investments US$ '000	Private banking US$ '000	Total US$ '000
Segment assets	3,800,575	16,438,809	16,535,443	2,042,502	38,817,329
Goodwill	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 US$ '000	2022 US$ '000	2023 US$ '000	2022 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.

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.

32. CREDIT RISK (continued)

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

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

	Gross maximum exposure 2023 US$ '000	Gross maximum exposure 2022 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.

c) Credit quality of financial assets

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

At 31 December 2023	Stage 1 US$ '000	Stage 2 US$ '000	Stage 3 US$ '000	Total US$ '000
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

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32. CREDIT RISK (continued)

c) Credit quality of financial assets (continued)

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

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 US$ '000	Liabilities US$ '000	Contingent liabilities on behalf of customers US$ '000	Assets US$ '000	Liabilities US$ '000	Contingent liabilities on behalf of customers US$ '000
Geographic region:						
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.

i) Value-at-Risk

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

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

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

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

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34. MARKET RISK (continued)

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.

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:

	2022			
	Less than three months US$ '000	Three months to one year US$ '000	Over one year US$ '000	Total US$ '000
Cash and balances with central banks	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 US$ '000	Three months to one year US$ '000	Over one year US$ '000	Total US$ '000
Cash and balances with central banks	302,781	-	-	302,781
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 profit income for the next one year, to a change in profit 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 US$ '000	2022 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.

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 US$ '000	2022 US$ '000	**2023 US$ '000**	2022 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).

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34. MARKET RISK (continued)

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	Upto three months US$ '000	Over three months to one year US$ '000	Above one year US$ '000	Undated US$ '000	Total US$ '000
Assets					
Cash and balances with central banks	1,173,479	-	-	-	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	Upto three months US$ '000	Over three months to one year US$ '000	Above one year US$ '000	Undated US$ '000	Total US$ '000
Assets					
Cash and balances with central banks	1,643,192	-	-	-	1,643,192
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.

As at 31 December 2023	Up to One month US$ '000	Over one month to three months US$ '000	Over three months to one year US$ '000	Over one year to five years US$ '000	Over five years US$ '000	Total US$ '000
Deposits from banks	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

As at 31 December 2022	Up to One month US$ '000	Over one month to three months US$ '000	Over three months to one year US$ '000	Over one year to five years US$ '000	Over five years US$ '000	Total US$ '000
Deposits from banks	2,072,168	928,710	335,957	791,016	-	4,127,851
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.

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 US$ '000	Level 2 US$ '000	Level 3 US$ '000	Total 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 US$ '000	Level 2 US$ '000	Level 3 US$ '000	Total 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).

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%).

39. CAPITAL ADEQUACY AND NET STABLE FUNDING RATIO (NSFR) (continued)

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 US$ '000	2022 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.

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 Islamic Bank of Iraq P.S.C. ("CIBIQ")	Republic of Iraq	19.7%	19.7%

	2023 US$ '000	2022 US$ '000
Accumulated material non-controlling interests as at 31 December:		
Ahli United Bank (Egypt) S.A.E.	16,899	17,233
Commercial Islamic 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 Islamic Bank of Iraq P.S.C.	2,242	1,571

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

41. SUBSIDIARIES (continued)

	2023 US$ '000	2022 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

	2023 US$ '000	2022 US$ '000
Commercial Islamic Bank of Iraq P.S.C. ("CIBIQ")		
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.

42. ASSETS HELD FOR SALE (continued)

The results of AUBK for the year are presented below:

	2023 US$ '000	2022 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

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

	2023 US$ '000	2022 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 US$ '000	2022 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

PILLAR III DISCLOSURES - BASEL III

CONTENTS

INTRODUCTION TO THE CENTRAL BANK OF BAHRAIN'S BASEL III GUIDELINES

The Central Bank of Bahrain (the "CBB") Basel III Guidelines, based upon the Bank for International Settlements (BIS) Revised Framework – 'International Convergence of Capital Measurement and Capital Standards', became applicable from 1 January 2015. Basel III is structured around three 'Pillars': Pillar I - Minimum Capital Requirements; Pillar II – the Supervisory Review and Evaluation Process and the Internal Capital Adequacy Assessment Process (ICAAP); and Pillar III - Market Discipline.

Group Structure

The public disclosures under this section have been prepared in accordance with the CBB rules concerning Public Disclosure Module ("PD Module"), section PD-1: Annual Disclosure Requirements. The disclosures under this section are applicable to Ahli United Bank B.S.C. (c) ("AUB" or "the Bank"), incorporated in the Kingdom of Bahrain. The Bank operates under an Islamic retail banking license issued by the CBB. The Bank and its subsidiaries (as detailed under note 2.3 to the audited consolidated financial statements) are collectively known as the "Group".

AUB is 100% subsidiary of Kuwait Finance House K.S.C.P. ("KFH") as on 31 December 2023. KFH is a public shareholding company incorporated in the State of Kuwait on 23 March 1977 and listed in the Boursa Kuwait and Bahrain Bourse. KFH is regulated and supervised by Central Bank of Kuwait.

Pillar I – Minimum Capital Requirements

Pillar I deals with the basis for the computation of the regulatory capital adequacy ratio. It defines the calculation of Risk Weighted Assets (RWAs) for credit risk, market risk and operational risk, as well as the derivation of the regulatory capital base. The capital adequacy ratio is then calculated as the ratio of the Bank's regulatory capital to its total RWAs. All Bahrain incorporated banks are currently required to maintain a minimum capital adequacy ratio of 12.5%. This includes, mandatory Capital Conservation Buffer (CCB) of 2.5%.

AUB had been designated as a Domestic Systemically Important Banks (DSIB) by the CBB. CBB has mandated in its rule book (DS-1.2.1) that DSIBs must hold additional Common Equity Tier 1 (CET 1) capital buffer of 1.5% of total RWA as calculated for the purpose of capital adequacy. Consequently, AUB is required to maintain minimum total capital adequacy ratio of 14.0%.

The Group ensures that each subsidiary maintains sufficient capital levels for their respective legal and regulatory compliance purposes.

Credit risk

Basel III provides two approaches (Standardised approach and Internal Rating Based approach) to the calculation of credit risk regulatory capital. The Standardised approach, which the Bank has adopted, require banks to use external credit ratings to determine the risk weightings applied to rated counterparties, and groups other counterparties into broad categories and applies standardised risk weightings to these categories.

Market risk

The Bank has adopted the Standardised approach for determining the market risk capital requirement.

Operational risk

Under the Basic Indicator Approach (BIA), which the Bank has adopted for operational risk, the regulatory capital requirement for operational risk is calculated by applying a co-efficient of 15 per cent to the average gross income for the preceding three financial years.

Pillar II – The Supervisory Review and Evaluation Process and Internal Capital Adequacy Assessment Process (ICAAP)

Pillar II involves the process of supervisory review of a financial institution's risk management framework and its capital adequacy.

Accordingly, this involves both the Bank and its regulators taking a view on whether additional capital should be held against risks not covered in Pillar I. Part of the Pillar II process is the ICAAP, which is the Bank's self assessment of risks not captured by Pillar I and based on CBB's guidelines and ICAAP module under the CBB rulebook.

As part of the CBB's Pillar II guidelines, each bank is required to be individually reviewed and assessed by the CBB with the intention of setting individual minimum capital adequacy ratios.

Pillar III – Market Discipline

Pillar III is related to market discipline and requires the Bank to publish detailed qualitative and quantitative information of its risk management and capital adequacy policies and processes to complement the first two pillars and the associated supervisory review process. The disclosures in this report are in addition to the disclosures set out in the audited consolidated financial statements of the Group for the year ended 31 December 2023.

PILLAR III QUANTITATIVE AND QUALITATIVE DISCLOSURES

For the purpose of computing regulatory minimum capital requirements, the Group follows the rules as laid out under the Capital Adequacy (CA) Module of the CBB Rulebook. Accordingly;

a) Except for AUB Kuwait, which is classified as held for sale, all subsidiaries as per note 2.3 to the audited consolidated financial statements are consolidated on a line by line basis in accordance with International Financial Reporting Standards (IFRS) as issued by International Accounting Standards Board (IASB), as explained in note 2.2 to the audited consolidated financial statements for the year ended 31 December 2023. Non-controlling interest arising on consolidation is incorporated under respective tiers of capital as per the CBB rules.

b) Investments in associates as reported under note 9 to the audited consolidated financial statements for the year ended 31 December 2023 are treated as "Significant Investment in Financial Entities". These are risk weighted/deducted from capital as per CBB Basel III guidelines;

c) Goodwill and intangibles are deducted from CET1 Capital;

d) Expected credit losses (Stages 1 and 2), net of additional ECL for the year 31 December 2020, which is added to CET1 of the capital as part of CBB's COVID relief measures by virtue of circular OG/226/2020 dated 21 June 2020 and ODG/28/2022 dated 28 June 2022, to the extent of maximum threshold of 1.25% of Credit Risk Weighted Assets are included under Tier 2 Capital.

1. CAPITAL STRUCTURE

TABLE - 1 CAPITAL STRUCTURE

		US$ '000	
A. NET AVAILABLE CAPITAL	*CET 1*	*AT 1*	*Tier 2*
NET AVAILABLE CAPITAL	**4,473,047**	**706,837**	**518,837**
TOTAL ELIGIBLE CAPITAL BASE (CET 1 + AT 1 + Tier 2)			**5,698,721**
RISK WEIGHTED EXPOSURES			
Credit Risk Weighted Exposures			30,942,771
Market Risk Weighted Exposures			318,734
Operational Risk Weighted Exposures			1,965,665
TOTAL RISK WEIGHTED EXPOSURES			**33,227,170**
CET 1 including Capital Conservation Buffer (CCB)			13.5%
Tier 1 - Capital Adequacy Ratio (CET 1, AT 1 and CCB)			15.6%
Total - Capital Adequacy Ratio			**17.2%**

By virtue of CBB's circular OG/226/2020 dated 21 June 2020 and ODG/28/2022 dated 28 June 2022, for the purposes of capital adequacy computations and for prudential reporting to the CBB, the Group has added back the modification loss, net of the financial assistance from government and aggregate ECL provision charge for the year ended 31 December 2020 relating to exposures classified as Stage 1 and Stage 2 to the Common Equity Tier (CET1) Capital. Refer to Appendix I for details. The bank is amortizing the modification loss in accordance with central bank regulations.

Refer note 20 of the consolidated financial statements for the year ended 31 December 2023 for further details on capital structure. The change in capital is not expected to have any significant impact on the present or future earnings of the Group. Further, there are no restrictions on the transfer of funds or regulatory capital within the Group.

B. CAPITAL ADEQUACY RATIO

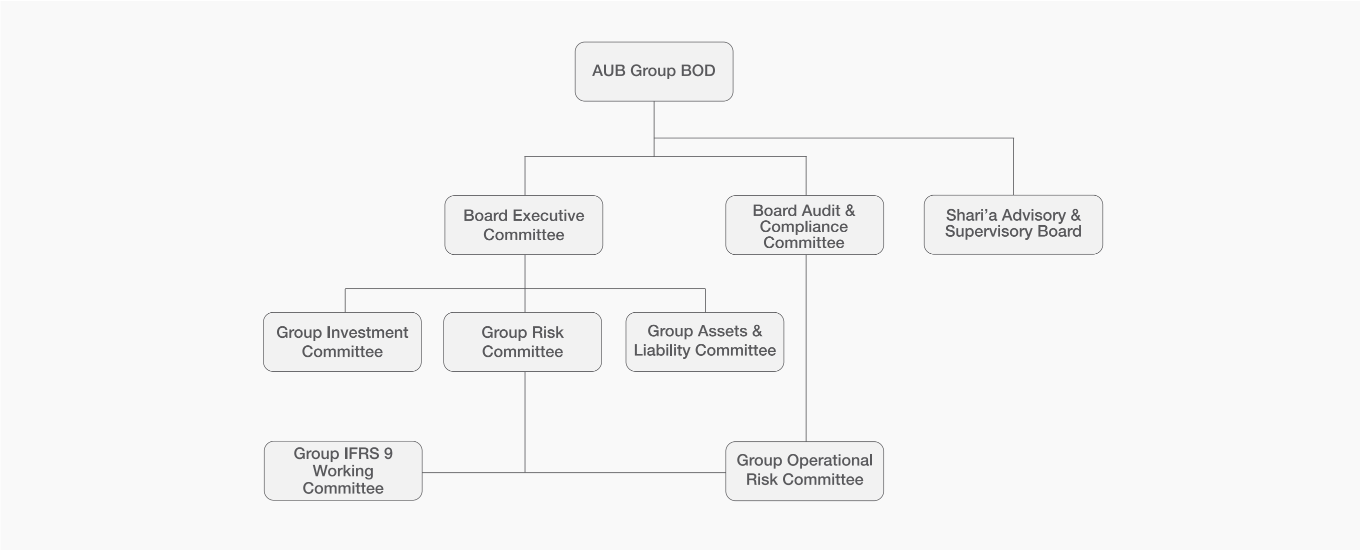
As at 31 December 2023, the capital adequacy ratio of banking subsidiaries under Basel III were:

	Subsidiaries			
	Ahli United Bank K.S.C.P. (AUBK)	**Ahli United Bank (U.K.) PLC (AUBUK)**	**Ahli United Bank (Egypt) S.A.E. (AUBE)**	**Commercial Islamic Bank of Iraq P.S.C. (CIBIQ)**
Tier 1 - Capital Adequacy Ratio	18.7%	19.4%	13.5%	139.2%
Total - Capital Adequacy Ratio	19.9%	19.4%	14.5%	139.3%

2. GROUP RISK GOVERNANCE STRUCTURE

Risk Governance

The Group's Board of Directors (BOD) seek to optimize the Group's performance by enabling the various Group business units to realize the Group's business strategy and meet agreed business performance targets within the BOD approved Group Risk Framework and Group Credit Risk Appetite Framework covering risk parameters.



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

Risk Management Framework

The overall authority for risk management in the Group is vested in the Board of Directors which has established a Group Board Risk Committee to assist the Board in fulfilling its oversight responsibilities related to present and emerging risks, strategies and risk appetite associated with AUB Group's credit activities, banking operations and investments. The Committee reviews, manages and monitors adherence of AUB group of companies to the risk appetite, policies and procedures and acts as a general forum for the discussions of any risks facing or which could potentially face AUB Group resulting in financial or reputational loss. It also oversees the activities of the Group Management Risk Committee, through the DGCEO – Risk, Legal & Compliance in his capacity as the Chairperson of the Group Management Risk Committee.

The Deputy Group CEO – Risk, Legal & Compliance reports directly to the Group Board Risk Committee (sub-committee of the BOD responsible for risk functions) and administratively to the Group CEO. The Group Risk Management Division comprises a Credit Risk Department (responsible for independent pre-approval analysis of credit / investment proposals as well as risk policy and procedures management), a Liquidity, Market and Operational Risk Department, a Retail Credit Risk & Collection Department, a Remedial Asset Management Department and an Information & Cyber Security Risk Department. Approval authorities are delegated to different functionaries in the hierarchy (on a dual sign-off basis with both business line and risk line signatories) as well as various committees depending on the amount, type of risk and nature of operations or risk.

Internal Audit Department is responsible for the independent review of risk management and the Group's risk control environment. The Group Audit & Compliance Committee considers the adequacy and effectiveness of the Group risk control framework and receives quarterly updates on any control, regulatory and compliance related issues.

PILLAR III DISCLOSURES - BASEL III
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3. CREDIT RISK MANAGEMENT

Credit risk is the risk of financial loss if a customer or counterparty fails to meet a financial obligation under a contract. It arises principally from lending, trade finance and treasury activities. Credit risk also arises where assets are held in the form of debt securities, the value of which may fall.

The Group has policies and procedures in place to monitor and manage these risks and the Group Risk Management function provides high-level centralized oversight and management of credit risk. The specific responsibilities of Group Risk Management are to:

- Set credit policy and risk appetite for credit risk exposure to specific market sectors;
- Control exposures to sovereign entities, banks and other financial institutions and set risk ratings for individual exposures. Credit and settlement risk limits to counterparties in these sectors are approved and managed by Group Risk Management, to optimize the use of credit availability and avoid risk concentration;
- Control cross-border exposures, through the centralized setting of country limits with sub-limits by maturity and type of business;
- Manage large credit exposures, ensuring that concentrations of exposure by counterparty, sector or geography remain within internal and regulatory limits in relation to the Group's capital base;
- Maintain the Group's Internal Risk Rating Framework;
- Manage watchlisted and criticized asset portfolios and recommend appropriate level of provisioning and write-offs;
- Maintain the Expected Credit Loss impairment models across the Group entities;
- Recommend Expected Credit Loss provisions to the Group IFRS 9 Working Committee;
- Report to the Group Risk Committee, Board Audit & Compliance Committee and the BOD on all relevant aspects of the Group's credit risk portfolio. Regular reports include detailed analysis of:
  - risk concentrations;
  - corporate and retail portfolio performance;
  - specific higher-risk portfolio segments, e.g. real estate;
  - individual large impaired accounts, and details of impairment allowances; and
  - country limits, cross-border exposures.
- Specialized management and control of all non-performing assets;
- Manage and direct credit risk management systems initiatives; and
- Interface, for credit-related issues, with external parties including the CBB, rating agencies, investment analysts, etc.

All credit proposals are subjected to a thorough comprehensive risk assessment, which examines the customer's financial condition and trading performance, nature of the business, quality of management and market position. In addition, AUB's internal risk rating model scores these quantitative and qualitative factors. The credit approval decision is then made and terms and conditions are set. Exposure limits are based on the aggregate exposure to the counterparty and any connected entities across the AUB Group. All credit exposures are reviewed at least annually.

3. CREDIT RISK MANAGEMENT (continued)

Counterparty Exposure Class

The CBB's capital adequacy framework for the Standardized approach to credit risk sets the following counterparty exposure classes and the risk weightings to be applied to determine the risk weighted assets:

Exposure Class	Risk Weighting Criteria
Sovereign Portfolio	Exposures to governments of GCC (refer table 4 for definition of GCC) member states and their central banks {including International organization and Multilateral Development Banks (MDBs)} are zero % risk weighted. Other sovereign exposures denominated in the relevant domestic currency are also zero % risk weighted. All other sovereign exposures are risk weighted based on their external credit ratings.
Public Sector Entity [PSE] Portfolio	Bahrain PSEs and domestic currency claims on other sovereign PSEs (which are assigned a zero % risk weighting by their own national regulator) are assigned a zero % risk weighting. All other PSEs are risk weighted based on their external credit ratings.
Banks Portfolio	Exposures to banks are risk weighted based on their external credit ratings, with a preferential weighting given to short term exposures (i.e. with an original tenor of 3 months or less).
Investment Company Portfolio	Exposures to investment companies which are supervised by the CBB are treated in the same way as exposures to banks but without the preferential short term exposure weighting.
Corporate Portfolio	Exposures to corporates are risk weighted based on their external credit rating. Unrated corporates are 100% risk weighted and exposure to Connected counter parties exceeding the limits described in the rulebook are 800% risk weighted.
Regulatory Retail Portfolio	Eligible regulatory retail exposures are risk weighted at 75%, except for SMEs which are risk weighted at 25% as per CBB's COVID-19 relief measures.
Residential Property Portfolio	Exposures fully secured by first mortgages on owner occupied residential property are risk weighted between 35%-75% based on applicable regulatory guidance. Residential mortgage exposures granted under the Social Housing Schemes of the Kingdom of Bahrain are 25% risk weighted.
Commercial Property Portfolio	Exposures secured by mortgages on commercial real estate are subject to a minimum 100% risk weighting, except where the borrower has an external rating below BB- in which case the rating risk weighting applies.
Equities and Funds Investment Portfolio	Investments in listed equities carry a 100%-250% risk weighting. Unlisted equities are 150%-250% risk weighted. Investments in funds are risk weighted according to the type of underlying assets using the look through approach.
Impaired Exposures	The unsecured portion of any exposure (other than residential mortgage financing) that is past due for 90 days or more: - 150% risk weighted when expected credit loss (Stage 3) is less than 20% of the outstanding amount; and - 100% risk weighted when expected credit loss (Stage 3) is greater than 20%.
Holdings of Real Estate	All holdings (directly or indirectly) of real estate in the form of real estate companies, subsidiaries or associate companies or other arrangements such as trusts, funds or Real Estate Investment Trusts (REITs) are risk-weighted at 200%. Premises occupied by the Bank are weighted at 100%.
Other Assets	All other assets not classified above are risk weighted at 100%.

External Rating Agencies

The Group uses the following external credit assessment institutions (ECAI's): Moody's, Standard & Poors and Fitch. The external rating of each ECAI is mapped to the prescribed internal risk rating that in turn produces standard risk weightings.

3. CREDIT RISK MANAGEMENT (continued)

Basel III Reporting of Credit Risk Exposures

As a result of the methodologies applied in credit risk exposures presented under Basel III reporting, which differs in many ways from the exposures reported in the consolidated financial statements.

1. As per the CBB Basel III framework, off balance sheet exposures are converted, by applying a Credit Conversion Factor (CCF), into direct credit exposure equivalents.
2. Under the Basel III capital adequacy framework eligible collateral is applied after applying prescribed haircut, to reduce the exposure.

Credit Risk Mitigation

The Group's first priority when disbursing a financing is to establish the borrower's capacity to repay and not rely principally on security / collateral obtained. Where the customer's financial standing is strong, facilities may be granted on an unsecured basis, but when necessary collateral is an essential credit risk mitigation.

Acceptable forms of collateral are defined within the Group risk framework and conservative valuation parameters are also pre-set and regularly reviewed to reflect any changes in market conditions. Security structures and legal covenants are also subject to regular review to ensure that they continue to fulfil their intended purpose and remain in line with the CBB's prescribed minimum requirements set out in their capital adequacy regulations.

The principal collateral types are as follows:

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

Valuation of Collateral

The type and amount of collateral taken is based upon the credit risk assessment of the borrower. The market or fair value of collateral held is closely monitored and when necessary, top-up requests are made or liquidation is initiated as per the terms of the underlying credit agreements.

Gross Credit Risk Exposures subject to Credit Risk Mitigations (CRM)

The following table details the Group's gross credit risk exposures before the application of eligible Basel III CRM techniques. The CBB's Basel III guidelines detail which types of collateral and which issuers of guarantees are eligible for preferential risk weighting. The guidelines also specify the minimum collateral management processes and collateral documentation requirements necessary to achieve eligibility.

TABLE - 2 GROSS CREDIT RISK EXPOSURES

	US$ '000	
	As at 31 December 2023	**Average monthly balance**
Balances with central banks	1,096,386	995,954
Deposits with central banks	913,049	1,380,268
Deposits with banks	2,202,025	2,398,140
Financing receivable	10,907,398	10,586,656
Non-trading investments	10,078,378	8,637,089
Other assets	834,063	1,016,450
Assets classified as held for sale	13,951,731	14,177,565
TOTAL FUNDED EXPOSURES	**39,983,030**	**39,192,122**
Contingent liabilities	1,936,265	2,015,184
Undrawn financing commitments	156,991	171,161
Contingent liabilities relating to held for sale	1,514,458	1,606,198
TOTAL UNFUNDED EXPOSURES	**3,607,714**	**3,792,543**
TOTAL GROSS CREDIT RISK EXPOSURES	**43,590,744**	**42,984,665**

The gross credit exposures reported above are as per the consolidated balance sheet as at 31 December 2023 as reduced by exposures which do not carry credit risk.

3. CREDIT RISK MANAGEMENT (continued)

TABLE - 3 RISK WEIGHTED EXPOSURES

	US$ '000			
	Gross exposures	**Secured by eligible CRM**	**Risk weighted exposures after CRM**	**Capital requirement**
Claims on sovereigns and MDBs	8,448,184	-	369,109	51,675
Claims on public sector entities	2,175,631	-	987,900	138,306
Claims on banks	6,675,866	-	2,829,424	396,119
Claims on corporates	22,568,322	1,010,051	21,120,558	2,956,879
Regulatory retail exposures	2,351,799	64,659	1,698,108	237,735
Residential mortgage exposures	1,376,276	-	567,650	79,471
Equity	520,696	-	1,185,567	165,979
Other exposures	1,837,667	-	2,184,455	305,824
TOTAL	**45,954,441**	**1,074,710**	**30,942,771**	**4,331,988**
TOTAL CREDIT RISK CAPITAL REQUIREMENT (STANDARDISED APPROACH)			**30,942,771**	**4,331,988**
TOTAL MARKET RISK CAPITAL REQUIREMENT (STANDARDISED APPROACH)			**318,734**	**44,623**
TOTAL OPERATIONAL RISK CAPITAL REQUIREMENT (BASIC INDICATOR APPROACH)*			**1,965,665**	**275,193**
TOTAL			**33,227,170**	**4,651,804**

*Indicator for operational risk exposure is gross income, adjusted for exceptional items, as per BIA. This approach uses average of adjusted gross income for previous three financial years (US$ 1,048,355 thousands) for operational risk computation.

The gross exposure in the above table represents the on and off balance sheet credit exposures before Credit Risk Mitigations (CRM), determined in accordance with the CBB Pillar III guidelines. The off balance sheet exposures are computed using the relevant credit conversion factors.

Under the CBB Basel III Guidelines, banks may choose between two options when calculating credit risk mitigation capital relief. The simple approach which substitutes the risk weighting of the collateral for the risk weighting of the counterparty or the comprehensive approach whereby the exposure amount is adjusted by the actual value ascribed to the collateral. The Group has selected to use the comprehensive method where collateral is in the form of cash or bonds or equities. The Group uses a range of risk mitigation tools including collateral, guarantees, credit derivatives, netting agreements and financial covenants to reduce credit risk.

Concentration Risk

Refer note 32(a) to the audited consolidated financial statements for the year ended 31 December 2023 for definition and policies in relation to management of concentration risk.

As per the CBB's large exposure regulations, banks incorporated in the Kingdom of Bahrain are required to obtain the CBB's prior approval for any planned exposure to a single counterparty, or group of connected counterparties, exceeding 15 per cent of the regulatory capital base. As at 31 December 2023, the Group had no qualifying single obligor exposures in accordance with CBB guidelines which exceed 15 percent of the Group's regulatory capital base.

Geographic Distribution of Gross Credit Exposures

The geographic distribution of credit exposures is monitored on an ongoing basis by Group Risk Management and reported to the BOD on a quarterly basis.

The following table details the Group's geographic distribution of gross credit exposures as at 31 December 2023.

PILLAR III DISCLOSURES - BASEL III
31 December 2023

3. CREDIT RISK MANAGEMENT (continued)

TABLE - 4 GEOGRAPHIC DISTRIBUTION OF GROSS CREDIT EXPOSURES

	US$ '000							
	GCC countries	**United Kingdom**	**Europe (excluding United Kingdom)**	**Arab Republic of Egypt**	**Asia (excluding GCC countries)**	**Rest of the World**	**Held for Sale**	**Total**
Balances with central banks	185,736	301,628	-	538,641	70,381	-	-	**1,096,386**
Deposits with central banks	597,042	-	-	289,388	26,619	-	-	**913,049**
Deposits with banks	267,441	124,453	715,136	61,087	121,974	911,934	-	**2,202,025**
Financing receivable	5,731,829	1,736,193	369,867	2,443,808	299,841	325,860	-	**10,907,398**
Non-trading investments	5,874,321	271,341	715,608	378,785	1,470,170	1,368,153	-	**10,078,378**
Other assets	188,434	509,695	41,347	44,821	26,528	23,238	-	**834,063**
Assets classified as held for sale	-	-	-	-	-	-	13,951,731	**13,951,731**
Total funded exposures	**12,844,803**	**2,943,310**	**1,841,958**	**3,756,530**	**2,015,513**	**2,629,185**	**13,951,731**	**39,983,030**
Contingent liabilities	931,439	6,225	81,485	596,251	241,214	79,651	-	**1,936,265**
Undrawn financing commitments	56,187	94,777	5,020	1,007	-	-	-	**156,991**
Contingent liabilities relating to held for sale	-	-	-	-	-	-	1,514,458	**1,514,458**
Total unfunded exposures	**987,626**	**101,002**	**86,505**	**597,258**	**241,214**	**79,651**	**1,514,458**	**3,607,714**
TOTAL	**13,832,429**	**3,044,312**	**1,928,463**	**4,353,788**	**2,256,727**	**2,708,836**	**15,466,189**	**43,590,744**
	31.7%	**7.0%**	**4.4%**	**10.0%**	**5.2%**	**6.2%**	**35.4%**	**100.0%**

* GCC countries are countries which are part of the Gulf Co-operation Council comprising the Kingdom of Bahrain, State of Kuwait, Sultanate of Oman, State of Qatar, Kingdom of Saudi Arabia and the United Arab Emirates.

TABLE - 5 SECTORAL CLASSIFICATION OF GROSS CREDIT EXPOSURES

	US$ '000			
	Funded	**Unfunded**	**Total**	**%**
Central banks	2,009,435	-	**2,009,435**	**4.6**
Banks and other financial institutions	4,837,012	101,837	**4,938,849**	**11.3**
Consumer/personal	1,059,850	8,582	**1,068,432**	**2.5**
Residential mortgage	1,356,737	59,140	**1,415,877**	**3.2**
Trading and manufacturing	5,798,325	816,019	**6,614,344**	**15.2**
Real estate	1,492,835	32,497	**1,525,332**	**3.5**
Services	2,872,303	835,428	**3,707,731**	**8.5**
Government/public sector	6,069,696	2,291	**6,071,987**	**13.9**
Others	535,106	237,462	**772,568**	**1.8**
Assets classified as held for sale	13,951,731	1,514,458	**15,466,189**	**35.5**
TOTAL	**39,983,030**	**3,607,714**	**43,590,744**	**100.0**
	91.7%	**8.3%**	**100.0%**	

3. CREDIT RISK MANAGEMENT (continued)

TABLE - 6 RESIDUAL CONTRACTUAL MATURITY OF GROSS CREDIT EXPOSURES

	US$ '000							
	Up to one month	Over one month to three months	Over three months to one year	Over one year to five years	Over five to ten years	Over ten to twenty years	Over twenty years	Total
Balances with central banks	1,096,386	-	-	-	-	-	-	**1,096,386**
Deposits with central banks	412,536	228,828	271,685	-	-	-	-	**913,049**
Deposits with banks	2,119,388	65,976	983	15,678	-	-	-	**2,202,025**
Financing receivable	930,494	1,151,069	2,494,006	4,643,784	1,156,835	415,172	116,038	**10,907,398**
Non-trading investments	59,456	24,166	410,930	3,945,823	3,541,446	1,027,543	1,069,014	**10,078,378**
Other assets	242,034	42,805	88,338	441,843	15,733	-	3,310	**834,063**
Assets classified as held for sale	-	13,951,731	-	-	-	-	-	**13,951,731**
Total funded exposures	**4,860,294**	**15,464,575**	**3,265,942**	**9,047,128**	**4,714,014**	**1,442,715**	**1,188,362**	**39,983,030**
Contingent liabilities	486,685	424,951	832,791	187,682	4,143	13	-	**1,936,265**
Undrawn financing commitments	32,717	7,784	28,263	76,851	7,284	4,092	-	**156,991**
Contingent liabilities relating to held for sale	-	1,514,458	-	-	-	-	-	**1,514,458**
Total unfunded exposures	**519,402**	**1,947,193**	**861,054**	**264,533**	**11,427**	**4,105**	**-**	**3,607,714**
TOTAL	**5,379,696**	**17,411,768**	**4,126,996**	**9,311,661**	**4,725,441**	**1,446,820**	**1,188,362**	**43,590,744**

Allowances for expected credit loss

Refer note 2.7 (g) of the consolidated financial statements of the Group for the year ended 31 December 2023 for further details on ECL model.

The Group Risk Committee regularly evaluates the adequacy of the established allowances for impaired financing.

TABLE - 7 SECTORAL BREAKDOWN OF IMPAIRED FINANCING RECEIVABLES AND IMPAIRMENT ALLOWANCES

	US$ '000				
	Impaired financing receivables (Stage 3)	ECL allowances (Stage 3)	Net remeasurement of Stage 3 ECL for the year ended 31 December 2023	Write-offs during the year ended 31 December 2023	ECL allowances (Stage 1 & Stage 2)
Consumer/personal	40,913	38,686	4,366	10,397	27,859
Trading and manufacturing	50,321	36,224	5,365	21,933	91,567
Real estate	97,790	96,463	-	-	81,600
Residential mortgage	51,919	32,256	4,551	-	1,507
Banks and other financial institutions	-	-	-	-	4,631
Services	31,481	22,019	766	392	118,271
Government/public sector	-	-	-	-	1,497
Others	1,440	291	2,820	27,945	30,222
TOTAL	**273,864**	**225,939**	**17,868**	**60,667**	**357,154**

3. CREDIT RISK MANAGEMENT (continued)

TABLE - 8 GEOGRAPHICAL DISTRIBUTION OF IMPAIRMENT ALLOWANCES FOR FINANCING RECEIVABLES

	US$ '000						
	GCC countries	United Kingdom	Europe (excluding United Kingdom)	Arab Republic of Egypt	Asia (excluding GCC countries)	Rest of the world	Total
ECL allowances (Stage 1 & 2)	198,739	570	7,115	146,212	1,572	2,946	**357,154**
ECL allowances (Stage 3)	161,951	29,594	-	34,122	272	-	**225,939**
TOTAL	**360,690**	**30,164**	**7,115**	**180,334**	**1,844**	**2,946**	**583,093**

TABLE - 9 MOVEMENTS IN IMPAIRMENT ALLOWANCES FOR FINANCING RECEIVABLES

Refer note 7(f) of the consolidated financial statements for the year ended 31 December 2023 for ECL allowance movements.

Impaired Credit Facilities

As per CBB guidelines, credit facilities are placed on non-accrual status and profit income suspended when either principal or profit is overdue by 90 days or more whereupon unpaid and accrued profit is reversed from income. Profit on non-accrual facilities is included in income only when received. Credit facilities classified as past due are assessed for ECL in accordance with IFRS 9 guidelines. Financial instruments where there is objective evidence of impairment are considered to be credit impaired and the allowance for credit losses captures the life time expected credit losses.

For definition of default, refer to note 2.7(g) to the audited consolidated financial statements for the year ended 31 December 2023.

Refer to notes 7(a) to 7(e) and note 32(c) to the audited consolidated financial statements for the year ended 31 December 2023 for the distribution of the financing receivables portfolio.

Ratings 1 - 4 comprise of credit facilities demonstrating financial condition, risk factors and capacity to repay that are excellent to good and retail borrowers where cash collateral (or equivalent such as pledged investment funds) has been provided.

Ratings 5 - 7 represents satisfactory risk and includes credit facilities that require closer monitoring, and retail accounts which are maintained within generally applicable product parameters.

TABLE - 10 IMPAIRED FINANCING RECEIVABLES - AGE ANALYSIS

i) By Geographical region

	US$ '000			
	Three months to one year	Over one to three years	Over three years	Total
GCC Countries	88,355	24,139	73,042	**185,536**
United Kingdom	23,521	12,892	11,604	**48,017**
Arab Republic of Egypt	34,069	5,651	152	**39,872**
Asia (excluding GCC countries)	409	30	-	**439**
TOTAL	**146,354**	**42,712**	**84,798**	**273,864**
	53.4%	**15.6%**	**31.0%**	**100.0%**

ii) By Industry sector

Consumer/personal	27,597	10,504	2,812	**40,913**
Trading and manufacturing	30,296	12,494	7,531	**50,321**
Real estate	47,618	-	50,173	**97,791**
Residential mortgage	25,179	13,082	13,656	**51,917**
Services	15,481	5,464	10,537	**31,482**
Others	183	1,168	89	**1,440**
TOTAL	**146,354**	**42,712**	**84,798**	**273,864**
	53.4%	**15.6%**	**31.0%**	**100.0%**

3. CREDIT RISK MANAGEMENT (continued)

TABLE - 11 RESTRUCTURED CREDIT FACILITIES

	US$ '000
Balance of any restructured credit facilities as at year end	739,795
Financing receivables restructured during the year	356,611

The above restructurings did not have any significant impact on the present or future earnings and were primarily extensions of the financing tenor.

TABLE - 12 COUNTERPARTY CREDIT RISK IN DERIVATIVE TRANSACTIONS

The Group uses the Current Exposure Method to calculate the exposure for counterparty credit risk for derivative instruments as per CBB Basel III guidelines. The table below represent net credit equivalent exposure after giving effect to master netting agreements.

i) Breakdown of the credit exposure

	US$ '000	
	Notional amount	**Credit Equivalent Exposure**
a) Trading		
Foreign exchange related	5,161,957	44,520
Profit rate related	3,135,211	129,582
Others	17,302	1,248
	8,314,470	**175,350**
b) Hedging		
Foreign exchange related	244	-
Profit rate related	10,858,433	536,095
	10,858,677	**536,095**
	19,173,147	**711,445**

	US$ '000
ii) Amounts of cash collateral	**9,804**

TABLE - 13 RELATED PARTY TRANSACTIONS

Refer note 25 to the audited consolidated financial statements of the Group for the year ended 31 December 2023. Related party transactions are entered with related parties in ordinary course of business at arm's length. Further, as of 31 December 2023, exposures in excess of limits prescribed by Credit Risk Management Module amounted to US$ 9.2 million. This exposures are risk weighted at 800%.

4. MARKET RISK

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

Market Risk Management, Measurement and Control Responsibilities

The BOD approves the overall market risk appetite and delegates responsibility for providing oversight on the Bank's market risk exposures and the sub allocation of BOD limits to the Group Asset and Liability Committee (GALCO). Group Risk Management is responsible for the market risk control framework and for monitoring compliance with the GALCO limit framework.

The Group separates market risk exposures into either trading or non-trading portfolios. Trading portfolios include those positions arising from market-making, proprietary position-taking and other marked-to-market positions. Non-trading portfolios include positions that arise from the foreign exchange/ profit rate management of the Group's retail and commercial banking assets and liabilities, and financial assets designated at amortised cost and fair value through other comprehensive income.

Each Group operating entity has an independent market risk function which is responsible for measuring market risk exposures in accordance with the Group Trading Book Policy and the Profit Rate Risk in the Banking Book Policy, and monitoring these exposures against prescribed limits.

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31 December 2023

4. MARKET RISK (continued)

Market risk reports covering Trading Book risk exposures and profit and loss are published daily to the Bank's senior management. A risk presentation covering both Trading and Banking Book is also compiled monthly and discussed at the GALCO.

The measurement techniques used to measure and control market risk include:

- Value at Risk (VaR);
- Stress tests; and
- Sensitivities and position size related metrics.

Daily Value at Risk (VaR)

The Group VaR is an estimate of the potential loss which might arise from unfavourable market movements:

VaR Type	Sample Size	Holding Period	Confidence Interval	Frequency of Calculation
1 Day VaR	260 days	1 day	99%	Daily
10 Day VaR	260 days	10 day	99%	Daily

Daily losses exceeding the VaR figure are likely to occur, on average, once in every 100 business days depending on the confidence interval employed in the VaR calculation (per the above). The Group routinely validates the accuracy of its VaR models by backtesting the actual daily profit and loss results. The actual number of excesses over a given period can be used to gauge how well the models are performing.

Although a useful guide to risk, VaR should always be viewed in the context of its limitations. For example:

- the use of historical data as a proxy for estimating future events may not encompass all potential events, particularly those which are extreme in nature;
- the use of a 1-day holding period assumes that all positions can be liquidated or hedged in one day. This may not fully reflect the market risk arising at times of severe illiquidity, when a 1-day holding period may be insufficient to liquidate or hedge all positions fully;
- the use of a confidence level, by definition, does not take into account losses that might occur beyond the applied level of confidence; and
- VaR is calculated on the basis of exposures outstanding at the close of business and therefore does not necessarilyreflect intra-day exposures.

The VaR for the Group was as follows:

	US$ '000		
	Average	**Minimum**	**Maximum**
For the year 2023	1,056	344	2,428

TABLE - 14 CAPITAL REQUIREMENTS FOR COMPONENTS OF MARKET RISK

	US$ '000			
	Risk-weighted exposures after CRM	**Capital requirement**	**Maximum value**	**Minimum value**
Profit rate risk	101,349	14,189	22,121	13,364
Equity position risk	16,814	2,354	9,985	2,354
Foreign exchange risk	200,571	28,080	56,574	28,080
TOTAL MARKET RISK CAPITAL REQUIREMENT (STANDARDISED APPROACH)	**318,734**	**44,623**		

Profit Rate Risk (non-trading)

Profit rate risk is the risk that the earnings or capital of the Group, or its ability to meet business objectives, will be adversely affected by movements in profit rates. Accepting this risk is a normal part of banking practice and can be an important source of profitability and shareholder value. Changes in profit rates can affect a bank's earnings by changing its net profit income and the level of other profit sensitive income and operating expenses. Changes in profit rates also affect the underlying value of the Group's assets, liabilities and off-balance sheet instruments because the present value of future cash flows and / or the cash flows themselves change when profit rates change. The Bank employs a risk management process that maintains profit rate risk within prudent levels.

4. MARKET RISK (continued)

The BOD recognises that it has responsibility for understanding the nature and the level of profit rate risk taken by the Bank, and has defined a risk framework pertaining to the management of non-trading profit rate risk and has identified lines of authority and responsibility for managing profit rate risk exposures.

The BOD has delegated the responsibility for the management of profit rate risk to GALCO which is responsible for setting and monitoring the profit rate risk strategy of the Group, for the implementation of the profit rate risk framework and ensuring that the management process is in place to maintain profit rate risk within prudent levels.

GALCO reviews the profit rate risk framework annually and submits recommendations for changes to the Executive Committee and BOD as applicable.

The responsibility for the implementation of the Group's profit rate risk policies resides with the Group Treasurer. An independent review and measurement of all profit exposure present in the banking book is undertaken by the Group Market Risk team and reported to GALCO on a monthly basis.

Profit rate re-pricing reports are based on each product's contractual re-pricing characteristics overlaid where appropriate by behavioural adjustments. Behavioural adjustments are derived by an analysis of customer behaviour over time augmented by input from the business units.

The behavioural adjustments are applied mainly for those liabilities with no fixed maturity dates such as current and savings accounts. These adjustments are based on empirical experience, and current account balances are spread over a maximum period of 5 years, while savings accounts are spread over a maximum period of 7 years.

Reports detailing the profit rate risk exposure of the Group are reviewed by GALCO and the BOD on a regular basis.

Refer note 34 to the audited consolidated financial statements for the year ended 31 December 2023 for the re-pricing profiles of the Group's assets and liabilities.

Profit rate risk sensitivity analysis

The Group's profit rate risk sensitivity is analysed in note 34(ii) to the audited consolidated financial statements for the year ended 31 December 2023.

The impact of a +/- 200bps profit rate shock on assets and liabilities which are carried at fair value and the consequent impact on equity as of 31 December 2023 is as per the following table.

	US$ '000		
	Assets	**Liabilities**	**Equity**
at 200 bps - increase (+)	**(139,667)**	**139,243**	**(424)**
at 200 bps - decrease (-)	**139,667**	**(139,243)**	**424**

Equity Risk

Equity risk is the risk of changes in the fair value of an equity instrument. The Group is exposed to equity risk on non-trading equity positions that are primarily focused on the GCC stock markets. The BOD has set limits on the amount and type of investments that may be made by the Bank. This is monitored on an ongoing basis by the Group Risk Committee with pre approved loss thresholds. The Bank's equity risk appetite is minimal.

Valuation and accounting policies:

a) Equity investments held for strategic reasons - investments in associates

Associated companies are companies in which the Group exerts significant influence but does not control, normally represented by an interest of between 20% and 50% in the voting capital. Investments in associated companies are accounted for using the equity method.

b) Other equity investments

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

The fair value of equity instruments that are quoted in an active market is determined by reference to market prices at the close of business on the balance sheet date. For equity investments that are not quoted in an active market, a reasonable estimate of the fair value is determined using net present valuation techniques.

For accounting policies on equity instruments, please refer to note 2.7(c) (iv) of the audited consolidated financial statements for the year ended 31 December 2023.

PILLAR III DISCLOSURES - BASEL III
31 December 2023

4. MARKET RISK (continued)

TABLE - 15 GAIN / (LOSS) ON EQUITY INSTRUMENTS

	US$ '000
Net loss recognised in Tier1 Capital (CET1)	
Net unrealized loss recognised in the balance sheet	**13,824**
Realized loss recognised in the equity	**(55,252)**

5. LIQUIDITY RISK AND FUNDING MANAGEMENT

Liquidity risk and funding management of the Group have been explained in note 35 of audited consolidated financial statements for the year ended 31 December 2023.

Maturity Analysis of Assets and Liabilities

A maturity analysis of cash flows payable by the Group under financial liabilities by remaining contractual maturities at the balance sheet date is shown in note 35 to the audited consolidated financial statements for the year ended 31 December 2023.

6. OPERATIONAL RISK

Operational risk is the risk of loss arising from inadequate or failed internal processes, people and systems or from external events, whether intentional, unintentional or natural. This definition includes legal and Shariah non-compliance risk, but excludes strategic and reputational risk. It is an inherent risk faced by all businesses and covers a large number of operational risk events including business interruption and systems failures, internal and external fraud, employment practices and workplace safety, customer and business practices, transaction execution and process management, and damage to physical assets.

The BOD acknowledges that it has ultimate responsibility for operational risk. Oversight rests with the Group Risk Committee, whilst day to day monitoring is carried out by the Group Operational Risk Committee.

The Operational Risk Management framework has been in place for a number of years and is ingrained in the Group's culture and processes. The Group has developed a comprehensive Operational Risk Self Assessment (ORSA) process.

The BOD takes the lead in promoting and encouraging a culture of risk awareness and prevention across all areas of the Group. The Group follows a Group Operational Risk Policy approved by the BOD. The policy, supported by the Group Operational Risk procedure, aims to ensure that operational risk measures are incorporated into all major aspects of the overall management framework.

The Group Operational Risk Committee (the "GORC") is responsible for maintaining an operational risk management framework across the organization. The GORC receives regular reporting on all key operational risk measures. Promptness in resolution of material operational risks identified through Operational Risk Self Assessments and audits are considered as one of the key criteria for performance reviews.

The Group Audit & Compliance Committee assists the BOD in ensuring compliance with all regulatory requirements and consistency with best market practices. The Group Audit & Compliance Committee reviews regular reports on all key operational risk measures.

The Group Operational Risk Policy, supported by the Group Operational Risk procedure requires reporting of all material Operational Risk Incidents / Loss Events within a specified period of the occurrence of the event which is followed by an analysis of the root cause and its remediation.

The Group Operational Risk Policy requires that internal controls are reviewed and enhanced on an ongoing basis in order to mitigate the residual risks identified through the Operational Risk Self Assessments, analysis of operational loss and near miss events and, internal and external audits. In addition, regular reviews of operating procedures also aim to enhance internal controls. The Group's Human Resources Policy requires that employees are trained regularly so that they are, among others, aware of operational risks and the mitigating controls. The policies require the establishment of appropriate infrastructure and processes for ensuring continuity of business which must be comprehensively and frequently tested for different contingencies.

The BOD approves the Group Information Security Framework and Policy. The policy provides a consistent and strong cybersecurity approach across the Group. Group Information Security Office (GISO) runs several cybersecurity programs covering all cyber risk areas including threat and vulnerability management, risk assessments, cybersecurity awareness, penetration testing, and incident management. GISO also executes several projects to continuously enhance the security control systems and processes, and to make the Group resilient to cyber risks. AUB maintained its ISO 27001, SWIFT Customer Security Program (CSP) and PCI DSS certifications were relevant across the Group.

Group Operational Risk Committee overseas the cybersecurity program through quarterly review of cybersecurity metrics. GISO also provides cybersecurity status reports to the BOD every quarter.

7. INFORMATION TECHNOLOGY RISK

All computer system developments and operations are centrally controlled and common standard business systems are deployed across the Group wherever possible. Information security is defined through a common 'Group Information Security Framework' and is executed through various information security processes and controls that support the framework. The Group follows an enterprise wide approach to business continuity to ensure that all identified critical operations, services and systems are recovered in time in the event of a disruption. The Group Business Continuity Management Policy is updated annually and the Disaster Recovery and Business Continuity capabilities are each tested at least once a year and critical systems data are continuously replicated at the disaster recovery site.

The Group has also adopted a Flexible Business Management approach to business continuity and disaster recovery with the aim of continuing to conduct business as usual to the extent possible on a remote basis even under diverse scenarios of unavailability of premises, infrastructure or resources, with scalability for any duration of time.

8. STRATEGIC RISK

The BOD supported by Strategic Development Unit and the Group Finance manages strategic risk on an ongoing basis. The BOD receives regular performance reports with details of strategic / regulatory issues as they arise.

9. LEGAL, COMPLIANCE, REGULATORY AND REPUTATIONAL RISKS

Protecting the Legal, Compliance, Regulatory and Reputational Risks of the Group is of paramount importance. All management and staff are expected to apply highest standards of business conduct and professional ethics at all times.

The Group has a dedicated Legal Department whose role is to identify and provide analysis and advice on legal risk.

The department is governed by the Group Legal Policy approved by the BOD, which facilitates the management and control of operational risks from pending legal actions, by performing the following tasks:

- Advising on applicable legislation and regulation;
- reviewing and / or drafting non- standard contracts and related documentation (including amendments to existing contracts) applicable to the Group;
- periodically reviewing the standard contractual documentation of the Bank;
- advising on matters involving legal risk and drafting formal communication relating to legal claims involving the Group and
- Managing and providing legal advice in respect of any actual or threatened litigation against the Bank, or brought (or proposed to be brought) by the Group against any other party.

There are no material litigations / claims against the Group as at 31 December 2023.

The Group continuously strives to improve the level of Compliance in all its activities. The Group has an independent Compliance function that reports to the Audit and Compliance Committee. The Compliance function acts as a focal point for appropriate coordination and dissemination of regulatory correspondence and rulebook updates, and strives to adopt best practice in Compliance, Governance and Control. Also, the Compliance Department, has the responsibility through its monitoring programs, to regularly assesses the adequacy and effectiveness of the measures and procedures put in place and the actions taken to address any deficiencies in the Bank's compliance with its obligations; and advises and assists the responsible business areas and personnel for carrying out appropriate regulated activities.

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

The BOD approved policies, including Group Reputation Risk policy, Communications Policy, Personal Account Dealing Policy, Key Person Dealing Policy, Compliance Policy, Anti Money Laundering policy, Banking Integrity and Whistle Blowing Policy and Code of Business conduct policy and such other policies prescribe the required standards of ethical behaviour and personal conduct for all staff (including the Bank's Directors), and the BOD exercises an oversight of these risks through various management functions, including Legal, Risk Management, Compliance, Human Resources and Internal Audit Department.

PILLAR III DISCLOSURES - BASEL III
31 December 2023

10. ENVIRONMENTAL RISK

The Group recognises the importance of environmental and social issues within its risk framework, and has established a Social and Environmental Management System (SEMS) which details the policy, procedures and workflow that will be followed by the Bank and its subsidiaries / affiliates in respect of environmental risk.

The Group continually endeavours to implement effective social and environmental management practices in all its activities, products and services with a focus on the applicable national laws on environmental, health, safety and social issues.

The Group has adopted the Equator Principles (EP), a globally recognized benchmark for managing social and environmental risks in project finance. EP is an arrangement by financial institutions worldwide to adhere to the environmental, health and safety standards while financing projects.

As such the Group will finance projects only when they are expected to be designed, built, operated and maintained in a manner consistent with the applicable national laws.

The Bank has become a signatory of the United Nations (UN) Principles for Responsible banking and a member of the UN Environment Programme Finance Initiative (UNEP FI). AUB is committed to take leadership role and use of its products, services and relationships to support and contribute to individual needs and society's goal, as expressed in the Sustainable Development Goals, the Paris Climate Agreement and relevant national and regional frameworks.

APPENDIX I - REGULATORY CAPITAL DISCLOSURES

PD 1 : Capital Composition Disclosure Template

Basel III Common disclosure template	US$ '000 PIR as on 31 December 2023	Reference
Common Equity Tier 1 capital: instruments and Reserves		
Directly issued qualifying common share capital plus related stock surplus	2,786,983	A1
Retained earnings	485,948	B1+B2+B3+B4
Accumulated other comprehensive income (and other reserves)	1,425,399	C1+C2+C3+C4+ C5 +C6 +C7
Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	306,229	D
Common Equity Tier 1 capital before regulatory adjustments	**5,004,559**	
Common Equity Tier 1 capital: regulatory adjustments		
Goodwill (net of related tax liability)	414,585	E
Other intangibles other than mortgage-servicing rights (net of related tax liability)	116,928	F1+F2
Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-	G1-G2
Cash-flow hedge reserve	-	C7
Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	-	
Total regulatory adjustments to Common equity Tier 1	**531,513**	
Common Equity Tier 1 capital (CET1)	**4,473,046**	
Additional Tier 1 capital: instruments		
Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	400,000	I
Additional Tier 1 instruments (and CET1 instruments not included above) issued by subsidiaries and held by third parties (amount allowed in group AT1)	306,837	J
Additional Tier 1 capital before regulatory adjustments	**706,837**	
Total regulatory adjustments to Additional Tier 1 capital	**-**	
Additional Tier 1 capital (AT1)	**706,837**	
Tier 1 capital (T1 = CET1 + AT1)	**5,179,883**	
Tier 2 capital: instruments and provisions		
Directly issued qualifying Tier 2 instruments plus related stock surplus	-	K
Tier 2 instruments (and CET1 and AT1 instruments not included above) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	92,213	L
Expected Credit Losses & Reserves	426,625	M1+M2
Tier 2 capital before regulatory adjustments	**518,838**	
Total regulatory adjustments to Tier 2 capital	**-**	
Tier 2 capital (T2)	**518,838**	
Total capital (TC = T1 + T2)	**5,698,721**	
Total risk weighted assets	**33,227,170**	

APPENDIX I - REGULATORY CAPITAL DISCLOSURES (continued)

PD 1: Capital Composition Disclosure Template (continued)

Basel III Common disclosure template	US$ '000 PIR as on 31 December 2023	Reference
Capital ratios		
Common Equity Tier 1 (as a percentage of risk weighted assets)	13.5%	
Tier 1 (as a percentage of risk weighted assets)	15.6%	
Total capital (as a percentage of risk weighted assets)	**17.2%**	
Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus D-SIB buffer requirement expressed as a percentage of risk weighted assets)	10.5%	
of which: Capital Conservation Buffer requirement	2.5%	
of which: bank specific countercyclical buffer requirement (N/A)	NA	
of which: D-SIB buffer requirement	1.5%	
National minima (if different from Basel 3)		
CBB Common Equity Tier 1 minimum ratio (including buffers)	10.5%	
CBB Tier 1 minimum ratio (including buffers)	12.0%	
CBB total capital minimum ratio (including buffers)	14.0%	
Amounts below the thresholds for deduction (before risk weighting)		
Non-significant investments in the capital of other financial entities	285,006	
Significant investments in the common stock of financial entities	413,875	
Applicable caps on the inclusion of Expected Credit Losses in Tier 2		
Expected Credit Losses (Stages 1 and 2) eligible for inclusion in Tier 2 in respect of exposures subject to standardized approach (prior to application of cap)	639,586	N
Cap on inclusion of Expected Credit Losses in Tier 2 under standardized approach	386,785	M2

PD 2 : Reconciliation Of Regulatory Capital

i) Step 1: Disclosure of Balance Sheet under Regulatory scope of Consolidation

There are no differences between the regulatory and accounting consolidation, with both following the consolidation approach as per the IFRS 10 without excluding any entities. As mandated by the Central Bank of Bahrain ("CBB"), financial assets have been grossed up with impairment allowances for expected credit losses (ECL) - Stages 1 and 2, as presented below:

	US$ '000
Balance sheet per published financial statements	**41,899,898**
ECL - Stages 1 and 2	639,586
Balance sheet as in Regulatory Return	**42,539,484**

APPENDIX I - REGULATORY CAPITAL DISCLOSURES (continued)

ii) Step 2: Expansion of the Balance Sheet under Regulatory scope of Consolidation

	US$ '000		
Assets	**Balance as per published financial statements**	**Consolidated PIR data**	**Reference**
Cash and balances with central banks	1,173,479	1,173,479	
Financial assets at fair value through Profit & Loss		9,889	
Deposits with central banks	913,049	913,049	
Deposits with banks	2,202,025	2,202,226	
Financing receivables	10,907,398	11,264,552	
Non-trading investments	10,182,949	10,201,292	
Investment properties	105,037	105,037	
Profit receivable and other assets	15,700,592	15,954,591	
of which deferred tax assets		(0)	G1
Investments in associates	375,313	375,313	
Goodwill and intangible assets	136,180	136,180	
of which Goodwill		414,585	E
of which other intangibles (excluding MSRs)		28,425	F1
Premises and equipment	203,876	203,876	
of which software		88,503	F2
TOTAL ASSETS	**41,899,898**	**42,539,484**	
Liabilities			
Deposits from banks	2,213,524	2,213,524	
Customers' deposits	14,039,595	14,039,595	
Repurchase agreements with banks	4,619,644	4,619,644	
Term Financing	1,096,685	1,096,685	
Sukuk payable	527,725	527,725	
Profit payable and other liabilities	13,343,783	13,343,783	
of which deferred tax liabilities		1,698	G2
TOTAL LIABILITIES	**35,840,956**	**35,840,956**	

APPENDIX I - REGULATORY CAPITAL DISCLOSURES (continued)

ii) Step 2: Expansion of the Balance Sheet under Regulatory scope of Consolidation (continued)

	US$ '000		
Equity	**Balance as per published financial statements**	**Consolidated PIR data**	**Reference**
Paid-in share capital	2,786,983	2,786,983	
of which form part of Common Equity Tier 1		2,786,983	
Ordinary Share Capital		2,786,983	A1
Treasury Shares		-	
Perpetual Tier 1 Capital Securities - AUB Bahrain	400,000	400,000	I
Reserves	1,800,525	1,800,525	
of which form part of Common Equity Tier 1			
Retained earnings/(losses) brought forward		335,286	B1
Porposed Dividend Payable			B2
Net profit for the current period		667,256	C1
Share premium		752,540	C2
Legal reserve		886,815	C3
Others		(37,804)	C4
FX translation adjustment		(837,247)	C5
Cumulative fair value changes on FVOCI investments		(6,161)	C6
Fair value changes of cash flow hedges		-	C7
of which form part of Tier 2			
Fixed assets revaluation reserves		*39,840*	M1
CBB modification loss (part of CET1)		53,965	B3
Perpetual Tier 1 Capital Securities - AUB Kuwait	600,000	1,071,434	
Non - controlling interest	471,434		
of which amount eligible for Common Equity Tier 1		306,229	D
of which amount eligible for Additional Tier 1		306,837	J
of which amount eligible for Tier 2		92,213	L
of which amount ineligible		366,155	
Impairment Allowance for Expected Credit Losses - Stages 1 and 2		639,586	N
of which amount eligible for Tier 2 (maximum 1.25% of RWA)		386,785	M2
of which amount included in CET1 as per CBB		96,697	B4
of which amount ineligible		156,105	
TOTAL EQUITY	**6,058,942**	**6,698,528**	
TOTAL LIABILITIES AND EQUITY	**41,899,898**	**42,539,484**	

APPENDIX I - REGULATORY CAPITAL DISCLOSURES (continued)

PD 3: Main features of regulatory capital instruments

1	**Issuer**	Ahli United Bank B.S.C (c)	Ahli United Bank B.S.C (c)	Ahli United Bank K.S.C.P.
2	**Unique identifier**	N/A	ISIN: XS1133289832 / Perpetual Tier 1 Capital Securities	ISIN: XS2342243875 / Perpetual Tier 1 Capital Securities
3	**Governing law(s) of the instrument**	Laws of Bahrain	English Law, except for the provisions of subordination which will be governed by the Laws of Bahrain	English Law, except for the provisions of subordination which will be governed by the Laws of Kuwait
4	**Transitional CBB rules**	Not applicable	Not applicable	Not applicable
5	**Post-transitional CBB rules**	Common Equity Tier 1	Additional Tier 1	Additional Tier 1
6	**Eligible at solo/group/group & solo**	Solo and Group	Solo and Group	Group
7	**Instrument type**	Common Equity Shares	Capital Securities	Capital Securities
8	**Amount recognized in regulatory capital**	$2787.0 mn	$400.0 mn	$330.1 mn
9	**Par value of instrument (USD)**	$0.25	$1000 subject to minimum of $200,000	$1000 subject to minimum of $200,000
10	**Accounting classification**	Shareholders' equity	Shareholders' equity	Shareholders' equity
11	**Original date of issuance**	31-May-2000	29-Apr-2015	17-Jun-2021
12	**Perpetual or dated**	Perpetual	Perpetual	Perpetual
13	**Original maturity date**	No Maturity	No Maturity	No Maturity
14	**Issuer call subject to prior supervisory approval**	NA	Yes	Yes
15	**Optional call date, contingent call dates and redemption amount**	NA	Call Option : On every Distribution Payment Date at Par/100%; Tax event at Par/100%; Regulatory Capital Event at 101% (Full or partial)	First Call Option : 17-Jun-2026 at Par/100%; Tax event at Par/100%; Regulatory Capital Event at 100% (Full or partial)
16	**Subsequent call dates, if applicable**	NA	Every Distribution Payment Date	Any day falling in the period commencing on (and including) the First Call Date and ending on (and including) the First Reset Date (17-Dec-2026) or on any profit payment date thereafter
17	**Fixed or floating dividend/coupon**	NA	Fixed	Fixed
18	**Coupon rate and any related index**	NA	5.839%	3.875%
19	**Existence of a dividend stopper**	NA	Yes	Yes
20	**Fully discretionary, partially discretionary or mandatory**	Fully discretionary	Fully discretionary	Fully discretionary
21	**Existence of step up or other incentive to redeem**	No	No	No
22	**Noncumulative or cumulative**	NA	Noncumulative	Noncumulative
23	**Convertible or non-convertible**	NA	Non-convertible	Non-convertible
24	**If convertible, conversion trigger (s)**	NA	NA	NA
25	**If convertible, fully or partially**	NA	NA	NA
26	**If convertible, conversion rate**	NA	NA	NA
27	**If convertible, mandatory or optional conversion**	NA	NA	NA
28	**If convertible, specify instrument type convertible into**	NA	NA	NA
29	**If convertible, specify issuer of instrument it converts into**	NA	NA	NA
30	**Write-down feature**	NA	Yes	Yes
31	**If write-down, write-down trigger(s)**	NA	Notification by regulator of Non viability without (a) write-down ; or (b) a public sector injection of capital (or equivalent support)	Notification by regulator of Non viability without (a) write-down ; or (b) a public sector injection of capital (or equivalent support)
32	**If write-down, full or partial**	NA	Fully / Partially	Fully / Partially
33	**If write-down, permanent or temporary**	NA	Permanent	Permanent
34	**If temporary write-down, description of write-up mechanism**	NA	NA	NA
35	**Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)**	Additional Tier 1 Capital Bonds	All depositors and creditors	All depositors and creditors
36	**Non-compliant transitioned features**	NA	No	No
37	**If yes, specify non-compliant features**	NA	NA	NA

APPENDIX I - REGULATORY CAPITAL DISCLOSURES (continued)

Leverage Ratio

The leverage ratio serves as a supplementary measure to the risk-based capital requirements. The leverage ratio is computed on a consolidated basis and Bahraini bank licensees designated as DSIB must meet a 3.75% leverage ratio minimum requirement at all times.

Leverage Ratio components

	US$ '000
Tier1 Capital [A]	5,179,883
Total Exposure [B]	45,779,817
Leverage Ratio ([A] / [B])	**11.3%**

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