



BURGAN BANK K.P.S.C.

(a public shareholding company incorporated in the State of Kuwait)

**Kuwaiti Dinars 150 Million Perpetual Additional Tier 1 Capital Bonds (the “Bonds”) composed of
Kuwaiti Dinar Bonds KWD 75 Million Fixed Rate Bonds at 7.25% (“Fixed Rate Bonds”) and
Kuwaiti Dinar Bonds KWD 75 Million Floating Rate Bonds at 3.25% + CBK Discount Rate
 (“Floating Rate Bonds”)**

This private placement prospectus (the “**Prospectus**”) is being provided on a confidential basis to a limited number of Eligible Investors (as defined herein) and/or any such other persons which may be considered as such from time to time by the Kuwait Capital Markets Authority (the “**CMA**”) for the sole purpose of evaluating a potential subscription to the Bonds (as defined herein) to be issued by Burgan Bank K.P.S.C. (the “**Bank**” or the “**Issuer**”). An “**Eligible Investor**” is a Sophisticated Investor (as defined herein) or a Qualified Investor (as defined herein). A “**Sophisticated Investor**” is: a) a government, a public authority, a central bank, or an international institute (such as the International Bank for Reconstruction and Development or the International Monetary Fund), or b) persons licensed by the CMA, investment funds, and other financial institutions that are subject to the supervision of a regulatory authority located in or outside of Kuwait, or c) a legal entity with a paid up capital of at least KWD 1 million (or its equivalent thereto). A “**Qualified Investor**” is: a) an investor that has concluded securities transactions with an average value of no less than KWD 250,000 (or its equivalent) each quarter for the past two years, or b) an investor which has an amount of no less than KWD 100,000 (or its equivalent) in assets (including cash) currently being managed by any one or more persons who have been duly licensed by the CMA to render portfolio/asset management services, or c) an investor that works, or who has previously worked, in the financial services industry for at least one year in a professional position that requires knowledge in transactions or services of the nature described herein. The contents of this Prospectus should not be construed as investment, legal or tax advice. This Prospectus is furnished on a confidential basis solely for the information of the person to whom it has been delivered on behalf of the Issuer and may not be reproduced or distributed, whether in whole or in part, nor its contents disclosed or used for any purpose without the prior written consent of the Issuer. Each Eligible Investor accepting this Prospectus hereby agrees to return it to any one of the managers named below (each a “**Manager**”, and collectively, the “**Managers**” or “**Joint Lead Managers and Placement Agents**”) promptly upon request. The delivery of this Prospectus does not imply that the information herein is correct as of any time subsequent to the date set forth on the cover page.

This private placement issue by the Issuer of perpetual additional tier 1 capital bonds in the principal amount of KWD 150 Million is composed of bonds in two tranches, namely, i) KWD 75 Million fixed rate bonds (the “**Fixed Rate Bonds**”), an ii) and KWD 75 Million floating rate bonds (the “**Floating Rate Bonds**”, and together with the Fixed Rate Bonds, the “**Bonds**”). The issue price of the Bonds is 100 per cent. of their principal amount, provided that the sum of the two tranches does not exceed KWD 150 Million.

All interest payment amounts attributable to the Bonds shall be payable subject to and in accordance with the terms and conditions set out in the “*Terms and Conditions of the Issue*” (the “**Conditions**”). Interest on the Bonds will accrue as of the issue date of the Bonds and will be payable quarterly in arrears commencing three months from the issue date of the Bonds. Interest payments will be made without deduction or withholding for or on account of Kuwaiti taxes to the extent set out herein. The Fixed Rate Bonds bear the fixed rate of interest at the sum of the Discount Rate (as defined herein) on the Issue Date plus 3.00% per annum for the first five years after the date of the issuance of the Fixed Rate Bonds. For the subsequent period that the Fixed Rate Bonds are outstanding, the Fixed Rate Bonds will bear interest at the fixed rate of interest at the sum of the Reset Rate (as defined herein) plus 3.00% per annum. The Floating Rate Bonds bear the floating rate of interest for the Interest Period (as defined herein) at the sum of the Discount Rate (as defined herein) in effect at 12 noon Kuwait time on the Interest Determination Date (as defined herein) and, 3.25% per annum provided however that such sum shall never exceed the prevailing Interest Rate (as defined herein) attributable to the Fixed Rate Bonds at that time plus 1.00%.

The Bonds were assigned a subordinated unsecured bond rating of BBB- as at 19 April 2024 by Capital Intelligence (the “**Rating Agency**”). A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the Rating Agency. The Rating Agency issued its final approval to incorporate the rating in this prospectus and a photo copy of the same was submitted to the CMA taking into consideration that the Rating Agency did not repeal this approval prior to the submission of this prospectus for approval with the CMA.

The Bonds are perpetual securities in respect of which there is no fixed redemption date and the Issuer shall only have the right to redeem, purchase or vary them in accordance with the provisions of Condition 4 (*Redemption, Variation and Purchase*) which includes that the Bonds may be redeemed (subject to certain conditions being satisfied) at the option of the Issuer in full or in part, after the 5th anniversary date of the issuance of the Bonds (see Condition 4(d) (*Call Option*)).

Each tranche of the Bonds will be represented by a permanent Global Bond in registered form (each, a “**Global Bond**”), without interest coupons, in the principal amount of KWD 75 Million for the Fixed Rate Bonds and KWD 75 Million for the Floating Rate Bonds. Each Global Bond will be deposited with and registered in the name of Kuwait Clearing Company K.S.C. (“**KCC**”) for credit to the accounts of the subscribers with KCC. While the Bonds are evidenced by Global Bonds, the Bonds evidenced by such Global Bonds may be transferred through KCC in accordance with the rules and procedures in effect for KCC.

Each Global Bond will be exchangeable for definitive Bonds in registered form in denominations of KWD 50,000 in certain limited circumstances specified in each Global Bond and more fully described herein; see the attached “*Summary of Provisions Relating to the Bonds While in Global Form*”.

The issue of the Bonds has been authorized by a resolution of the General Assembly of the Bank passed 1 April 2023 and a resolution of the Board of Directors of the Bank passed on 9 October 2023. Preliminary issuance approval was granted by the Central Bank of Kuwait (“**CBK**”) on 12 November 2023 and final issuance approval was granted on 18 April 2024. The CMA on 10 January 2024 issued its approval for the Bank to issue the Bonds and the approval on the Bond’s Prospectus was granted on 1 April 2024.

The subscription period for the Bonds shall commence post CMA approval of the Prospectus and shall end no later than 20 business days from the date of the opening of the subscription period. Unless indicated to the contrary, for the purposes of this Prospectus, the term “**business day**” or “**Business Day**” means a day (other than a Friday or a Saturday) which is not a public holiday and on which the banks are open for business in Kuwait.

NOTICE TO POTENTIAL INVESTORS

THE ISSUER RECOMMENDS THAT YOU SEEK THE ADVICE OF A DULY QUALIFIED “CMA LICENSED PERSON” TO ADVISE ON THE CONTENTS OF THIS PROSPECTUS PRIOR TO MAKING A DECISION AS TO WHETHER OR NOT TO SUBSCRIBE TO THE BONDS. THIS IS A NOTICE TO COMPLY WITH ARTICLE 5-11(15) OF MODULE 11 OF THE EXECUTIVE BYLAWS OF LAW NO. 7 OF 2010 (EACH AS AMENDED).

THIS PROSPECTUS HAS BEEN APPROVED BY THE KUWAIT CAPITAL MARKETS AUTHORITY. THIS PROSPECTUS HAS BEEN PREPARED IN ACCORDANCE WITH THE KUWAIT CAPITAL MARKETS LAW NO. 7 OF 2010 AND ITS EXECUTIVE BYLAWS (EACH AS AMENDED). THE DIRECTORS, WHOSE NAMES APPEAR IN THE MANAGEMENT SECTION OF THIS PROSPECTUS, COLLECTIVELY AND INDIVIDUALLY ACCEPT FULL RESPONSIBILITY FOR THE ACCURACY OF ALL INFORMATION CONTAINED IN THIS PROSPECTUS RELATING TO THE ISSUER AND THE BONDS, AND CONFIRM, HAVING MADE ALL REASONABLE ENQUIRES THAT, TO THE BEST OF THEIR KNOWLEDGE AND BELIEF, THERE ARE NO OTHER FACTS THE OMISSION OF WHICH WOULD MAKE ANY STATEMENT HEREIN MISLEADING. EACH OF THE DIRECTORS WHOSE NAMES APPEAR IN THE MANAGEMENT SECTION OF THIS PROSPECTUS CONFIRM THAT ALL THE INFORMATION IN THIS PROSPECTUS IS COMPLETE, ACCURATE AND CORRECT AND THAT DUE DILIGENCE HAS BEEN DONE IN ORDER TO SUPPORT THIS STATEMENT AND THAT ALL INFORMATION RELATED TO THE SECURITIES AND THE ISSUER HAS BEEN DISCLOSED TO THE INVESTORS, FOR A DECISION ON WHETHER TO SUBSCRIBE TO SECURITIES OR NOT, AND THAT ALL RELEVANT PROVISIONS IN BOOK ELEVEN OF THE EXECUTIVE BYLAWS OF THE CAPITAL MARKETS AUTHORITY LAW HAVE BEEN COMPLIED WITH AND ALL INSTRUCTIONS AND REGULATIONS OF SAID LAW, AND THE COMPANIES LAW NO. 1 OF 2016 AND ITS EXECUTIVE BYLAWS AND THE INSTRUCTIONS AND REGULATIONS ISSUED BY THE AUTHORITY.

THE JOINT LEAD MANAGERS AND PLACEMENT AGENTS AND THE ISSUER ACCEPT FULL RESPONSIBILITY FOR ANY INACCURACY OF ALL INFORMATION AND DATA CONTAINED IN THIS PROSPECTUS AND CONFIRM, HAVING MADE ALL REASONABLE ENQUIRIES, THAT TO THE BEST OF THEIR KNOWLEDGE AND BELIEF, THERE ARE NO OTHER MATERIAL FACTS AND INFORMATION OMITTED, AND THAT THE PROSPECTUS HAS BEEN DRAFTED ACCORDING TO THE INFORMATION AND DATA THAT CORRESPOND TO REALITY.

THE LEGAL ADVISERS TO THE ISSUER CONFIRM THAT THEY HAVE REVIEWED THE PROSPECTUS AND DOCUMENTS RELATED THERETO AS PROVIDED TO THEM BY THE ISSUER, AND THAT TO THE BEST OF THEIR KNOWLEDGE AND AFTER HAVING MADE ALL REASONABLE INQUIRIES, THE PROSPECTUS COMPLIES WITH THE RELEVANT LEGAL REQUIREMENTS AND THAT THE ISSUER HAS OBTAINED THE REQUIRED APPROVALS NECESSARY IN ORDER FOR ITS OBLIGATIONS TO BE VALID AND ENFORCEABLE.

THE KUWAIT CAPITAL MARKETS AUTHORITY DOES NOT TAKE ANY RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS, DOES NOT MAKE ANY REPRESENTATION AS TO ITS ACCURACY OR COMPLETENESS, AND EXPRESSLY DISCLAIMS ANY LIABILITY WHATSOEVER FOR ANY LOSS ARISING FROM, OR INCURRED IN RELIANCE UPON, ANY PART OF THIS PROSPECTUS.

This Prospectus is dated 9 May 2024

ENGLISH TRANSLATION OF THE OFFICIAL ARABIC LANGUAGE PROSPECTUS

Sole Issuance Coordinator

KAMCO
INVEST

Joint Lead Managers and Placement Agents

KAMCO
INVEST

بنك الخليج
GULF BANK

Kamco Investment Company K.S.C.P. (“Kamco Invest”) and Gulf Bank K.S.C.P. (“Gulf Bank”)

RESPONSIBILITY STATEMENT

Individuals responsible for the Prospectus

This Prospectus has been prepared by:

Name:

Title:

Address:

Antoine Jean Daher

Group Chief Executive Officer

Burgan Bank K.P.S.C.

EACH OF THE DIRECTORS OF THE ISSUER, WHOSE NAMES APPEAR HEREIN, ACCEPTS RESPONSIBILITY FOR THE INFORMATION CONTAINED IN THIS PROSPECTUS. TO THE BEST OF THE KNOWLEDGE AND BELIEF OF THE DIRECTORS, WHO HAVE TAKEN ALL REASONABLE CARE AND CONDUCTED A FULL AND DETAILED DUE DILIGENCE TO ENSURE THAT SUCH IS THE CASE, (I) THE INFORMATION CONTAINED IN THIS PROSPECTUS IS COMPLETE, ACCURATE AND CORRECT AND DUE DILIGENCE WAS DONE TO SUPPORT THIS STATEMENT, (II) ALL INFORMATION RELATING TO THE BONDS AND TO THE ISSUER HAVE BEEN DISCLOSED TO THE INVESTORS, SO THAT THE INVESTORS COULD TAKE A DECISION AS TO WHETHER OR NOT TO SUBSCRIBE TO THE BONDS, AND (III) THAT ALL THE RELEVANT PROVISIONS RELATING TO THE BONDS AS PROVIDED FOR IN LAW NO. 7 OF 2010 REGARDING THE ESTABLISHMENT OF THE CAPITAL MARKETS AUTHORITY AND REGULATING SECURITIES ACTIVITIES (AS AMENDED) AND ITS EXECUTIVE BYLAWS (EACH AS AMENDED), AND BOOK ELEVEN OF SAID DECISION, AND THE REGULATIONS AND INSTRUCTIONS ISSUED BY THE CAPITAL MARKETS AUTHORITY FROM TIME TO TIME, HAVE BEEN COMPLIED WITH, AND THE COMPANIES LAW NO. 1 OF 2016 AND ITS EXECUTIVE BYLAWS AND THE INSTRUCTIONS AND REGULATIONS ISSUED BY THE CAPITAL MARKETS AUTHORITY.

On behalf of the Board of Directors of the Issuer:

Name:

Title:

Signature:

**Sheikh/ Abdullah Nasser Sabah
Al-Ahmad Al-Sabah**

Chairman



IMPORTANT NOTICES

This Prospectus includes information with regard to the **Burgan Bank K.P.S.C.** (the “**Bank**” or the “**Issuer**”) and the Bonds. The Bank has not authorized the making or provision of any representation or information regarding the Bank or the Bonds other than as contained in this Prospectus or as approved for such purpose by the Bank. Any such representation or information emanating from third parties should not be relied upon as having been authorized by the Bank or the Joint Lead Managers on the cover hereof (the “**Managers**”).

While the Bank has made all reasonable enquiries as to the accuracy of the information contained in this Prospectus as at the date hereof, certain portions of the market and industry information herein are derived from external sources, and while neither the Bank, the Managers, nor their respective advisers have any reason to believe that any of the market and industry information is materially inaccurate, such information has not been independently verified and no representation is made with respect to the accuracy or completeness of any of this information.

The information contained in this Prospectus as at the date hereof is subject to change. In particular, the actual financial state of the Bank and the value of the Bonds may be adversely affected by future developments in inflation, financing charges, taxation or other economic, political and other factors, over which the Bank has no control. Neither the delivery of this Prospectus nor any oral, written or printed interaction in relation to the Bonds is intended to be, or should be construed as or relied upon in any way as, a promise or representation as to future earnings, results or events. Neither the delivery of this Prospectus nor the offering, sale or delivery of any Bonds shall in any circumstances imply that the information contained herein concerning the Issuer is correct at any time subsequent to the date hereof or that any other information supplied in connection with the issuance of the Bonds is correct as of any time subsequent to the date indicated in the document containing the same. The Managers expressly do not undertake to review the financial condition or affairs of the Issuer during the life of the issuance or to advise any investor in the Bonds of any information coming to their attention or that there has been no change in the affairs of any party mentioned herein since that date.

This Prospectus is not to be regarded as a recommendation on the part of the Bank, the Managers or any of their advisers or affiliates to participate in the offering of the Bonds. Information provided herein is of a general nature and has been prepared without taking into account any potential investor’s investment objectives, financial situation or particular investment needs. Neither this Prospectus nor any other information supplied in connection with the issuance of the Bonds: (i) is intended to provide the basis of any credit or other evaluation, or (ii) constitutes an offer or invitation by or on behalf of the Issuer, any of the Managers or to any person to subscribe for or to purchase any Bonds. Prior to making an investment decision, each recipient of this Prospectus is responsible for obtaining his own independent professional advice in relation to the Bank or the offering of the Bonds and for making his own independent evaluation of the Bank, an investment in the Bonds and of the information and assumptions contained herein, using such advice, analysis and projections as he deems necessary in making any investment decision. Prospective investors are not to construe the contents of this document as constituting tax, investment or legal advice.

Prior to purchasing any Bonds, a prospective investor should consult a financial adviser who has been duly licensed by the Kuwait Capital Markets Authority (“**CMA**”) and with his, her or its own legal, business and tax advisers determine the appropriateness and consequences of an investment in the Bonds for such investor and arrive at an independent evaluation of such investment. The sole purpose of this document is to provide background information about the Bank to assist each recipient in making an independent evaluation of the offering and any investment in the Bonds.

The distribution of this Prospectus and the offering or sale of the Bonds in certain jurisdictions is restricted by law. Persons into whose possession this Prospectus may come are required by the Managers and the Bank to inform themselves about and to observe such restrictions.

Under no circumstances shall this Prospectus constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Bonds in the United States or any other jurisdiction in which such offer, solicitation or sale would be unlawful. Any Bonds to be issued have not been and will not be registered under the Securities Act or with any securities’ regulatory authority of any state or other jurisdiction of the United States and may not be offered, sold, pledged or otherwise transferred within the United States or to, or for the account or benefit of, U.S. persons.

Any subscription to the Bonds is strictly restricted to investors who are “**Eligible Investor(s)**” and/or any such other persons which may be considered as such from time to time by the CMA. An “**Eligible Investor**” is a Sophisticated Investor (as defined herein) or a Qualified Investor (as defined herein). A “**Sophisticated Investor**” is: a) a government, a public authority, a central bank, or an international institute (such as the International Bank for Reconstruction and Development or the International Monetary Fund), or b) persons licensed by the CMA, investment funds, and other financial institutions

that are subject to the supervision of a regulatory authority located in or outside of Kuwait, or c) a legal entity with a paid up capital of at least KWD 1 million (or its equivalent thereto). A “**Qualified Investor**” is: a) an investor that has concluded securities transactions with an average value of no less than KWD 250,000 (or its equivalent) each quarter for the past two years, or b) an investor which has an amount of no less than KWD 100,000 (or its equivalent) in assets (including cash) currently being managed by any one or more persons who have been duly licensed by the CMA to render portfolio/asset management services, or c) an investor that works, or who has previously worked, in the financial services industry for at least one year in a professional position that requires knowledge in transactions or services of the nature described herein.

The Bonds may not be a suitable investment for all investors. Each potential investor in the Bonds must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

1. be an Eligible Investor;
2. have sufficient knowledge and experience to make a meaningful evaluation of the Bonds, the merits and risks of investing in the Bonds, and the information contained in this Prospectus;
3. have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Bonds and the impact the Bonds will have on its overall investment portfolio;
4. have sufficient financial resources and liquidity to bear all of the risks of an investment in the Bonds, including where the currency for principal and interest payments is different from the potential investor’s currency;
5. understand thoroughly the terms of the Bonds and be familiar with the behavior of any relevant financial markets; and
6. be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Nothing in this Prospectus or anything communicated to the holders of any Bonds (or interests therein) or potential holders of any Bonds (or interests therein) by or on behalf of the Issuer is intended to constitute or should be construed as advice on the merits of the purchase of or subscription for any Bonds (or interests therein). If you are in any doubt about the contents of this Prospectus you should consult your broker, solicitor, accountant or other financial adviser. It should be remembered that the price of the Bonds can go down as well as up.

No person has been authorized to give any information or make any representation in connection with the offering of the Bonds other than those contained in this Prospectus and, if given or made, any such information or representation should not be relied upon as having been authorized by the Managers or the Bank. Neither the delivery of this Prospectus nor the offering, any sale or delivery of any Bonds made hereunder shall, in any circumstances, create any implication that there has been no change, or any event reasonably likely to involve any change, in the affairs of the Bank since the date hereof.

In connection with the offering of the Bonds, any of the market makers licensed by the CMA may (without involving the Bank in any liability) effect transactions which stabilize or maintain the market price of the Bonds at levels other than those which might otherwise prevail. Such transactions may be effected on the open market or otherwise and, if commenced, may be discontinued at any time without notice.

Financial information contained herein for any period ending after 31 December 2023 has not been audited. Financial information for the period ended 31 March 2024 has been reviewed by the Bank’s auditors as required by applicable law.

Rounding of certain figures

Certain figures and percentages included in this Prospectus have been subject to rounding adjustments. For the purposes of calculating certain figures and percentages, the underlying numbers used have been extracted from the relevant financial statements rather than the rounded numbers contained in this Prospectus. Accordingly, figures shown in the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

In this Prospectus all references to “**KWD**”, “**KD**”, “**Kuwaiti Dinars**” and “**Dinars**” are to **Kuwaiti Dinars**, the lawful currency of Kuwait and “**USD**”, “**US\$**”, “**\$**” and “**Dollars**” are to United States Dollars.

Some statements in this Prospectus may be deemed to be forward-looking statements. Forward-looking statements include statements concerning the Issuer’s plans, objectives, goals, strategies, future operations and performance and the assumptions underlying these forward-looking statements. When used in this document, the words “anticipates”, “estimates”, “expects”, “believes”, “intends”, “plans”, “aims”, “seeks”, “may”, “will”, “should” and any similar expressions generally identify forward-looking statements. The Issuer has based these forward-looking statements on the

current view of the Issuer's management with respect to future events and financial performance. Although the Issuer believes that the expectations, estimates and projections reflected in the Issuer's forward-looking statements are reasonable as of the date of this Prospectus, if one or more of the risks or uncertainties materialize, including those which the Issuer has identified in this Prospectus, or if any of the Issuer's underlying assumptions prove to be incomplete or inaccurate, the Issuer's actual results of operation may vary from those expected, estimated or predicted. These forward-looking statements speak only as at the date of this Prospectus. Without prejudice to any requirements under applicable laws and regulations, the Issuer expressly disclaims any obligation or undertaking to disseminate after the date of this Prospectus any updates or revisions to any forward-looking statements contained herein to reflect any change in expectations thereof or any change in events, conditions or circumstances on which any such forward-looking statement is based.

Non-IFRS Financial Measures and APMs

This Prospectus contains references to certain non-IFRS measures, including capital adequacy, leverage and certain other ratios contained in "Selected Financial Information" and referred to elsewhere in this Prospectus. All of these measures constitute alternative performance measures (as defined in the European Securities and Markets Authority guidelines on Alternative Performance Measures ("APMs")).

The Bank (as defined later in this Prospectus) believes that the APMs included in this Prospectus provide useful supplementary information to both investors and to the Bank's management, as they facilitate the evaluation of underlying operating performance and financial position across financial reporting periods. However, investors should note that, since not all companies calculate financial measurements, such as the APMs presented by the Bank in this Prospectus, in the same manner, these are not always directly comparable to performance metrics used by other companies.

The APMs contained in this Prospectus should not be considered in isolation and are not measures of financial performance or liquidity under IFRS. These non-IFRS measures should not be considered as an alternative to revenues, profit or loss for the period or any other performance measures derived in accordance with IFRS or as an alternative to cash flow from operating, investing or financing activities or any other measure of liquidity derived in accordance with IFRS. Non-IFRS measures do not necessarily indicate whether cash flow will be sufficient or available for cash requirements and may not be indicative of actual results of operations. In addition, the APMs in this Prospectus may not be comparable to other similarly titled measures used by other companies. The Bank believes that net interest margin and other non-IFRS measures presented in this Prospectus are useful indicators of financial performance that are widely used by investors to monitor the results of banks generally. Because of the discretion that the Bank and other companies have in defining these measures and calculating the reported amounts, care should be taken in comparing these measures with similar measures used by other companies.

Presentation of Financial and Other Information

Unless otherwise indicated, the consolidated statement of financial position, the consolidated statement of income, the consolidated statement of comprehensive income and the consolidated statement of cash flows information included in this Base Prospectus relating to the Bank and its subsidiaries (collectively, the **Group**) has been derived:

- In the case of the financial information as at and for the year ended 31 December 2023 and as at and for the year ended 31 December 2022, from the audited consolidated financial statements as at and for the year ended 31 December 2023 together with the notes thereto and the audit report thereon (the **2023 Annual Financial Statements**); and
- In the case of the financial information as at and for the year ended 31 December 2021, from the audited consolidated financial statements as at and for the year ended 31 December 2022 together with the notes thereto and the audit report thereon (the **2022 Annual Financial Statements**, and together with the 2023 Annual Financial Statements, the **Annual Financial Statements**).

Basis of Preparation for the Annual Financial Statements

The Annual Financial Statements, which are incorporated by reference herein, were prepared in accordance with International Financial Reporting Standards (**IFRS**) as adopted for use by Kuwait pursuant to regulations for financial services institutions published by the CBK. These regulations require expected credit loss (ECL) to be measured at the higher of the ECL on credit facilities computed under IFRS 9 in accordance with the CBK guidelines or the provisions as required by CBK instructions along with its consequent impact on related disclosures.

The consolidated financial statements of the Group for the year ended 31 December 2023 have been prepared using the accounting policies consistent to those applied for the year ended 31 December 2022 except the following amendments effective 1 January 2023:

- International Tax Reform—Pillar Two Model Rules – Amendments to IAS 12
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12
- IFRS 17 Insurance Contracts
- Definition of Accounting Estimates - Amendments to IAS 8
- Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2

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ABBREVIATIONS

Bn, bn	Billion
Boursa Kuwait	Boursa Kuwait Securities Company K.P.S.C.
CBK	Central Bank of Kuwait
CMA	Kuwait Capital Markets Authority
CSB	Central Statistical Bureau
JKB	Jordan Kuwait Bank
Dinars, Kuwaiti Dinars, KWD and KD	Kuwaiti Dinar
DIT	Kuwait Department of Income Tax
DR	Discount Rate
GCC	Gulf Cooperation Council
KCC	Kuwait Clearing Company K.S.C.
KIA	Kuwait Investment Authority
MENA	Middle East and North Africa
Mn, mn	Million
MOF	Kuwait Ministry of Finance
USD, US\$, \$ and Dollars	United States Dollars

SUMMARY OF THE BONDS

This general description must be read as an introduction to this Prospectus and any decision to invest in any Bonds should be based on a consideration of this Prospectus as a whole. The following overview does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Prospectus.

Issuer / Bank	Burgan Bank K.P.S.C.
Issuer's Address	P.O. Box 5389, Safat 12170, Kuwait.
Bond Type	Kuwaiti Dinar Perpetual Additional Tier 1 Bonds
Principal Amount	KWD 150 million.
Denomination	KWD 50,000 per Bond.
Number of Bonds	Total offering of 3,000 Bonds at KWD 50,000 per Bond.
Tenor	The Bonds are perpetual securities in respect of which there is no fixed redemption date and the Issuer shall only have the right to redeem, purchase or vary them in accordance with Condition 4 (<i>Redemption, Variation and Purchase</i>).
Minimum Subscription	KWD 100,000 and in multiples of KWD 100,000 thereafter divided equally between the Fixed and Floating Rate Bonds.
Call Option	<p>The Bonds may be redeemed in full, but not in part, at the option of the Issuer, subject to the Redemption Conditions (as defined in Condition 4 (<i>Redemption, Variation and Purchase</i>)) on the First Call Date or on any Interest Payment Date thereafter, together with interest accrued to (but excluding) the date fixed for redemption. The Issuer does not confirm nor create any expectation that the Call Option will be exercised. Further, the Issuer cannot exercise the Call Option unless:</p> <ul style="list-style-type: none">a) The Issuer replaces the Bonds with capital of the same or better quality and the replacement of this capital is done at conditions which are suitable vis-à-vis the financial position of the Issuer; orb) The Issuer demonstrates that its capital position is well above the total applicable capital requirements after the Call Option is exercised. This will be subject to an assessment of the Issuer's capital adequacy by the Financial Regulator.
First Call Date	Five years from the Issue Date.
Conversion	None.
Put Option	None – The investors have no right to accelerate the repayment of the Bonds (interest or principal) except in bankruptcy and liquidation.
Bonds' Rating	BBB- as at 19 April 2024 by Capital Intelligence
Coupon Rate	Fixed Rate Bonds: For the first five (5) years after the date of the issuance of the Bonds the Interest Rate (as defined in Condition 3 (<i>Interest</i>)) applicable to the relevant Interest Period (as defined in Condition 3 (<i>Interest</i>)) shall be the sum of the Discount Rate (as defined in Condition 3 (<i>Interest</i>)) on the Issue Date (as defined in Condition 3 (<i>Interest</i>)) plus 3.00% per annum. For subsequent periods the Interest Rate applicable to the relevant Interest Period shall be the sum of the Reset Rate (as defined in Condition 3 (<i>Interest</i>)) and 3.00% per annum payable

quarterly in arrears, with interest payments starting three (3) months from the issuance date of the Bonds.

Floating Rate Bonds: Floating rate, determined quarterly on the Interest Determination Date (as defined in Condition 3 (*Interest*)) of 3.25% over the Discount Rate per annum (provided however that such sum shall never exceed the prevailing Interest Rate attributable to the Fixed Rate Bonds at that time plus 1.00%), payable quarterly in arrears, with interest payments starting three (3) months from the issuance date of the Bonds.

Use of Proceeds	The proceeds from the issue of the Bonds will be fully applied to reinforcing Additional Tier 1 capital for the purpose of supporting the Issuer's capital adequacy ratio under Basel III framework and the Issuer's general corporate purposes
Status of the Bonds	The payment obligations of the Issuer under the Bonds will be direct, unconditional, unsecured and subordinated limited-recourse obligations of the Issuer which at all times will rank, a) junior to all Senior Obligations of the Issuer, b) <i>pari passu</i> with all Parity Obligations of the Issuer, and c) senior to all Junior Obligations of the Issuer all as defined in Condition 2 (<i>Status</i>). Specifically, the Bonds are subordinated to the depositors and general creditors of the Issuer.
Non-viability Clause	The Bonds may be written off, in whole or in part, in accordance with Condition 5 (<i>Write-down at the Point of Non-viability</i>), if the Financial Regulator has, in writing, informed the Issuer that it has determined that a Trigger Event has occurred. A Trigger Event will have occurred if, in accordance with the Capital Regulations (as defined in Condition 4(c)), any one of the following events occurs: 1) the Issuer is instructed by the Financial Regulator to write-down the Bonds, in whole or in part, because the Financial Regulator considers that without such write-down, the Issuer would become non-viable, or 2) an immediate injection of capital is required, by way of an emergency intervention, without which the Issuer would become non-viable as determined by the Financial Regulator. Following any write-down, the Bondholders' rights to payment of any amounts under or in respect of the Bonds shall be cancelled <i>pro rata</i> among the Bondholders.
Redemption or Variation	<p>Pursuant to Condition 4 (<i>Redemption, Variation and Purchase</i>), the Bank may, amongst others, redeem or vary the Bonds for tax or regulatory capital treatment reasons.</p> <p>In the event of redemption or variation for tax reasons (Condition 4(b)), the Bonds may be, at the option of the Issuer and subject to certain conditions being satisfied, i) redeemed in whole, but not in part, on any date, on giving not less than 30 nor more than 60 days' notice to the Bondholders (which notice shall be irrevocable) at their principal amount, together with interest accrued to (but excluding) the date fixed for redemption, or ii) varied provided that they become or, as appropriate, remain Additional Tier 1 Instruments of the Issuer, in the event of certain tax changes in Kuwait.</p> <p>In the event of redemption or variation for regulatory capital treatment reasons (Condition 4(c)), the Bonds may be, at the option of the Issuer and subject to certain conditions being satisfied, i) redeemed at the option of the Issuer in whole, but not in part at any time after the Issue Date of the Bonds, on giving not less than 30 nor more than 60 days' notice to the Bondholders (which notice shall be irrevocable) at their principal amount, together with interest accrued to (but excluding) the date fixed for redemption, or ii) varied provided that they become or, as appropriate, remain Additional Tier 1 Instruments of the Issuer, upon the occurrence, and continuance, of a Capital Event (as defined in Condition 4 (<i>Redemption, Variation and Purchase</i>)).</p>

Timeframe for Receiving Allocation of Bonds after Subscription	Within five (5) business days after the close of Subscription Period, the Bonds will be allocated to the subscribers.
Restriction on Investors and Financing of Investors	Neither the Issuer nor a related party over which the Issuer exercises control or significant influence is allowed to purchase the Bonds, nor will the Issuer directly or indirectly fund the purchase of the Bonds without the approval of the Financial Regulator and being in compliance with the Applicable Regulatory Capital Requirements.
Listing and Trading of Bonds	The Issuer may either immediately upon issuance of the Bonds or at some time in the future list the Bonds on the Boursa Kuwait or a foreign securities exchange.
Issuer's Share Capital	KWD 345,220,312.500 comprising of 3,452,203,125 shares, each for the amount of 100 Fils as of 31 December 2023.
In Kind Contributions	None.
Summary of Consolidated Financial Position as at 31 December 2023	Assets: KWD 7,426.1 Mn Capital: KWD 345.220 Mn Liabilities: KWD 6,425.2 Mn Total equity: KWD 1,000.9 Mn
Sole Issuance Coordinator	Kamco Investment Company K.S.C.P. ("Kamco Invest")
Joint Lead Managers	Kamco Investment Company K.S.C.P. ("Kamco Invest") Gulf Bank K.S.C.P. ("Gulf Bank")
Placement Agents	Kamco Investment Company K.S.C.P. ("Kamco Invest") Gulf Bank K.S.C.P. ("Gulf Bank")
Fiscal and Paying Agent	Kamco Investment Company K.S.C.P. ("Kamco Invest")
Clearing Agent and Depository	Kuwait Clearing Company K.S.C.
Law	Kuwait Law
Court Jurisdiction	Kuwait Courts
Directors of Issuer	Sheikh Abdullah Nasser Sabah Al Ahmad Al Sabah Chairman Faisal M. Sarkhou Vice Chairman Abdulkareem El-Kabariti Board Member Mazen Issam Hawwa Board Member Abdullah Mohammed AlSharekh Board Member Fouad Husni Douglas Independent Board Member Dr. Amani Khalid Bouresli Independent Board Member

Sager Abdullah Al Sharhan
Michel A. Accad
Abdulaziz Saad Al Rashed
Jamal Abdullah Dashti

Independent Board Member
Independent Board Member
Independent Board Member
Board Member

SUBSCRIPTION AND SALE

Subscription Agreement

The Managers have, pursuant to a Subscription Agreement dated 9 May 2024, agreed with the Issuer, subject to the satisfaction of certain relevant conditions, to procure subscribers for the Bonds as separately agreed between the Issuer and each Manager whether (a) on a fully committed underwritten basis whereunder the Manager (in the event it fails to procure subscribers to the Bonds) would subscribe for an agreed portion of the Bonds; or (b) on a best effort basis, upon the terms and conditions contained in the Subscription Agreement. The Managers are entitled to treat their obligations under the Subscription Agreement as being released and discharged in certain circumstances at any time prior to payment to the Issuer of the proceeds of the Bonds.

Sale

The Managers have agreed that they will observe all applicable laws and regulations of the State of Kuwait where they may offer or sell the Bonds or distribute this Prospectus.

The Issuer and the Managers will comply with all applicable securities laws and regulations in force in any foreign jurisdiction in which they may wish to market, offer, or sell the Bonds or distribute this Prospectus and will obtain any and all applicable consents, approvals or permissions required by them in order to engage in any of the aforementioned activity pursuant to the laws and regulations in force in any foreign jurisdiction to which they will be subject.

Neither the Issuer nor the Managers represent that the Bonds may at any time lawfully be sold in compliance with any applicable registration or other requirements in any foreign jurisdiction or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

Subscription Process

Applications for subscription for the Bonds will be made through the Managers and the minimum subscription amount will be KWD 100,000 and in multiples of KWD 100,000 thereafter divided equally between the Fixed and Floating Rate Bonds. The subscription period for the Bonds will commence post CMA approval of the Prospectus and will end no later than 20 Business Days from the opening of the subscription period (the “**Subscription Period**”), unless otherwise extended by the Issuer. The Issuer may, in its absolute discretion, close the subscription prior to the expiry of the Subscription Period if all, and not only some, of the Bonds have been subscribed to, or keep the Subscription Period open until expiry of the same.

In this section, “**Business Day**” means, a day (other than a Friday or a Saturday) which is not a public holiday and on which banks are open for business in Kuwait.

Subscribers

The subscription to the Bonds is restricted to Eligible Investors. An “**Eligible Investor**” is a Sophisticated Investor (as defined herein) or a Qualified Investor (as defined herein). A “**Sophisticated Investor**” is: a) a government, a public authority, a central bank, or an international institute (such as the International Bank for Reconstruction and Development or the International Monetary Fund), or b) persons licensed by the CMA, investment funds, and other financial institutions that are subject to the supervision of a regulatory authority located in or outside of Kuwait, or c) a legal entity with a paid up capital of at least KWD 1 million (or its equivalent thereto). A “**Qualified Investor**” is: a) an investor that has concluded securities transactions with an average value of no less than KWD 250,000 (or its equivalent) each quarter for the past two years, or b) an investor which has an amount of no less than KWD 100,000 (or its equivalent) in assets (including cash) currently being managed by any one or more persons who have been duly licensed by the CMA to render portfolio/asset management services, or c) an investor that works, or who has previously worked, in the financial services industry for at least one year in a professional position that requires knowledge in transactions or services of the nature described herein.

Neither the Bank nor a related party over which the Bank exercises control is allowed to purchase the Bonds, nor will the Bank directly or indirectly fund the purchase of the Bonds.

Subscription Application Forms

Subscription applications should be submitted as per the designated application forms, provided by the Managers, which are to be completed in full, written legibly, and duly signed by the applicant and accompanied with all required documentation. The Managers shall remit to the subscriber a receipt in respect of the subscription application and

subscription amount. The subscription will not be considered as completed until actual deposit of the subscription amount in the account dedicated to receiving the subscription amounts under the issuance.

Applications by individual investors must be filed during the Subscription Period, and should be accompanied with a copy of the investor's valid civil ID.

Subscription forms of corporate investors or entities must be filed during the Subscription Period and must be duly signed by authorized personnel and stamped. Corporate investors and/or entities must also submit a copy of the document authorizing the representative to sign the application form, as well as a copy of the valid commercial registration and a copy of the investors' valid business license.

Subscription Payment

Subscription payments are to be made in full by bank transfer as indicated in the subscription form. Cash will not be accepted. Subscription amounts must be received in full in a non-interest-bearing bank account (opened by a Manager for the purposes of receiving subscription payments) detailed in the notice of allocation no later than nine o'clock in the morning on the day that is determined by the Managers after the close of the Subscription Period and the indication to the subscribers of the allotted number of Bonds and their nominal value assigned to them. The total amount of allocated subscription payments received in the non-interest bearing bank account shall be transferred to the Issuer upon the date of the issuance of the Bonds.

Allocation of Bonds

Bonds are allocated to subscribers within a maximum period of 5 Business Days after the closing of the Subscription Period. The Managers reserve the right to refuse any subscription request or any part thereof or cancel a subscription in whole or in part, as they deem appropriate, and are not constrained by any systematic requirement in the allocation of Bonds, whether *pro rata* or otherwise. Subscribers will be notified with regards to their allotted number of Bonds and the nominal value assigned to them.

Refund to Subscribers

There will be no over-allocation of the Bonds to subscribers. In the event that the issuance of the Bonds is cancelled or does not complete for any reason, a suitable communication shall be sent to the subscribers and refunds shall be made within the period prescribed in Module 11 of the Executive Bylaws of Law No. 7 of 2010 regarding the Establishment of the CMA and Regulating Securities Activities.

Partial Subscription of the Bonds

In the event where at least 50% of the Bonds have not been subscribed for during the Subscription Period, then the Issuer shall be entitled to either, a) cancel the subscription process for the Bonds, or b) limit the issuance of the Bonds to the amount so subscribed for by subscribers.

Applicable Sanctions in the Event of Non-Payment of the Full Value of the Subscribed Bonds

The Bonds which are not fully paid for will not be issued to the subscriber.

Other Terms of Subscription

All subscriptions are final and may not be cancelled for any reason, even before the close of the Subscription Period, nor may a subscriber add any conditions or restrictions to the subscription application. The subscription must be serious, prohibiting subscription using fictitious names or by other fictitious means. Subscriptions must be submitted in accordance with the Prospectus and subscription application form prior to the end of the Subscription Period. Duplicate applications, incomplete applications and applications in violation of the law will be excluded, unless they are corrected during the Subscription Period. In the case of a subscription request through a representative of an Eligible Investor, in accordance with applicable laws and relevant regulations, the Bonds will be assigned to the subscriber whose name appears on the subscription form. The Managers have the right, without the need to inform the subscriber, to refuse any subscription request if it is in violation of the terms and conditions of the Prospectus or subscription form, incomplete, or if not accompanied by the documents specified in the Prospectus or subscription form or other documents required by the Managers. The Managers will issue a notice to all subscribers informing them of the number of Bonds allocated to them

(if any) and the nominal value payable on the expected issue date of the Bonds. Receipt of a notice of allocation does not mean the relevant subscriber owns the Bonds allocated to them before the full payment of the nominal value on the issue date and should not be considered proof of ownership of the Bonds. Notices of allocation are not subject to sale, assignment, trading, exchange or disposal of any form. The Kuwait Clearing Company K.S.C. will deliver to the subscribers that have paid the full face value of Bonds subscribed for within the Subscription Period, a receipt proving ownership in the number of Bonds allocated to them and represented by a specified number of Bonds represented by a Global Bond Certificate which is deposited with and registered in the name of the Kuwait Clearing Company K.S.C. on the issue date which represents the total number of individual Bonds with denominations of KWD 50,000 each. (For more details, please review the Summary of Provisions Relating to the Bonds While in Global Form).

TERMS AND CONDITIONS OF THE ISSUE

The following, subject to completion and amendment, is the text of the terms and conditions of the Bonds which will appear on the reverse of each Bond.

The issue of the KWD 150,000,000 Perpetual Additional Tier 1 Capital Bonds (the “**Bonds**”) was authorized by resolutions of the General Assembly of Burgan Bank K.P.S.C. (the “**Issuer**”) passed on 1 April 2023 and the Board of Directors of the Issuer resolutions passed on 9 October 2023. Approval has been granted for the Issuer to issue the Bonds by the CBK on 18 April 2024. Approval has also been granted by the Kuwait Capital Markets Authority on 10 January 2024 for the Issuer to issue the Bonds and has granted approval of the Prospectus in respect to the Bonds on 1 April 2024.

The Bonds are entitled to the benefit of a direct rights undertaking (the “**Direct Rights Undertaking**”) dated 9 May 2024 as issued by the Issuer, and a fiscal and paying agency agreement dated 9 May 2024 (the “**Fiscal and Paying Agency Agreement**”) between the Issuer, as issuer and Kamco Investment Company K.S.C.P. (Kamco Invest), as fiscal and principal paying agent, (the “**Fiscal Agent**”, which expression shall include its successors under the Fiscal and Paying Agency Agreement) and any other party appointed as paying agent as provided for therein (collectively referred to herein as the “**Paying Agent(s)**”) for payments of principal and interest in respect of the Bonds. Copies of the Fiscal and Paying Agency Agreement and the Direct Rights Agreement are available for inspection at the specified offices of the Fiscal Agent and the Paying Agents listed below. The registered holders of the Bonds (the “**Bondholders**”) are bound by and are deemed to have notice of all the provisions of the Fiscal and Paying Agency Agreement. Kuwait Clearing Company K.S.C. has been appointed as registrar (the “**Registrar**”) and clearing agent (the “**Clearing Agent**”) which appointments may be changed from time to time by the Issuer.

1. Form, Denomination and Title

- (a) The Bonds are issued in registered form without coupons in denominations of KWD 50,000;
- (b) A bond certificate (each a “**Certificate**”) will be issued to each Bondholder in respect of its registered holding of Bonds. Each Certificate will be numbered serially with an identifying number which will be recorded on the relevant Certificate and in the register of Bondholders which the Issuer will procure to be kept by the Registrar; and
- (c) Title to the Bonds shall pass only by registration in the register of Bondholders held with the Registrar. The Issuer will cause to keep a register at the specified office of the Registrar. No Bondholder may require the transfer of a Bond to be registered during the period of fifteen (15) days ending on the due date for any payment of principal or interest on that Bond. All transfers of Bonds and entries on the register of Bondholders will be made subject to the relevant regulations concerning the transfer of Bonds applicable in accordance with the laws of Kuwait and at the Registrar and Clearing Agent. The regulations may be changed by the Registrar and Clearing Agent without prior notice. The record of the Registrar shall serve as evidence of absolute title to the Bonds. In these Conditions, “**Bondholder**” and (in relation to a Bond) “**holder**” means the person in whose name a Bond is registered in the register of Bondholders held with the Registrar. The registered holder of any Bond will (except as otherwise required by law or these conditions) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest or any writing on, or the theft or loss of, the Certificate issued in respect of it) and no person will be liable for so treating the registered holder as such.

2. Status

Notwithstanding any other terms of these Conditions, the Bonds constitute direct, unconditional, subordinated limited recourse (as described below) and unsecured obligations of the Issuer which at all times rank *pari passu* and without preference among themselves. The payment obligations of the Issuer under the Bonds will:

- (a) rank junior to all Senior Obligations of the Issuer;
- (b) rank *pari passu* with all Parity Obligations of the Issuer; and

- (c) rank senior to all Junior Obligations of the Issuer.

For the avoidance of doubt, the Bonds are subordinated to the depositors and general creditors of the Issuer. In these Conditions:

“**Additional Tier 1 Capital**” means capital qualifying as (or would qualify, but for any applicable limitation on the amount of such capital), and approved by the Financial Regulator as, Additional Tier 1 Capital (AT1) in accordance with the Capital Regulations (as defined in Condition 4 (*Redemption, Variation and Purchase*) below)

“**Junior Obligations**” means all claims of all holders of Ordinary Shares of the Issuer, any payment obligations of the Issuer in respect of any Common Equity Tier 1 Capital and any other present and future subordinated payment obligations (if any) of the Issuer ranking, or expressed, to rank junior to the Bonds;

“**Parity Obligations**” means all other present and future subordinated payment obligations (if any) of the Issuer ranking or expressed to rank *pari passu* to the Bonds, including Additional Tier 1 Capital;

“**Senior Obligations**” means all payment obligations of the Issuer other than any Issuer Parity Obligations or Issuer Junior Obligations including, without limitation, obligations preferred by law; and

“**Common Equity Tier 1 Capital**” means capital qualifying as (or would qualify, but for any applicable limitation on the amount of such capital), and approved by the Financial Regulator as, Common Equity Tier 1 Capital (CET1) in accordance with the Capital Regulations (as defined in Condition 4 (*Redemption, Variation and Purchase*) below).

3. Interest

- (a) Interest accrues on the Bonds at the interest rate (as determined below) (the “**Interest Rate**”) per annum from and including 9 May 2024 (the “**Issue Date**”) and will be paid quarterly in arrears on 9 February, 9 May, 9 August and 9 November of each year (each of these dates an “**Interest Payment Date**”) the first payment being made on 9 August 2024. Each period beginning on the Issue Date or any Interest Payment Date and ending on the next Interest Payment Date is herein called an “**Interest Period**”. Interest will cease to accrue on the Bonds on the due date for redemption thereof unless, upon due presentation thereof, payment of principal is improperly withheld or refused (or unless default is otherwise made in respect of payment). In such event, interest will continue to accrue up to but excluding the date on which, upon further presentation thereof, payment in full of all amounts due in respect of such Bonds have been paid or (if earlier) the seventh day after notice is duly given to the Bondholder thereof (either in accordance with Condition 14 (*Notices*) or individually) that upon further presentation thereof being duly made such payment will be made, provided that upon further presentation thereof being duly made such payment is in fact made.
- (b) Interest payable quarterly on each Bond will be calculated by multiplying the principal amount of such Bond by the Interest Rate and dividing the product by 4.
- (c) Except as noted in Condition 3(b), whenever it is necessary to compute an amount of interest in respect of any Bond for a period of less than three months such interest shall be calculated on the basis of 365 day year.
- (d) [*This provision will only appear in the Terms and Conditions of the Floating Rate Bonds*] The Interest Rate applicable to the relevant Interest Period shall be determined quarterly by the Fiscal Agent two (2) Business Days prior to the relevant Interest Period (the “**Interest Determination Date**”). The Interest Rate shall be the sum of the Discount Rate of the Financial Regulator in effect at 12 noon Kuwait time on the Interest Determination Date and 3.25% per annum, provided however that such sum shall never exceed the prevailing Interest Rate attributable to the Fixed Rate Bonds (as that term is defined in the Fiscal and Paying Agency Agreement) at that time plus 1.00%. In the event that on the Interest Determination Date, the Discount Rate

of the Financial Regulator cannot be determined, then the Discount Rate of the Financial Regulator shall be deemed to be the most recent rate previously determined by the Fiscal Agent on an Interest Determination Date.

[This provision will only appear in the Terms and Conditions of the Fixed Rate Bonds] For the first five (5) years after the date of the issuance of the Bonds the Interest Rate applicable to the relevant Interest Period shall be the sum of the Discount Rate on the Issue Date plus 3.00% per annum. For subsequent five (5) year periods the Interest Rate applicable to the relevant Interest Period shall be the sum of the Reset Rate and 3.00% per annum.

- (e) Interest on each Bond shall be payable to the registered bondholder subject to and in accordance with this Condition 3 (*Interest*), Condition 6 (*Payments*) and Condition 10 (*Prescription*)
- (f) Non-Payment Event

Notwithstanding this Condition 3 (*Interest*), if any of the following events occurs (each, a “**Non-Payment Event**”), the Issuer shall not pay Interest Payment Amounts on any Interest Payment Date:

- (a) the Interest Payment Amount payable by the Issuer, when aggregated with any distributions payable by the Issuer on any of its Parity Obligations having the same dates in respect of payment of such distributions (or otherwise due and payable on such date) as the dates for payment of the Interest Payment Amounts, exceeds, on the relevant date for payment of the relevant Interest Payment Amount, the Issuer's Distributable Funds;
- (b) the Issuer is, on that Interest Payment Date, in breach of (or such payment would cause a breach of) the Applicable Regulatory Capital Requirements (including any applicable capital buffers imposed on the Issuer by the Financial Regulator); or
- (c) the Financial Regulator requires that the Issuer does not pay the relevant Interest Payment Amount on that Interest Payment Date.

- (g) Non-Payment Election

Notwithstanding this Condition 3 (*Interest*), the Issuer may, at its sole discretion, elect that any Interest Payment Amount will not be paid (in whole or in part) on any Interest Payment Date (a “**Non-Payment Election**”). The foregoing shall not, however, apply once the Issuer has given notice to Bondholders that the Bonds will be redeemed in whole in accordance with Condition 4 (*Redemption, Variation and Purchase*).

- (h) Effect of Non-Payment Event or Non-Payment Election

If either the Issuer makes a Non-Payment Election or a Non-Payment Event occurs, then the Issuer shall (a) in the case of a Non-Payment Election, 14 calendar days prior to such event, and (b) in the case of a Non-Payment Event, as soon as practicable thereafter but in any case no later than five Business Days prior to the relevant Interest Payment Date, give notice to the Fiscal Agent and the Bondholders in accordance with Condition 14 in each case providing details of the Non-Payment Election (including, if relevant, details of any partial payment to be made) or Non-Payment Event. In the absence of notice of such Non-Payment Election or Non-Payment Event, as the case may be, having been given in accordance with this Condition 3(h), the fact of non-payment of the relevant Interest Payment Amount (or any part thereof) on the relevant Interest Payment Date shall be evidence of the occurrence of a Non-Payment Election or a Non-Payment Event, as the case may be. Bondholders shall have no claim in respect of any Interest Payment Amount (or any part thereof) not paid as a result of either a Non-Payment Election or a Non-Payment Event (in each case, irrespective of whether notice of such Non-Payment Election or Non-Payment Event has been given in accordance with this Condition 3(h)) and any non-payment of an Interest Payment Amount (or any part thereof) in such circumstances shall not constitute an Event of Default. The Issuer shall not have any

obligation to make any subsequent payment in respect of any such unpaid and cancelled Interest Payment Amount (or any part thereof).

(i) Dividend and Redemption Restrictions

If any Interest Payment Amount (or any part thereof) is not paid as a consequence of a Non-Payment Event or a Non-Payment Election pursuant to Conditions 3(f) or 3(g) respectively, then, from the date of such Non-Payment Event or Non-Payment Election (the “**Dividend Stopper Date**”), the Issuer will not, so long as any of the Bonds are outstanding:

- (a) declare or pay any distribution or dividend or make any other payment on, and will procure that no distribution or dividend or other payment is made on, Ordinary Shares issued by the Issuer (other than to the extent that any such distribution, dividend or other payment is declared before such Dividend Stopper Date); or
- (b) pay interest or dividend or make any other distribution on any of its securities ranking, as to the right of payment of dividend, distributions or similar payments, junior to, or pari passu with, the Bonds (excluding securities the terms of which do not at the relevant time enable the Issuer to defer or otherwise not to make such payment), only to the extent such restrictions on payment or distribution are permitted under the relevant regulatory criteria for Additional Tier 1 Capital applicable from time to time; or
- (c) directly or indirectly redeem, purchase, cancel, reduce or otherwise acquire any Ordinary Shares issued by it; or
- (d) directly or indirectly redeem, purchase, cancel, reduce or otherwise acquire any securities issued by the Issuer ranking, as to the right of repayment of capital, junior to, or pari passu with, the Bonds (excluding, in respect of such securities (i) any mandatory redemption in accordance with its terms or (ii) any conversion into, or exchange for, Ordinary Shares of the Issuer), only to the extent such restriction on redemption, purchase, cancellation, reduction or acquisition is permitted under the relevant regulatory criteria for Additional Tier 1 Capital applicable from time to time,

in each case, unless or until two consecutive Interest Payment Amounts following the Dividend Stopper Date have been paid in full (or an amount equal to the same has been duly set aside or provided for in full for the benefit of the Bondholders).

In these Conditions:

“**Business Day**” means a day (other than a Friday or a Saturday) which is not a public holiday and on which banks are open for business in Kuwait;

“**Discount Rate**” means the rate quoted for an eligible depositary institution in the State of Kuwait to borrow short-term funds from the Financial Regulator, as shown: (a) in the Financial Regulator’s Reuters page (Code CBKK as “DISC RATE”), or (b) such other page as may replace such Reuters page for the purpose of displaying such information, or (c) if that service ceases to display such information, such page which displays such information on any equivalent service;

“**Distributable Funds**” means the aggregate of the Issuer’s (a) consolidated retained earnings and reserves after the transfer of any amounts to non-distributable reserves; and (b) profits (after the transfer of any profits to non-distributable reserves, if applicable), in each case: (i) as set out in the most recent audited or (as the case may be) auditor reviewed consolidated financial statements of the issuer; and (ii) to the extent not restricted from distribution by applicable law, subject as otherwise defined in the capital regulations from time to time;

“**Financial Regulator**” means the Central Bank of Kuwait and/or any successor entity having primary bank supervisory authority with respect to the Issuer in Kuwait;

“Interest Payment Amounts” means the amount of interest due on each Bond on an Interest Payment Date (assuming, for this purpose, that a Non-Payment Event has not occurred and a Non-Payment Election has not been made with respect to such amount of interest);

“Ordinary Shares” means ordinary shares of the Issuer;

[This definition will only appear in the Terms and Conditions of the Fixed Rate Bonds] **“Reset Rate”** means the prevailing Discount Rate in effect at 12 noon Kuwait time on the date that falls five (5) years after the Issue Date and thereafter the prevailing Discount Rate in effect at 12 noon Kuwait time on each five (5) year anniversary date. In the event that on such date, the Discount Rate cannot be determined, then the Discount Rate of the Financial Regulator will be deemed to be the most recent rate previously published by the Financial Regulator;

The Bonds do not contain any step up provisions or any incentives to redeem.

4. Redemption, Variation and Purchase

(a) *No fixed redemption date*

The Bonds are perpetual securities in respect of which there is no fixed redemption date and the Issuer shall only have the right to redeem, purchase or vary them in accordance with the following provisions of this Condition 4 (*Redemption, Variation and Purchase*).

(b) *Redemption or variation for taxation reasons*

If the Issuer would on the occasion of the next payment due in respect of the Bonds be required for reasons outside of its control to pay any additional amounts pursuant to Condition 7 (*Taxation*), then the Issuer may, at its option, having given not less than thirty (30) nor more than sixty (60) days’ notice to Bondholders in accordance with Condition 14 (*Notices*) (which notice shall be irrevocable and shall specify the date fixed for redemption or variation (as applicable)), subject to the Redemption Conditions, (i) redeem all (but not some only) of the Bonds at their outstanding principal amount together with interest accrued to (but excluding) the date fixed for redemption; or (ii) vary the terms of the Bonds provided that they become or, as appropriate, remain Additional Tier 1 Instruments of the Issuer, provided that no such notice of redemption shall be given:

- (i) earlier than ninety (90) days prior to the earliest date on which the Issuer would be obliged to make such withholding, deduction or retention if a payment in respect of the Bonds was then due; or
- (ii) unless and until the Issuer has delivered, or procured the delivery, to the Fiscal Agent of: (A) a copy of the opinion of a recognised independent tax adviser to the effect that a withholding, deduction or retention described in Condition 4(b)(i) above has occurred, and (B) a copy of a certificate signed by two Directors of the Issuer stating that (x) a withholding, deduction or retention described in Condition 4(b)(i) above has occurred and cannot be avoided by the Issuer, as the case may be, taking reasonable measures available to it, and (y) that all other conditions precedent to the redemption of the Bonds pursuant to this Condition 4(b) (other than the notice of redemption described above) have been satisfied. The Fiscal Agent shall be entitled to accept the opinion and certificate without any further enquiry as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event they shall be conclusive and binding on the Bondholders.

(c) *Redemption or variation for regulatory capital treatment reasons*

If at any time after the Issue Date of the Bonds a Capital Event occurs and is continuing, subject to the Redemption Conditions, the Issuer may, by written notice, having given not less than thirty (30) nor more than sixty (60) days’ prior notice to the Bondholders in accordance with Condition 14 (*Notices*) (which

notice shall be irrevocable and shall specify the date fixed for redemption or variation (as applicable)), (i) redeem in whole, but not in part, the Bonds at their outstanding principal amount together with interest accrued to (but excluding) the date fixed for redemption; or (ii) vary the terms of the Bonds so that they become, or as appropriate, remain Additional Tier 1 Instruments of the Issuer. Prior to giving any notice of redemption or variation pursuant to this Condition 4(c), the Issuer shall deliver or procure delivery to the Fiscal Agent of a copy of a certificate signed by two Directors of the Issuer, stating that, (a) each of the relevant requirement or circumstance referred to in this Condition 4(c) (other than the notice of redemption described above) is satisfied, and (b) a Capital Event has occurred and is continuing as at the date of the certificate. The Fiscal Agent shall be entitled to accept such certificate without any further enquiry as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event it shall be conclusive and binding on the Bondholders.

In these Conditions:

“Applicable Regulatory Capital Requirements” means any requirements contained in the Capital Regulations for the maintenance of capital from time to time applicable to the Issuer, including transitional rules and waivers granted in respect of the foregoing;

“Capital Event” means an event where the Issuer is notified in writing by the Financial Regulator to the effect that the Bonds cease to be eligible to qualify (in full or in part) as Additional Tier 1 Capital of the Issuer for the purpose of the Capital Regulations, provided that no Capital Event shall be deemed to have occurred if such non-qualification is a result of any applicable limitation on the amount of such capital as applicable to the Issuer;

“Capital Regulations” means at any time the regulations, requirements, guidelines and policies applicable to the Issuer and relating to capital adequacy then in effect in Kuwait including those of the Financial Regulator;

“Directors” means the directors of the Issuer who constitute its board of directors from time to time; and

“Redemption Conditions” means that the redemption of the Bonds, pursuant to this Condition 4 (*Redemption, Variation and Purchase*), is subject to the following conditions:

- (a) the prior approval of the Financial Regulator;
- (b) the requirement that at the time when the relevant notice of redemption is given and immediately following any redemption, the Issuer is or will be (as the case may be) in compliance with the Applicable Regulatory Capital Requirements; and
- (c) (in the case of Conditions 4(b) or 4(c) only) the requirement that the circumstance that entitles the Issuer to exercise its right of redemption is a change of law, published practice or regulation (including in the case of Condition 4(c), Applicable Regulatory Capital Requirements) in the State of Kuwait or, in the case of Condition 4(b), of the State of Kuwait or any political subdivision or any authority thereof or therein having power to tax or a change in the interpretation of such law, published practice or regulation by any court or authority entitled to do so which change becomes, or would become, effective on or after the Issue Date,

(in the case of (a) and (b) above only, except to the extent that the Financial Regulator no longer so requires).

- (d) *Call Option*

Subject to the Redemption Conditions, on any Interest Payment Date falling on or after five (5) years from the Issue Date (the **“First Call Date”**), the Issuer may, by written notice, having given not less than thirty (30) nor more than sixty (60) days’ prior notice to the Bondholders in accordance with Condition 14

(*Notices*) (which notice shall be irrevocable and shall specify the fixed date for redemption), redeem in whole, but not in part, the Bonds in accordance with these Conditions at their outstanding principal amount together with interest accrued to but excluding the date of redemption (the “**Call Option**”). The Issuer does not confirm nor create any expectation that the Call Option will be exercised. Further, the Issuer cannot exercise the Call Option unless:

- (i) the Issuer replaces the Bonds, so to be redeemed, with capital of the same or better quality and the replacement of this capital is done at conditions which are suitable vis-à-vis the financial position of the Issuer; OR
- (ii) The Issuer demonstrates that its capital position is well above the total applicable capital requirements after the Call Option is exercised. This will be subject to an assessment of the Issuer’s capital adequacy by the Financial Regulator.

Prior to giving any notice of redemption pursuant to this Condition 4(d), the Issuer shall deliver or procure the delivery to the Fiscal Agent a copy of a certificate signed by two Directors of the Issuer, stating that each relevant requirement or circumstance referred to in this Condition 4(d) (other than the notice of redemption described above) is satisfied. The Fiscal Agent shall be entitled to accept such certificate without any further enquiry as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event it shall be conclusive and binding on the Bondholders.

If the Bonds are to be redeemed in part only on any date in accordance with this Condition 4(d) (Call Option), the Bonds to be redeemed shall be selected by the drawing of lots in such place as the Issuer approves and in such manner as the Issuer considers appropriate, subject to compliance with applicable law and the rules of each listing authority, stock exchange and/or quotation system (if any) by which the Bonds have then been admitted to listing, trading and/or quotation, and the notice to Bondholders referred to above shall specify the serial numbers of the Bonds so to be redeemed.

(e) *Purchase*

Subject to i) obtaining the prior approval of the Financial Regulator, and ii) being in compliance with the Applicable Regulatory Capital Requirements, the Issuer or any of the Issuer’s subsidiaries may purchase the Bonds at any price in the open market or otherwise.

(f) *Cancellation*

All Bonds redeemed or purchased by the Issuer or any of the Issuer’s subsidiaries pursuant to (a) to (e) above, will be cancelled forthwith and may not be resold or reissued.

5. Write-down at the Point of Non-viability

- (a) If a Non-Viability Event occurs, on the third Business Day following the occurrence of such Non-Viability Event, the Issuer will notify the Bondholders thereof in accordance with Condition 14 (*Notices*) (a “**Non-Viability Notice**”). Upon provision of such Non-Viability Notice, a Write-down of the Bonds shall take place on the Non-Viability Event Write-down Date.
- (b) In the event that there is a write-down, in whole or in part, of any other Additional Tier 1 Instruments as a result of a Non-Viability Event or similar event, the Issuer will notify the Bondholders thereof in accordance with Condition 14 (*Notices*) and a write-down of the Bonds shall take place on a *pro rata* basis with, and at the same time as, the write-down of such other Additional Tier 1 Instruments.

In this Condition 5 (*Write-down at the Point of Non-viability*),

“**Non-Viability Event**” means that the Financial Regulator has, in writing, informed the Issuer that it has determined that a Trigger Event has occurred;

The “**Non-Viability Event Write-down Date**” shall be the date on which the Write-down will take place as specified in the Non-Viability Notice, which date shall be no later than ten (10) Business Days after the date of the Non-Viability Notice;

A “**Trigger Event**” will have occurred if, in accordance with the Capital Regulations, any one of the following events occurs:

- (a) the Issuer is instructed by the Financial Regulator to write-down the Bonds, in whole or in part, because the Financial Regulator considers that without such write-down, the Issuer would become non-viable; or
- (b) an immediate injection of capital is required, by way of an emergency intervention, without which the Issuer would become non-viable as determined by the Financial Regulator;

“**Additional Tier 1 Instruments**” means any instruments (other than the Bonds) issued directly or indirectly by the Issuer or other obligations of the Issuer which: (a) qualify, or at the time of issue or incurrence or at any subsequent time have, qualified, in whole or in part, as Additional Tier 1 Capital of the Issuer, and (b) by their terms or by operation of law may be written down, in whole or in part on the occurrence, or as a result, of a Non-Viability Event or a similar event; and

“**Write-down**” means:

- (a) the Bonds shall be cancelled (in the case of a write-down in whole) or written-down in part on a *pro rata* basis (in the case of a write-down in part) as determined by the Issuer in accordance with the prevailing Capital Regulations; and
- (b) all rights of any Bondholder for payment of any amounts under or in respect of the Bonds (including, without limitation, any amounts arising as a result of, or due and payable upon the occurrence of, an Event of Default) shall, as the case may be, be cancelled or written-down *pro rata* among the Bondholders and, in each case, not restored under any circumstances, irrespective of whether such amounts have become due and payable prior to the date of the Non-Viability Notice or the Non-Viability Event Write-down Date and even if the Non-Viability Event has ceased.

For the avoidance of doubt, following any Write-down of the Bonds in accordance with this Condition 5 (*Write-down at the Point of Non-viability*), (a) references in these Conditions to the “principal amount” or “outstanding principal amount” of the Bonds shall be construed accordingly, (b) the principal amount so written-down will be cancelled and interest will continue to accrue only on the outstanding principal amount following such reduction, and (c) the principal amount so written-down may not be restored under any circumstances, including where the relevant Non-Viability Event is no longer continuing.

Any such Write-down shall not constitute an Event of Default. Bondholders acknowledge that there shall be no recourse to the Financial Regulator in respect of any determination made by it with respect to the occurrence of a Non-Viability Event and no other compensation will be paid to the Bondholders as a result of such Write-down.

It is the Issuer's current intention that a Write-down will take place: (1) after the common shares of the Issuer absorb losses (if and to the extent permissible under the relevant regulations applicable to the Issuer at such time) and the Financial Regulator has not notified the Issuer in writing that the relevant Non-Viability Event has been cured as a result of such loss absorption; and (2) simultaneously and pro rata with the write-down of any of the Issuer's other obligations in respect of Additional Tier 1 Capital and any other instruments related to the Issuer's other obligations constituting Additional Tier 1 Capital. However, the Issuer may at any time depart from this policy at its sole discretion or if so required by the Applicable Regulatory Capital Requirements or the Financial Regulator.

6. Payments

- (a) Payments of principal and interest in respect of the Bonds will be made to the relevant registered Bondholder at the specified office of the Fiscal Agent, or at the option of the Bondholder at the specified office of any of the Paying Agents. Such payments will be made by transfer to a bank account maintained by the payee with, or by a check drawn on, a licensed bank in the State of Kuwait subject to all cases to any fiscal or other local laws or regulations applicable thereto but without prejudice to the provisions of Condition 7 (*Taxation*).
- (b) The Issuer reserves the right at any time to vary or terminate the appointment of the Fiscal Agent or any Paying Agent and/or to appoint additional or other Paying Agents. Notice of any change in the Fiscal Agent or any change in or addition to the Paying Agents or of any change in their specified offices will be published in accordance with Condition 14 (*Notices*).
- (c) Bonds must be presented for redemption unless otherwise determined by the Fiscal Agent.
- (d) If the due date for payment of any amount of principal or interest in respect of any Bond is not at any place of payment a business day, then the holder thereof will not be entitled to payment at the relevant place of payment of the amount due until the next following business day and will not be entitled to any further interest or other payment in respect of any such delay. In this paragraph (and in Condition 8 (*Events of Default*)), “**business day**” means any day on which banks are open for business in the relevant place of payment and, in the case of payment by transfer to a bank account as referred to in (a) above, a day on which dealings in foreign currencies are carried on in both Kuwait City and such place of payment.

7. Taxation

All payments of principal and interest in respect of the Bonds by or on behalf of the Issuer will be made without withholding, retention or deduction for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature (“**Taxes**”) imposed, levied, collected, withheld or assessed by or on behalf of the State of Kuwait or any political subdivision or any authority therein or thereof having power to tax, unless such withholding, retention, or deduction is required by law. In such event, the Issuer will pay such additional amounts as shall be necessary in order that the net amounts received by the Bondholders after such withholding, retention, or deduction shall equal the respective amounts which would have been receivable in respect of the Bonds in the absence of such withholding, retention, or deduction; except that no such additional amounts shall be payable with respect to any Bonds presented for payment:

- (a) By or on behalf of a Bondholder who is liable for such Taxes in respect of such Bond by reason of his having some connection with the State of Kuwait other than the mere holding of such Bond; or
- (b) More than thirty (30) days after the Relevant Date except to the extent that the Bondholder would have been entitled to such additional amounts on presenting the same for payment within such period of thirty (30) days.

As used herein the “**Relevant Date**” means whichever is the later of (a) the date on which such payment first becomes due and (b) if the full amount of the moneys payable has not been received by the Fiscal Agent on or prior to such due date, the date on which the full amount of such moneys have been so received, and notice to that effect shall have been duly published in accordance with Condition 14 (*Notices*). Any reference in these Conditions to principal and/or interest in respect of the Bonds shall be deemed to refer also to any additional amounts which may be payable under this Condition.

8. Events of Default

- (a) Any one of the following events (each, an “**Event of Default**”) will constitute an event of default:

- (i) Non-payment: where the Issuer fails to pay any amount of principal in respect of the Bonds by the due date for payment thereof or fails to pay any amount of interest in respect of the Bonds within five (5) business days of the due date for payment thereof (save, in the case of interest where such failure occurs solely as a result of the occurrence of a Non-Payment Event or a Non-Payment Election pursuant to Conditions 3(f) or 3(g) respectively); or
 - (ii) Winding up, etc.: where an order is made or an effective resolution is passed for the winding up, liquidation or dissolution of the Issuer.
- (b) Following an Event of Default under Condition 8(a)(i) above, and where such breach is continuing, the Bondholders are only entitled to petition a court for the winding-up of the Issuer and prove and claim its debt in the liquidation of the Issuer. Following a breach by the Issuer under Condition 8(a)(ii) above, the Bondholders may only prove and claim its debt in the liquidation of the Issuer. Except as noted above, no other remedy shall be available to the Bondholders for an Event of Default including, without limitation, a right to sue for unpaid amounts under the Bonds. Any proposed petition for the winding-up of the Issuer or any action to prove and claim their debt in the liquidation of the Issuer by the Bondholders following an Event of Default, which remains continuing, may only be brought by the Bondholders Association (as defined in Condition 13 (*Association of Bondholders*) below) on behalf of the Bondholders. No petition for the winding up of the Issuer may be brought individually by a Bondholder. For the purposes of Condition 8 herein, "business day" shall mean a day that banks are open for business in Kuwait and at the place of business of any paying agents.

9. No set-off

To the extent permitted by law, no Bondholder may exercise or claim any right of set-off, counterclaim, abatement or other similar remedy which it would otherwise have in any jurisdiction in respect of any amount owed to it by the Issuer arising under or in connection with the Bonds and each Bondholder shall, by virtue of being a Bondholder, be deemed to have waived all such rights to set-off.

10. Prescription

Claims in respect to principal and interest will become void unless made within a period of ten (10) and five (5) years respectively from the Relevant Date (as referred to in Condition 7 (*Taxation*)) in respect thereof.

11. Fiscal Agent and Paying Agents

In acting under the Fiscal Agent and Paying Agency Agreement, the Fiscal and the Paying Agent(s) are acting solely as agents of the Issuer and do not assume any obligation towards or relationship of agency or trust for or with the Bondholders.

The Fiscal and Paying Agency Agreement may be amended by the parties thereto, without the consent of the Bondholders for the purpose of curing any ambiguity, defective provision or manifest error or in any manner which the parties thereto may deem necessary or desirable which will not be inconsistent with the Bonds and will not, in the opinion of such parties, be materially prejudicial to the interests of the Bondholders, the Fiscal Agent or the Paying Agent(s).

12. Replacement of Certificates

Should any of the Certificates be mutilated, defaced, destroyed, stolen or lost, it may be replaced at the office of the Fiscal Agent in Kuwait (or such other place(s) as the Fiscal Agent and the Issuer may from time to time decide and notify in accordance with Condition 14 (*Notices*)) upon payment by the claimant of the expenses incurred in connection with the replacement and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Certificates must be surrendered before replacements will be issued.

13. Association of Bondholders

Articles 12-46 to 12-57 of Chapter 12 of Module 11 of the Executive Bylaws of Law No. 7 of 2010 regarding the Establishment of the CMA and Regulating Securities Activities, as amended, provides for the formation of an association of which all bond holders of a single issue are, by operation of law, members. Such an association (the “**Bondholders Association**”) will be created to defend the rights of Bondholders. The rights and obligations of the Bondholders Association will be specified in its articles, the full text of which may in due course be examined at the office of the Fiscal Agent and of each of the Paying Agents.

The purpose of the Bondholders Association will be to bring together and hold in common, in the interests of the Bondholders, the exercise of their rights, claims and security (present and future) relating to the Bonds. The Bondholders Association alone will have the right to act in the defense of the interests of all of the Bondholders as a collective, the latter not being permitted under any circumstances to act individually in exercise or realization of such rights, claims and security, this notwithstanding the occurrence, or continuation, of an Event of Default, in which event, and for the avoidance of doubt, the rights and obligations and the existence of the Bondholders Association shall continue to remain intact, and all decisions (whether past or future) passed at a duly convened, constituted and conducted meeting of the Bondholders shall be binding on all Bondholders.

The Bondholders Association will be managed by a representative (the “**Representative of Bondholders**”) pursuant to the above referenced articles. The Representative of Bondholders will be elected at the meeting of the Bondholders Association called by the Issuer for that purpose and to approve the articles of the Bondholders Association.

14. Notices

- (a) Notices to Bondholders shall be deemed to have been duly given if published in a leading newspaper of general circulation in Kuwait. If the notice is for the purposes of a Bondholders Association meeting, such notice may also be published in two daily local newspapers in Kuwait and in Boursa Kuwait at least five (5) days prior to the meeting or in any other manner allowed in accordance with Article 12-49 of Chapter 12 of Module 11 (the “**Notice Provisions**”) of the Executive Bylaws of Law No. 7 of 2010 regarding the Establishment of the CMA and Regulating Securities Activities. Any such notice shall be deemed to have been given on the date of publication in such newspapers and in Boursa Kuwait. Notices to Bondholders may also be given in any other manner as allowed by the Notice Provisions as the same may be amended or replaced from time to time.
- (b) As long as the Bonds are held in a clearing system with the Clearing Agent, notices will also be given through the clearing system by the Clearing Agent in accordance with its standard rules and procedures applicable.

15. Modifications

These Conditions may be amended or modified without the consent of the Bondholders where such amendment or modification: (i) is of a formal, minor or technical nature or is made to correct a manifest error or to comply with mandatory provisions of law; or (ii) is not materially prejudicial to the interests of Bondholders. Any modification shall be binding on the Bondholders and, unless the Fiscal Agent agrees otherwise, shall be notified by the Issuer to the Bondholders as soon as practicable thereafter in accordance with Condition 14 (*Notices*).

16. Governing Law and Jurisdiction

The Bonds, any non-contractual obligations arising out of or in connection with them, and all other documents pertaining thereto are governed by and shall be construed in accordance with the laws of the State of Kuwait and any dispute arising out of or in connection with the Bonds shall be subject to the jurisdiction of the courts of the State of Kuwait.

There will appear on the foot of the Conditions endorsed on each Bond in definitive form the names and specified offices of the Fiscal and Paying Agents as set out on the back of this Prospectus.

SUMMARY OF PROVISIONS RELATING TO THE BONDS WHILE IN GLOBAL FORM

The Fixed and Floating Rate Global Bonds (each a “Global Bond” and collectively, the “Global Bonds”) contain provisions which apply to the Bonds represented by such Global Bonds, some of which modify the effect of the Terms and Conditions of the Bonds set out in this document. The effects of such provisions contained in the Global Bonds are set out below.

The Fixed Rate Bonds will be evidenced by a Fixed Rate Global Bond without coupons in registered form in the amount of KWD 75 Million. The Floating Rate Bonds will be evidenced by a Floating Rate Global Bond without coupons in registered form in the amount of KWD 75 Million. Each Global Bond will be deposited with and registered in the name of Kuwait Clearing Company K.S.C. (“KCC”) for credit to the accounts of the subscribers with KCC on or about 9 May 2024. While the Bonds are evidenced by Global Bonds, the Bonds evidenced by such Global Bonds may be transferred through KCC in accordance with the rules and procedures in effect for KCC.

The Global Bonds will be exchangeable in whole but not in part for individual definitive Bond Certificates if (a) any Bond becomes due and payable in accordance with Condition 8, (b) KCC is closed for business for a continuous period of 14 Business Days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or, in fact, does so, or (c) the Issuer would suffer any disadvantage as a result of a change in any laws or regulations (or in the interpretation thereof by the relevant authorities) or as a result of a change in the practice of KCC which would not be suffered if the Bonds were to be in definitive form. For the purposes of this provision “**Business Day**” means a day that banks are open for business in the location of the place of business of KCC.

So long as the Global Bonds are held by KCC, notices required to be given to holders of Bonds may be given by such notices being delivered to KCC, so long as notices are also published in Kuwait in accordance with the Terms and Conditions of the Bonds.

The registered holder of the Global Bonds shall be the only person entitled to receive payment of principal and interest in respect of the Bonds represented by the relevant Global Bond and each person entitled to a Bond represented by the Global Bonds must look solely to KCC for his share of each payment made by the Bank to the registered holder of the Global Bond.

Payments of principal and/or interest in respect of Bonds represented by the relevant Global Bond will be made against presentation for endorsement and, if no further payment falls to be made in respect of the Bonds, surrender of the relevant Global Bond to the Fiscal Agent. A record of each payment made will be endorsed on the schedule to the relevant Global Bond by or on behalf of the Fiscal Agent.

USE OF PROCEEDS

The gross proceeds from the issue of the Bonds will amount to KWD 150 million and will be fully applied to reinforcing Additional Tier 1 capital for the purpose of improving the Bank's capital adequacy ratio under Basel III framework and for general corporate purposes. The Issuer shall be responsible for all costs relating to the issuance of the Bonds. Certain costs have been capped with service providers.

The following table shows the estimated detailed uses of the Bond proceeds:

Uses	Amount (KWD)
Reinforce Additional Tier 1 capital and general corporate purposes	148,625,000
Bond issuance related costs	1,375,000
Total	150,000,000

BUSINESS DESCRIPTION OF THE BANK

Overview

The Bank was incorporated on 27 December 1975 in the State of Kuwait by an Amiri Decree and is registered with the Ministry of Commerce and Industry under Commercial Registration No. 24067 and is listed on Bursa Kuwait. The Bank is registered in the register of banks maintained by the CBK.

The Bank operates principally in Kuwait, where it is a full-service commercial bank. As at 31 December 2023, the Bank's total assets stood at KD 7,426.1 million and was Kuwait's second largest conventional commercial bank by total assets (based on the full year consolidated financial information of the Bank and other conventional commercial banks in Kuwait for period ended 31 December 2023).

As at 31 December 2023, the Bank has subsidiaries in Turkey, Algeria and Tunisia. The Bank, together with its subsidiaries, offers a wide range of commercial banking services to its corporate, private and retail banking customers. As at 31 December 2023, these services were offered through a distribution network of 29 branches and 165 ATMs in Kuwait and one representative office in the UAE (through Burgan Bank Kuwait), 65 branches and 110 ATMs in Algeria (through AGB), 29 branches and 22 ATMs in Turkey (through BBT), 3 branches in Tunisia (through TIB), and one representative office in Libya (through TIB).

In addition to its subsidiaries', international banking activity is also undertaken through a number of correspondent banking relationships and a network of affiliate banks in the Kuwait Projects Company Holding (KIPCO) group (including United Gulf Bank (UGB), Jordan Kuwait Bank Public Limited Shareholding Company (JKB), FIMBank P.L.C. based in Malta (FIMBank) and Bank of Baghdad (BoB)).

Registered Office

The Bank's registered office is Burgan Tower, Abdullah Al-Ahmad Street, Al Sharq, Kuwait, Tel: +965 2298 8000.

Objectives as per Articles

The Issuer's objectives are to transact all commercial banking services and operations, for the account of the Company or for the account of third parties, including:

(i) accept cash deposits, pay against commercial papers and orders drawn on the Issuer by depositor, with the amounts deposited to their account, (ii) obtain funds by issuing lending bonds, (iii) buy and sell gold bullions, foreign currencies, grant advances thereon, and buy and sell their assignments, (iv) discounting draft orders, promissory notes, loan bonds, coupons and all commercial and industrial bonds, buy and re-discontinue thereof and invest capitals, (v) lend, borrow, give credits and all bank facilities, (vi) borrow on bills of lading, transport notes, and fund collecting orders in the State of Kuwait and abroad, (vii) issue secured or unsecured guarantees, (viii) collect allowances of transfers, bills of exchange, commercial papers, bills of lading and other instruments, (ix) purchase and sell shares and bonds for the account of company, (x) act as savings and family fund bank, (xi) take custody of all types of currencies, precious metals, and other properties, bonds, parcels, bundles, and leasing private metal safe deposit boxes, (xii) operating as trustee or agent and to accept agencies and to appoint agents for or without commission (provided that the Bank's conduct of these activities does not lead to the practice of an activity licensed by the Capital Markets Authority), (xiii) accepting subscriptions towards the establishment of shareholding companies, (xiv) custodian, (xv) investment advisor, (xvi) investment portfolio manager and (xvii) securities broker not registered in the Securities exchange.

Listing and privatisation

The Bank was listed on the Bursa Kuwait on 29 September 1984. At the close of trading on the Bursa Kuwait on 31 December 2023 the Bank's share price was KD 0.172 giving it a market capitalisation of KD 592.9 million.

As part of Kuwait's privatisation initiative across the banking industry, the Bank was privatised in 1997. The Government reduced its ownership in the Bank from 61.0 per cent. to less than 10.0 per cent. As at the date of this Prospectus, the Government continued to own (directly or indirectly) an equity stake of less than 10.0 per cent. in the Bank.

Authorised and paid-up capital

As at 31 December 2023, the Bank had an authorised share capital of 4,000,000,000 shares (four billion shares) of 100 fils each, comprising 3,452,203,125 issued and fully paid up shares of 100 fils each.

In November 2021, the Bank increased its paid-up share capital through the issuance of rights issue of 375,000,000 shares (the **Rights Issue**) at an offer price of KD 0.190 per share, comprising a nominal value of KD 0.100 per share and a premium of KD 0.90 per share after obtaining necessary approvals. The Rights Issue was fully subscribed resulting in an increase in share capital of KD 37,500,000 and share premium of KD 33,750,000 during the year.

Ownership and Dividends

As at 31 December 2023, the following shareholders had holdings in excess of 5.0 per cent. of the Bank's issued ordinary share capital:

Shareholders	Percentage of shares*	Number of ordinary shares
	(%)	(millions)
Kuwait Projects Company Holding K.S.C.P.	33.5	1,156.2
United Gulf Holding Company B.S.C.	15.0	518.0
Public Institution for Social Security.....	7.4	256.9
Kuwait United Consulting Company.....	7.4	256.5

* Calculated as number of shares held divided by the total number of shares issued.

The Board proposed a cash dividend of 6 fils per share and five bonus shares per 100 shares for the financial year ended 31 December 2023. At the annual general meeting of the shareholders of the Bank held on 1 April 2023, the Board approved a cash dividend of 8 fils per share and five bonus shares per 100 shares for the financial year ended 31 December 2022. At the annual general meeting of the shareholders of the Bank held on 5 April 2022, the Board approved a cash dividend of 5 fils per share and five bonus shares per 100 shares for the financial year ended 31 December 2021.

History of acquisitions and disposals

In 1997, KIPCO, a multi-sector operating holding company headquartered in Kuwait with operating entities across the GCC and the wider MENAT region, acquired a majority shareholding in the Bank during the privatisation process of the banking sector in Kuwait. The privatisation process of the public sector banks, which began in 1997, reduced Government ownership in the Bank from 61.0 per cent. to less than 10.0 per cent. KIPCO currently represents the single largest shareholder of the Bank. As at 31 December 2023, KIPCO had a consolidated (direct and indirect) shareholding of 64.5 per cent. in the Bank. Following the change in ownership structure, the Bank realigned its strategic focus in line with the overall strategy of KIPCO and changed its management style from that of a government-owned entity to a private sector, profit-orientated entity.

In mid-2008, KIPCO undertook a strategic reorganisation of its financial services businesses (**the Reorganisation**). KIPCO streamlined its financial services businesses into three major segments: commercial banking, asset management and investment banking and insurance. As part of the Reorganisation, the Bank was transformed into a regional commercial banking group through the acquisition of stakes in JKB, AGB, BoB and TIB

Accordingly, in 2008, the Bank acquired a controlling stake of 51.2 per cent in JKB. equity interest in JKB. In 2009, the Bank acquired a 60.0 per cent. interest in AGB (which was increased to 91.1 per cent. in 2010) and a 45.3 per cent. interest in BoB (which was increased to 51.8 per cent. in 2010). In 2010, the Bank also acquired a 76.6 per cent. stake in TIB, which together with the 10 per cent. previously owned by the Bank, gave it a controlling 86.7 per cent. equity interest in TIB.

In December 2012, having obtained the requisite approvals from the regulatory authorities in Kuwait and Turkey, the Bank completed the acquisition of a 99.3 per cent. stake in Eurobank Tekfen from Eurobank EFG. Following the acquisition, Eurobank Tekfen is now operating under the name of Burgan Bank A.S.

On 30 December 2015, the Bank completed the sale of its 51.2 per cent. controlling stake in JKB to Al Rawabi International Co., for a consideration of KD 191.1 million.

In February 2023, the Bank completed the sale of its 51.8 per cent. stake in BoB to JKB, for a consideration of U.S.\$125 million (KD 38.4 million¹).

In December 2023, the Bank completed the sale of its 52.0 per cent. stake in BBT to Al Rawabi United Holding Company, for a consideration of KD 57.8 million.

The Bank's subsidiaries as at 31 December 2023 and 31 December 2022

As at 31 December 2023 and 31 December 2022, the principal operating subsidiaries of the Bank are as follows:

Name	Country of Incorporation	Date of Initial Purchase	Effective Holding as at 31 December 2023	Effective Holding as at 31 December 2022
			(%)	(%)
Burgan Bank A.S.# (BBT)	Turkey	December 2012	47.55	99.71
Gulf Bank Algérie S.P.A. (AGB)	Algeria	April 2009	86.01	86.01
Tunis International Bank S.A. (TIB)	Tunisia	June 2010	86.70	86.70
Bank of Baghdad P.J.S.C.* (BoB)	Iraq	April 2009	-	51.79

In December 2023, the Bank completed the sale of its 52.0 per cent. stake in BBT to Al Rawabi United Holding Company

* In February 2023, the Bank completed the sale of its 51.79 per cent. controlling stake in BoB to JKB

Group Status

As of 31 December 2023, the Issuer is not part of a group of companies. However, there are four shareholders of the Issuer with shareholdings in excess of 5.0 per cent of the Issuer's issued ordinary share capital. These shareholders include: KIPCO, United Gulf Holding Company B.S.C. (formerly United Gulf Bank B.S.C.) ("UGHC"), the Public Institution for Social Security ("PIFSS") and Kuwait United Consulting Company. Only KIPCO is represented on the Issuer's Board of Directors. KIPCO, UGHC and PIFSS also own other companies that are not related to the Issuer.

Ratings

As at the date of this Base Prospectus, the Bank had the following credit ratings:

- Standard & Poor's: BBB+ for long-term issuer credit and A-2 for short-term counterparty credit, with a stable outlook;
- Moody's: Baa1 for long-term bank deposits and P-2 for short-term deposits, with a stable outlook; and
- Fitch: A for long-term issuer default and F1 for short-term issuer default, with a stable outlook.
- Capital Intelligence: A+ for long term foreign currency rating, and A1 for short-term foreign currency rating with stable outlook.

¹ Converted into KD at KD/USD exchange rate of 3.259 in February 2023

BUSINESS OVERVIEW AND STRATEGY

Strategy

The Bank's vision is "to be the most modern and progressive bank in Kuwait, driven by our employees, customers and community". In line with its vision statement, the Bank revamped its strategy to strengthen its position in its core market, Kuwait, through organic growth while pursuing cautious growth in international markets. As part of its growth strategy, the Bank has identified the following key elements for its strategic plan:

- (a) *Strengthen Kuwait Business:* The Bank is focused on enhancing its competitive position in the corporate, private and retail banking sectors in Kuwait, through, expansion of its customer base, introduction of new products and services within the pre-defined risk parameters and developing strong technology platforms for the distribution of its products. The Bank is focused on building best-in-class Private Banking and Wealth Management offerings for HNWI clients and select Premier clients.
- (b) *Asset re-allocation:* The Bank is pursuing a cautious growth strategy with focus on sale of non-core assets and deployment of capital into high growth segments and markets. During 2023, the Bank completed the sale of its 51.79 per cent. stake in BoB and 52.0 per cent. stake in BBT.
- (c) *Digital transformation:* The Bank is focused on the digital transformation of its existing businesses as well as launching digital operating platforms (as evident from the launch of "ON" in Turkey) in line with global trends in the banking sector. The appetite for digital banking from a growing demographic segment is guiding the development of an "anytime, anywhere, any channel" customer interface at the Bank. The focus of the Bank is to migrate the transactional activities to online channels.

Competitive Strengths

The Bank believes that its business is characterised by the competitive strengths discussed below, and that these competitive strengths position the Bank to successfully implement its strategy and continue its growth plans.

- (i) *Leading regional player:* Through a combination of its own branches, representative offices and subsidiaries, the Bank is present in six countries across the MENAT region. The Group has one of the largest regional branch networks, with 126 branches across Kuwait, Turkey, Algeria, and Tunisia as at 31 December 2023. The Bank enjoys a dominant position in Kuwait where it was the second largest conventional commercial bank by total assets (based on the full year consolidated financial information of the Bank and other conventional commercial banks in Kuwait for the period ended 31 December 2023).
- (ii) *Consistent operating performance, financial position and risk management:* The Bank has historically maintained stable growth in Kuwait and more recently in the MENAT region. As at and for the year ended 31 December 2023, the Bank recorded a net profit of KD 45.1 million and total assets of KD 7,426.1 million. As at and for the year ended 31 December 2022 and the year ended 31 December 2021, the Bank recorded a net profit of KD 58.6 million and KD 48.6 million, respectively, and total assets of KD 7,166.0 million and KD 7,074.9 million, respectively. The Bank's prudent credit policy and effective utilisation of risk management tools has enabled it to maintain a high-quality loan portfolio. The Bank has been able to build its reserves (i.e. total provision), which stood at KD 231.6 million, KD 205.6 million, KD 201.6 million as at 31 December 2023, 31 December 2022 and 31 December 2021, respectively. The Bank's NPL coverage ratio² improved to 220.5 per cent. as on 31 December 2023, compared to 205.7 per cent. as at 31 December 2022 and 226.6 per cent. as at 31 December 2021.
- (iii) *Stable funding base:* The Bank's funding includes institutional, government and quasi-government deposits in Kuwait, which are contracted on a commercial basis. These are regarded by the Bank as relatively stable and a low-cost source of funding. As at 31 December 2023 and 31 December 2022, respectively, the Bank's total funding from deposits by government and quasi-governmental entities accounted for 2.7 per cent. and 2.5 per

² NPL Coverage Ratio = Risk provision to non-performing loans

cent. of its total deposits in Kuwait. These are 2.1 per cent. and 1.8 per cent. of total group deposits as at 31 December 2023 and 31 December 2022.

As at 31 December 2023 and 31 December 2022, of the total assets, 66.0 per cent. and 64.6 per cent. respectively, were funded by deposits from customers and due to other financial institutions, 9.5 per cent. and 3.9 per cent., respectively, by due to banks, 7.4 per cent. and 10.9 per cent., respectively, by other borrowed funds, 3.7 per cent. and 7.3 per cent., respectively, by other liabilities and liabilities directly associated with the disposal group held for sale and the balance by its capital and reserves.

- (iv) *Culture of excellence and commitment to training and development of personnel:* The Bank has created a customer-focused culture that aims at achieving strong operational performance. This culture is a key component of the recruitment, learning and development processes, and the performance evaluation of employees and counterparties. The Bank has created and implemented a number of training and development programmes for both domestic and international staff. The Bank has built a competitive advantage by investing in the development of its employees and that of their teams, and by encouraging and cultivating the growth of potential leaders. Every employee has personal performance objectives that are aligned with the Bank's strategic direction and reflect the culture of respect and care for customers, as well as support for the communities in which the Bank operates.
- (v) *Experienced management team and commitment to corporate governance:* All members of the Bank's Board and Executive Management team have extensive knowledge of the banking sector in Kuwait and the MENAT region and bring with them a wealth of experience in leading financial institutions, see "Management" below. Further, the management team believes that corporate governance is a matter of vital importance and a fundamental part of the business practices of the Group and that the combination of an existing team of highly experienced professionals, coupled with best practice corporate governance standards, positions the Group well for future growth. The governance practice at the Bank has been designed to ensure that the Bank is effectively managed and the Boursa Kuwait and the CBK requirements are fully met. The governance framework, which is underpinned by the Corporate Governance Manual and related policies, clearly delineates the separate roles of the Board and the Bank's management. The Audit Committee monitors developments in the governance area and updates its governance practices to ensure that the Bank continues to maintain the most appropriate standards of governance.

BUSINESS OVERVIEW

Kuwait Operations

The Bank is engaged in the provision of conventional banking and investment services to individuals and corporates. The following tables present certain financial results of the Bank's operations in Kuwait as broken down by business segment.

	Corporate and Consumer Banking	Treasury and Investment Banking	Central Office	Total
	<i>(KD 000's)</i>	<i>(KD 000's)</i>	<i>(KD 000's)</i>	<i>(KD 000's)</i>
As at / for the year ended 31 December 2023				
Operating Income	118,853	(10,427)	3,251	111,677
Total Assets	3,972,179	1,205,527	657,910	5,835,616
As at / for the year ended 31 December 2022				
Operating Income	114,607	60	2,863	117,530
Total Assets	3,731,241	839,337	554,106	5,124,684
As at / for the year ended 31 December 2021				
Operating Income	119,054	30,512	(5,188)	144,378
Total Assets	3,878,838	745,945	600,290	5,225,073

The following provides an overview of the business lines of the Bank's core operating areas:

- Corporate and Consumer banking (**CCB**) provides comprehensive product and services to financial institutions, corporate and individual customers, including lending, deposits, trade services, foreign exchange, advisory services, credit and debit cards, and others. For the year ended 31 December 2023, the Bank's operating income from CCB was KD 118.9 million compared to KD 114.6 million and KD 119.1 million for the years ended 31 December 2022 and 31 December 2021, respectively. The Bank's total assets from the CCB as at 31 December 2023 were KD 3,972.2 million compared to KD 3,731.2 million as at 31 December 2022, and KD 3,878.8 million as at 31 December 2021.
- Treasury and Investment banking (**TIBG**) includes treasury activities, investment services and management. It also provides products and services to banks including money markets, lending, deposits, foreign exchange and others. For the period ended 31 December 2023, the Bank's operating income from TIBG was KD (10.4) million compared to KD 0.1 million and KD 30.5 million for the years ended 31 December 2022 and 31 December 2021, respectively. The Bank's total assets from the TIBG amounted to KD 1,205.5 million as at 31 December 2023. For the year ended 31 December 2022, the Bank's total asset from TIBG was KD 839.3 million compared to KD 745.9 million as at 31 December 2021.
- Central office (**CO**) includes liquidity and funding management, any residual in respect of transfer pricing and other unallocated activities. For the period ended 31 December 2023, the Bank's operating income from CO was KD 3.3 compared to KD 2.9 million and KD (5.2) million for the years ended 31 December 2022 and 31 December 2021, respectively. The Bank's total assets from the CO amounted to KD 657.9 million as at 31 December 2023. For the year ended 31 December 2022, the Bank's total asset from CO was KD 554.1 million compared to KD 600.3 million as at 31 December 2021.

As at 31 December 2023, retail loans made up 11.8 per cent. and corporate loans made up 88.2 per cent. of the Bank's aggregate loan portfolio, 78.6 per cent. of which comprises loans issued to individuals or corporates in Kuwait. In addition, a substantial proportion of the total loan portfolio comprised loan exposures to related parties, see "Risk Factors — Ownership concentration and related party exposures".

The Bank's products and services are offered through three distinct divisions, namely, Corporate Banking Division, Private Banking and Wealth Management Division and Retail Banking Division.

Corporate Banking Division (CBD)

CBD provides a wide range of products to commercial and industrial sectors in Kuwait. It participates in financing major infrastructure, petrochemical and industrial projects through syndicated loans and direct bilateral financing. It focuses on

the services, trading, oil & gas and contracting mainly with government sector to mitigate the risk. To further strengthen its focus on SMEs, it launched “Tijarati” – a merchant business management platform which facilitates real time tracking transactions.

CBD has grown its customer base through a track record of well-established banking relationships. It has seven main units catering to specific corporate needs including Contracting unit, Small and Medium Enterprise (SME) Unit, Trading and Automotive Unit, Services and Energy Unit, Investment and Real Estate Unit, Trading and Manufacturing Unit and International Banking Unit. The core business activities of CBD include:

- Offering comprehensive range of products and services for large and mid-size corporates along with SMEs;
- Participation in financing infrastructure projects;
- Facilitating growth of corporate clients by supporting them in execution of organic and inorganic opportunities

Private Banking & Wealth Management Division (PBWMD)

PBWMD offers a range of tailor-made products and services to high-net-worth individuals (HNWI). It also offers consultancy services to its customers to maximise their returns and grow their wealth. It focuses on smart growth opportunities to maximise operational efficiency while minimising risk. The division actively collaborates with other business units to create synergies and enhance its product offering. The core business activities include:

- Bespoke solutions and traditional banking services to HNWI and UHNWI;
- High-quality service with easy access to dedicated relationship managers and support staff

It is establishing a full-fledged wealth management division to further strengthen its value proposition for HNWI. In 2023, the Bank received CMA license to undertake the following securities activities – Investment Portfolio Manager, Investment Advisor and Securities Broker not registered in the Securities Exchange.

Retail Banking Division (RBD)

RBD offers a range of products and services to its customers, including a comprehensive suite of savings and deposit accounts, credit, debit and pre-paid cards, and customer loans. RBD’s card offering includes credit cards (MasterCard, Visa), debit card (Visa) and a multi-currency pre-paid card. RBD periodically reviews and calibrates its existing products to meet the customer needs.

RBD strives towards customer-centric strategies by enhancing its premium product offerings and enhancing service delivery efficiency and effectiveness across various customer touch points. To increase its market share in Kuwait, the bank has executed the following key initiatives:

- Streamlined customer processes and rolled out additional digital features and functionalities;
- Recalibrated risk appetite framework for the retail business strengthening risk controls;
- Revamped customer offerings through relaunching of flagship products such as “KANZ” and “Al Rateb”

As of 31 December 2023, RBD had a network of 29 branches and 165 ATMs in Kuwait with plans of further strategic expansion. The alternative delivery channels like the 24/7 telephone banking service "Burgan Direct" and the internet banking platform "Burgan Online" support customer transactions. The provision of an enterprise e-payment platform (through the provider, ACI Worldwide) allows the Bank to provide online banking services for daily banking activities and online payment for goods and services through the Bank's secure electronic platforms.

Treasury and Investment Banking (TIBG)

TIBG is responsible for all domestic and international wholesale market transactions (together with other customer-related transactions) and for managing the proprietary portfolio of the Bank. It caters to institutional relationships with banks and/or Non-Banking Financial Institutions (NBFIs), optimising key financial institutions and correspondent banking relationships.

Treasury division is actively involved in the management of the financial market risks on the Bank's balance sheet, sourcing efficient and secure funding, providing risk solutions, managing foreign exchange, and the management of customer and interbank relationships. The division comprises of Asset and Liabilities Management unit, Fixed Income and Capital Markets unit, Money Market unit, FX Trading unit and Treasury Sales Desk.

Investment Division focuses on enhancing the Bank's returns by managing a diversified proprietary investment portfolio which includes fixed income and equity (listed and private) securities. A comprehensive top-down approach is followed to determine asset selection using a wide array of factors and within the Board-approved policies and procedures and regulatory requirements. The risk/reward parameters are well-defined for each type of investment portfolio.

MANAGEMENT

The Board of Directors of the Bank

The Board consists of eleven directors. The Bank's articles of association provide that each director is elected at an ordinary general meeting of shareholders for a three-year term and is eligible for re-election upon expiration of such term. The Board has the power to appoint and remove the GCEO at any time provided there is a quorum of six directors.

The Board holds at least 6 meetings annually, with at least one meeting every quarter called by the Chairman. The Board may also hold meetings if called by at least 3 directors. To be valid, a Board meeting must be attended by at least half the members of the Board and attendance may not be by proxy. In 2023, the Board held 12 meetings.

In June 2022, the Board was elected by the Bank's shareholders for a term of three years. As at the date of this Base Prospectus, the membership of the Board comprises:

Sheikh Abdullah Nasser Sabah Al Ahmad Al Sabah (Chairman)

Sheikh Abdullah Nasser Sabah Al-Ahmad Al-Sabah was appointed Chairman of the Board of Directors in June 2022. He also holds several positions, including Vice Chairman of the Board of Directors of Kamco Investment Company K.S.C.P. He is a member of the Board of Directors of Kuwait Projects Holding Company and a member of the Board of Directors of United Gulf Bank - Bahrain. He obtained a bachelor's degree from the Royal Military Academy Sandhurst in the United Kingdom, and a bachelor's degree in business administration from the New York Institute of Technology - the United States of America.

Mr. Faisal Mohammad Mansour Sarkhou (Vice Chairman)

Mr. Sarkhou was appointed Vice Chairman of the Board of Directors in June 2022. He has been CEO of Kamco Invest since 2014 and has led the company to become one of the major players in the regional financial services sector. He has extensive experience in investment services, especially investment banking and asset management. He joined Kamco Invest in 2000 and held several management positions including Head of Corporate Finance and Head of Financial Services and Investment Department. He is a member of the boards of directors of several prestigious companies, as a member of the Advisory Board and Executive Committees.

He previously worked with the corporate finance team at KPMG in Kuwait. He holds a BA in Economics from the University of Birmingham, UK and an Executive Masters in Business Administration from HEC University in Paris, France.

H.E. Abdulkareem El-Kabariti (Board Member)

H.E. Abdulkareem Kabariti has been a member of the Bank's Board of Directors since 2004 and has more than 30 years of experience in the banking, finance, investment and political work. He is currently the Chairman of Gulf Bank Algérie (Algeria), as well as serving on the Boards of Malta in FIM, Burgan Bank Turkey and Jordan Dairy Company (Jordan). He has previously held several high-level political and legislative positions in Jordan. H.E. Kabariti served as Chairman of the Board of Directors of Jordan Kuwait Bank (Jordan) for 24 years. H.E. Kabariti was a member of the Jordanian Senate and Chairman of the Financial and Economic Committee for Education (2005-2007), Member of the Jordanian Senate, First Deputy Speaker of the House of Representatives (2000-2002), Chief of the Royal Court of Jordan (1999-2000), Prime Minister and Minister of Foreign Affairs and Defence (1996-1997), Foreign Affairs (1995-1996) of the Hashemite Kingdom of Jordan, Chairman of the Economic and Financial Committee (1993-1995), Member of the Jordanian Parliament (1989-1997), Minister of Labour of Jordan (1991-1993) and Minister of Tourism of Jordan (1989-1997).

He holds a bachelor degree in Business Administration with Honors from St. Edwards University- Austin, Texas, USA, 1973. He is also an Honorary Doctor of Business Administration (Hon DBA), from Coventry University – UK, 2015.

Mr. Fouad Husni Douglas (Board Member- Independent)

Mr. Douglas has been a board member of Burgan Bank since 2019 and has over 30 years of diversified experience in the banking, audit, and investment sectors. He is currently a Board Audit Committee member at Abu Dhabi Health Services Co (UAE) and an independent audit committee member of Abu Dhabi National Exhibition Services and was a Board member at Burgan Bank Turkey. Prior to joining Burgan Bank, he was Financial Services Leader at Deloitte & Touche

(Toronto Office), and a Partner at Arthur Andersen (Kuwait), at Ernst & Young (Kuwait) and at Price Waterhouse Coopers (Kuwait). He has also served on the board of Ernst & Young (Kuwait) and Price Waterhouse Coopers (Kuwait).

He holds a Bachelor of Business Administration, 1980, and a Masters of Business Administration, 1982 from the American University of Beirut, Lebanon. Mr. Douglas is a Certified Public Accountant (New York, 1988) and a Chartered Accountant (Canada, 1992).

Mr. Mazen Issam Hawwa (Board Member)

Mr. Hawwa joined the Board in June 2022. He has over 25 years of experience in various industries including real estate and financial services. He has been serving as United Real Estate Company's (URC) Vice- Chairman and Group Chief Executive Officer since 2020 and sits on the board of its several group companies. He joined KIPCO as part of the finance and accounts team in 2001 and was last the Deputy Group Chief Operating Officer leading finance and operations. He also serves on the board of several KIPCO operating subsidiaries, advising on strategic directives, financial planning, and governance.

He holds an Executive MBA from HEC Paris and is a graduate of the Lebanese American University. He has attended several executive education programs, including the General Management Program at Harvard Business School, and holds professional qualifications from prominent US-based institutions.

Dr. Amani Khalid Bouresli (Board Member- Independent)

Dr. Bouresli, formerly the Kuwait Minister of Commerce and the Minister of Planning and Development Affairs, joined the Board in June 2022, with more than 30 years of experience in training, consulting and banking. She is the Chairperson of the IB Capital Board of Directors, Vice Chairman of Kuwait Airways and a Board member at the Ithmaar Bank and Faisal Islamic Bank of Egypt. She also serves as a Professor of Finance at Kuwait University's College of Business Administration. Dr. Bouresli has served as a Member of the Board of Trustees at Kuwait Transparency Association. She earned the 2018 Kuwaiti Economic Researcher Award sponsored by the Central Bank of Kuwait, and also earned the Middle East Excellence Award in business administration and economics.

She is the founder of the Governance Excellency Prize. Previously, she was the Founder and Chairperson of Capital Standards Rating Co. (2009 to 2011); Board Member at Burgan Bank, Kuwait (2010 to 2011); and Head of the Capital Market Authority Project (2006 to 2007). Dr. Bouresli began her banking career at the National Bank of Kuwait in 1987, and her teaching career at Kuwait University in 1988.

She holds a bachelor's degree in Finance and Banking from Kuwait University, an MBA from Seattle University, USA, and a PhD in Corporate Finance from Southern Illinois University at Carbondale, USA.

Mr. Sager Abdullah Al Sharhan (Board Member- Independent)

Mr. Al Sharhan joined the Board in June 2022. He is the Chairman & CEO of Al Mutatawera Services Holding Company and has over 30 years of diversified experience in the Banking, Oil & Gas, Education Management, and Investment sectors. He is a Board member at Private Universities Union Secretary, Australian University Industrial Advisory Board, Saudi Makamin and Al Mutatawera Services Holding Company. Previously, he served as the Chairman and Managing Director of Al Dorra Petroleum Company and Managing Director of the Metal and Recycling Company.

He holds a degree in Mechanical Engineering from the University of Kuwait, College of Engineering (1989).

Mr. Michel A. Accad (Board Member- Independent)

Mr. Accad joined the Board in June 2022. He is the Executive General Manager (Group Chief Executive Officer) of BankMed and has over 30 years of diversified experience in the banking and investment sectors. Previously, he served as the Chief Executive Officer of Ahli Bank of Kuwait (2014 to 2019), as CEO for Gulf Bank of Kuwait (2009 to 2014) and oversaw its turnaround following the 2008 crisis and as the Assistant CEO for Arab Bank PLC (2006 to 2009). He is a 27-year veteran of Citigroup, which he joined in 1979. His last post was as Managing Director and CEO for the Middle East and North Africa Division; before that, he was the Country Head for Egypt and Regional Head for North & West Africa; and from the mid-1980s to 2000, he held various CEO and Country Head positions, including for Nigeria. Mr. Accad is a Board member of BankMed (2019-2020); Chairman of BankMed Suisse and T-Bank (from 2020) and was a Board member

of ABK-Egypt and Al-Ahli Capital Investment Company (2014-2020) and was Board member of Europe Arab Bank (2006-2009); Arab Tunisian Bank (2006-2007, and its Chairman in 2008); and Arab Invest (2006-2008).

He holds Master's in Business Administration from the University of Texas at Austin.

Mr. Abdullah Mohammed AlSharekh (Board member)

Mr. AlSharekh joined the Board in June 2022. Currently, he serves as Managing Director of Markets & Investment Banking at Kamco Invest and Vice Chairman at First Securities Brokerage Company KSC (Oula Wasata), both since 2020. He has extensive experience in treasury, corporate banking, investment banking and asset management. Prior to joining Kamco Invest, he led the Economic & Investment team of the Hareer and Boubyan Development Agency and was Managing Director at Sharq Capital where he led investment activity across asset classes. Prior to that, he held several executive positions with key international and regional financial institutions including Executive Director at the Securities Division of Goldman Sachs, Executive Manager of Corporate Banking at the National Bank of Kuwait, in addition to Investment Banking at NBK Capital. He also worked for the Fixed Income Trading Group of Brown Brothers Harriman on Wall Street and the M&A Execution Team of HSBC in London.

He holds a dual BA in Economics and Public & Private Sector Organisations from Brown University, USA and a dual MBA in Finance and Entrepreneurial Management from Wharton School, University of Pennsylvania, USA.

Mr. Abdulaziz Saad Al Rashed (Board Member- Independent)

Mr. Al Rashed joined the Board in July 2023. He has more than 25 years' experience in business including 10 years at Kamco Invest. He has been nominated and appointed to run the Family Business as Chairman & CEO of Al Rashed Group Holding Co. handling various sectors of business and industries, such as Oil & Gas and Infrastructure, Communications, Logistics, Utilities and Power Transmission & Distribution Projects, in 2007. He is also the Chairman of STORK Mechanical Services & Maintenance Co., Vice Chairman of Al Qibla International Real Estate Co., Board Director at Saffar Capital – U.A.E., Board Director at Kalaam Telecom – Bahrain, Board Director at Al Rashed International Shipping Co., Director at Smith International Gulf Services – Kuwait, and Trustee at the Will of Late Abdulaziz Abdulmohsen Al Rashed.

He holds a bachelor's degree in business administration from Eastern Washington University, USA and diplomas in Financial Analysis, Investment Risk Management and Capital market.

Mr. Jamal Abdullah Dashti (Board Member)

Mr. Dashti joined the Board in July 2023. He is the Vice Chairman of Credit One Kuwait Holding Company and Chairman of the Executive Committee. He is the founder of leading entertainment companies in Kuwait and contributed to the establishment and management of several commercial companies in different sectors. Mr. Dashti has held senior management positions in the banking sector. He has more than 20 years of experience in banking and is a member of founding Board of Directors of Warba Bank Kuwait.

He holds a bachelor's degree in economics from the American University in Washington DC, USA and attended several courses in banking, and participated in risk management programs with the largest global financial institutions in the USA.

The business address of each member of the board is: P.O. Box 5389, Safat 12170, Kuwait City, State of Kuwait.

In accordance with applicable regulatory requirements, the Board held an extraordinary general assembly in February 2020, which approved the amendment of the Bank's articles of association allowing its Board to increase from nine to eleven Board Members.

The table below sets out the number and proportion of the shares of the Bank's capital owned by each member of the Board as at 31 December 2023, as follow:

	Direct		Indirect through portfolio managers		Outstanding stock options
	Shares	Per cent.	Shares	Per cent.	Shares
Directors					
Sheikh Abdullah Nasser Sabah Al Ahmad Al Sabah	5,683,006	0.16%	-	-	-
Mr. Faisal M. Sarkhou	1,000	0.00%	-	-	-

	Direct		Indirect through portfolio managers		Outstanding stock options
	<i>Shares</i>	<i>Per cent.</i>	<i>Shares</i>	<i>Per cent.</i>	<i>Shares</i>
Directors					
H.E. Abdulkareem El-Kabariti	-	-	105	0.00%	-
Mr. Mazen Issam Hawwa	105	0.00%	-	-	-
Mr. Abdullah Mohammed AlSharekh	1,200	0.00%	-	-	-
Mr. Fouad Husni Douglas	-	-	-	-	-
Dr. Amani Khalid Bouresli	-	-	-	-	-
Mr. Sager Abdullah Al Sharhan	-	-	-	-	-
Mr. Michel A. Accad	-	-	-	-	-
Mr. Abdulaziz Saad Al Rashed	-	-	-	-	-
Mr. Jamal Abdullah Dashti	1,100	0.00%	-	-	-

Board of Director's Compensation

Issuer's Board of Directors compensation for the year ended 31 December 2023 is as follows:

Board of Directors Compensation	Board fees for 2023 (KD)	Board fees for 2022 (KD)
Board remuneration	110,000	110,000
Committee fees	288,800	345,000
Total	398,800	455,000

Key Management Compensation

For the year ended 31 December 2023, the aggregate compensation remained in line with the aggregate compensation in respect of the previous year; however, the portion of compensation related to performance varied with the performance of the Bank.

Remuneration paid or payable in relation to "key management" (deemed for this purpose to comprise Directors in relation to their committee service, the Chief Executive Officer and other Senior Officers), was as follows:

	2023	2022	2021
	KD 000's		
Short term employee benefits – including salary and bonus	4,889	5,440	4,759
Accrual for end of service indemnity	1,511	1,521	1,485
Accrual for cost of long-term incentive rights	436	859	573
Accrual for committee services	440	440	490
Total	7,276	8,260	7,307

Description of related party transactions

The details of material related party transactions, including any material contract between any of the Bank's directors or their immediate family and the Bank or any of its subsidiaries are set out in note 18 of the 2023 Annual Financial Statements. The Bank's directors and their immediate family conduct business with the Bank and its subsidiaries as customers on commercial, arm's length terms in the normal course of business activities. This includes bank accounts, savings and investment products, and other such services. None of these transactions are for a material amount.

Description of Contracts entered into between Directors or any subsidiaries of the Issuer

Please refer to "Description of related party transactions" above.

Contracts with the Bank in which any Director has a Personal Interest

Please refer to "Description of related party transactions" above.

The outstanding balances and transactions with related parties are as follows:

	2023	2022 (KD 000's)	2021
Consolidated Statement of Financial Position			
Due from banks and OFIs*	178,364	190,190	175,970
Loans and advances to customers*	1,022,043	963,745	968,721
Investment securities	93,780	105,965	126,323
Investment securities managed by a related party	75,619	78,062	82,108
Other assets	6,788	6,244	5,867
Due to banks	8,614	5,367	7,429
Due to other financial institutions	2,507	30,822	64,509
Deposits from customers	184,212	186,544	153,134
Commitments and contingent liabilities			
Letters of credit	13,238	10,245	711
Letters of guarantee	44,872	106,365	69,607
Undrawn lines of credit	29,293	115,829	127,207
Other commitments	12,933	14,867	15,793
Transactions			
Interest income	63,396	42,295	30,912
Interest expense	(5,194)	(846)	(656)
Fee and commission income	912	1,234	804
Fee and commission expenses	(584)	(731)	(517)
Dividend income	131	808	499
Other expense	(9,515)	(4,683)	(10,845)
Other transactions during the year			
Purchase of property and equipment	11	20	1,664
Sale of investment securities	-	3,155	-
Loss on sale of investment securities	-	(3,830)	-
Partial sale of a subsidiary	57,830	-	-
Loss on partial sale of a subsidiary	(3,260)	-	-

* As of 31 December 2023, the fair value of the total eligible collateral to the extent of the outstanding balances amounted to KD 556,740 thousand, 2022: KD 512,533 thousand, and 2021: KD 532,224 thousand).

	2023	2022 (KD 000's)	2021
Board members			
Loans and advances to customers	1,208	5,777	4,995
Deposits from customers	3,190	2,127	978
Executive staff			
Loans and advances to customers	1,610	850	217
Deposits from customers	2,027	3,148	1,983
Letters of guarantee	-	16	18

The Executive Management of the Bank

The table below sets forth certain information with respect to the Executive Management of the Bank.

Name	Position Title	Age of Staff (Years)	Burgen Tenure (Years)
Mr. Antoine J. Daher	Group Chief Executive Officer	53	0.7
Mr. Fadel Mahmoud Abdullah	Chief Executive Officer - Kuwait	59	25.3
Mr. Khalid Fahed Al Zouman	Chief Financial Officer	59	24
Mr. Andrew Christopher Singh	Chief Risk Officer	57	8.9
Mr. Naqeeb Hamed Amin	General Manager - Human Resources & Development Group	52	0.1
Mr. Venkatakrisnan Menon	Chief Operating Services Officer	59	18.7

Mr. Mahmoud Mohamed Ezzat Moursi	General Manager - Legal Group	54	5.2
Mr. Mohamed Najeb AL Zanki	General Manager - Corporate Banking	43	14
Mr. Naser Mohammad Al Qaisi	General Manager - Retail Banking	55	14.7
Mr. Abdullah Abdelmajeed Marafie	General Manager - Treasury	49	9.5
Mr. Meshari Abduljalil Shehab	General Manager - Private Banking & Wealth Management	49	0.2
Mr. Manaf Khaled AlMenaifi	General Manager - Strategic Planning & Monitoring	47	3.2
Mr. Mohammad Abdullah Al Zayed	General Manager - Operations	47	14.5
Mr. Barrak Jassem AlMattar	General Manager - Information Technology	45	0.4
Mrs. Huda Fahad Al Shemmari	General Manager - International Banks Office	54	20.4
Mr. Kenneth Ashleigh Wainwright	Chief Internal Audit Officer	55	4.5
Ms. Reham Essa Sultan	Deputy General Manager - Compliance Group	47	16.6
Mr. Hamad Abdulhadi Mohammad	Deputy General Manager - Anti Financial Crimes Group	44	0.8
Ms. Kholoud AbdulRedha AlFeeli	Deputy General Manager - Marketing & Communication	58	3
Mr. Saud Abdulaziz Al Hadbah	Deputy General Manager - General Services Administration	50	13.6
Mr. Abdullah Alosta	Deputy General Manager - Board Secretariat & Corporate Governance	68	6.2

The business address of each member of the Executive Management is P.O. Box 5389, Safat 12170, State of Kuwait.

Mr. Antoine J. Daher - Group Chief Executive Officer

Mr. Daher joined Burgan Bank in 2023 and has over 25 years of experience with strong knowledge and expertise in the banking and financial industry. He is currently responsible for driving Burgan Bank's mission to be the community's go-to financial partner.

Previously, he has served as Deputy CEO of Gulf Bank from 2013 until 2016 and as CEO from 2016 until 2023. He has also served as General Manager for Domestic Corporate Banking at National Bank of Kuwait from 2011 to 2013 and Head of the Domestic Multinational unit from 2007 to 2011. Earlier in his career, Mr. Daher also worked at National City Bank in the USA where he held several positions in Project Finance, Structured Finance, Corporate Banking, and Capital Markets. He holds a Bachelor of Science Degree in Civil Engineering from Cleveland State University and a Master's Degree in Business Administration (MBA) from Case Western Reserve University in Ohio. He has also attended Executive Education courses given by Harvard Business School.

Mr. Fadel Mahmoud Abdullah - Chief Executive Officer- Kuwait

Mr. Abdullah joined Burgan Bank in 1998 and has over 34 years of experience in the financial sector. He is currently responsible for designing, implementing, and steering the new strategic direction of the Bank to enhance market share in Kuwait and help drive higher profitability of the Bank over the next five years.

His appointment comes in line with the Bank's key strategic goal of investing in its human capital and the long-term growth and development of senior leadership.

He has held several leadership positions during his 25-year long career with Burgan including Chief Corporate Banking Officer. Prior to joining Burgan Bank, he has worked with Al Ahli Bank of Kuwait, and has experience in various fields covering finance, investment, corporate banking, and HR. He holds a Bachelor of Science Degree in Mathematics from Kuwait University.

Mr. Khalid Fahed Al Zouman - Chief Financial Officer

Mr. Al Zouman joined the Bank in 2000 and has over 35 years of experience in financial management both in Kuwait and international markets. His overall responsibilities include optimising the financial performance of Burgan Bank Group through formulation, planning and management of the strategic plans. He is also responsible for the development and implementation of financial controls and financial reporting along with ongoing initiatives that support group synergies. He had joined the Bank as Head of Risk Management and became Chief Financial Officer in 2003.

Previously, he has held senior financial management roles with Ernst & Young in Kuwait and in the USA. He is a Certified Public Accountant from the State of New Hampshire, USA, and holds a Bachelor's Degree in Computer Science from Kuwait University.

Mr. Andrew Christopher Singh - Chief Risk Officer

Mr. Singh joined Burgan Bank in 2015 and has over 35 years of extensive experience in risk management, and a proven record in enterprise-wide risk management in developed and emerging markets. He is currently responsible for establishing the Group's risk strategies, enhancement of the Bank's Risk Management Framework as well as the implementation of risk policies and governance of Burgan Bank.

Previously, he has held the positions of Regional Head of Enterprise Risk for Europe at Credit Suisse, Regional Head of Risk Americas at Depfa Bank Plc, and Group Chief Risk Officer at EFG Hermes Holding for the Middle East and North Africa. He has also held various risk and control related roles at JP Morgan Asia Pacific and UK. He holds a Bachelor of Science Degree in Chemistry from Imperial College, London, and is an Associate of the Royal College of Science in Management Science.

Mr. Naqeeb Hamed Amin– General Manager- Human Resources & Development Group

Mr. Amin joined the Bank in November 2023 and has over 26 years of experience in human resources, change management and sales in various industries. He is currently responsible for leading and achieving sustainable human capital growth through developing and building a high-performance culture within the Bank that continuously elevates the organisation's capabilities to deliver the Bank's strategies and goals. He is also responsible for the strategies pertaining to remuneration, rewards, talent acquisition, learning, talent development, succession planning and staff engagement to collectively ensure that "People" are the competitive edge of the Bank.

Previously, he has worked at Ahli United Bank, Kuwait as General Manager - Human Resources with a recent focus on leading the change management and employee engagement in the bank as well as managing the HR Transformational projects for the group. He holds a Bachelor's Degree from the University of South Carolina and has also completed several Executive Leadership programs at Harvard Business School.

Mr. Venkatakrishnan Menon - Chief Operating Services Officer

Mr. Menon joined Burgan Bank in 2005 and has over 38 years of experience. He has held several leadership positions at the Bank, including Group Chief Operations and Technology Officer, Chief Retail Banking Officer, Chief Operations Officer, led the Bank's digital transformation initiative & the Centre of Excellence function. He is responsible for leading the Information Technology, Operations, Digital Transformation & General Services Administration Departments at the Bank.

Previously, he has held several senior management roles in organisations such as Qatar National Bank, BNP Paribas, Standard Chartered Bank and HDFC Bank. He holds a Master's Degree in Business Administration and a Bachelor's Degree in Science from the University of Mumbai, India.

Mr. Mahmoud Mohamed Ezzat Moursi- General Manager- Legal Group

Mr. Moursi joined Burgan Bank in 2018 and has more than 27 years of experience within the legal domain. He is currently responsible for managing and leading the legal team to provide a full range of legal strategies in line with the Bank's overall strategic vision. He provides strategic legal services on matters covering local and international legal affairs, corporate governance, credit recovery, disclosure and litigation while ensuring legal compliance across the Bank.

He has previously worked at Burgan Bank for 17 years and then at Boursa Kuwait as the Executive Director of Legal and Market Supervision, and later as Head of CMA Commissioners' Counsel and a Senior Counsel (in the Counsels Bureau related to the Board of Commissioners). He holds a Bachelor's Degree in Law from Cairo University, School of Law and during his professional career, he has contributed to new Kuwait laws and bylaws.

Mr. Mohamed Najeb AL Zanki - General Manager- Corporate Banking

Mr. Al Zanki joined Burgan Bank in 2010 and has over 18 years of experience in the banking sector. He is currently responsible for growing the Corporate Banking business for the Bank. In 2010, he joined the Bank as a Senior Corporate Relationship Manager then led Contracting Unit from 2015 to 2017, before being appointed as the Head of Corporate Banking - Assistant General Manager in 2018. He also managed the Financial Institutions Department delivering growth across all corporate functions. He was appointed as General Manager - Corporate Banking in 2023.

He holds a Bachelor of Science in International Business Administration from the University of Baltimore, USA. Additionally, he has pursued further education in investment from the Kuwait Investment Authority and completed a few Executive Education programs from Harvard Business School and INSEAD and holds alumni status at both institutions.

Mr. Naser Mohammad Al Qaisi- General Manager- Retail Banking

Mr. Al Qaisi joined Burgan Bank in 2009 and has over 33 years of experience in the banking and financial sector. He is currently responsible for guiding, directing, formulating, and overseeing the implementation of the Retail Banking Group's

overall strategy for Burgan Bank. He has held various leadership roles at the Bank showcasing his abilities in managing operations, customer service, sales, and business development.

Previously, he has worked at Gulf Bank, Investment Dar, International Financial Advisor (IFA) Hotel and resorts. He holds a Bachelor of Business Administration and Management Degree and a Master of Business Administration (MBA) Degree. He has completed his Senior Executive Leadership Program - Middle East (SELPME) with Harvard Business School.

Mr. Abdullah Abdelmajeed Marafie - General Manager- Treasury

Mr. Marafie joined Burgan Bank in 2014 and has over 20 years of expertise in banking and global financial markets, in leadership roles within the Treasury & Investments sector. He is currently responsible for the execution of the Treasury's strategic initiatives for the Bank. At Burgan, he has identified and harnessed business growth opportunities while planning the optimal funding strategy. His efforts not only complement the Group's expansion but also ensure strict adherence to regulatory guidelines. In addition to his role at Burgan Bank, he is also a board member at Real Estate Facilities Investment Company in Kuwait and 91 Springboard in Singapore.

Previously, he has worked with Gulf Bank and Qatar National Bank. He holds a Bachelor's Degree in Electrical Engineering from Cornell University, USA, and has completed Executive Leadership programs at Harvard Business School.

Mr. Meshari Abduljalil Shehab - General Manager- Private Banking & Wealth Management

Mr. Shehab joined Burgan Bank in 2023 and has over 20 years of experience in Private, Retail & Affluent Banking, Investments & Wealth Management, Product Development, and Strategic Planning. He is currently responsible for directing and executing the Private Banking & Wealth Management strategy for Burgan Bank in line with its strategic objectives.

Previously, he held the position of Deputy General Manager of Private Banking & Wealth Management at Ahli United Bank. He graduated from the American University of Beirut, Lebanon with an Executive Master of Business Administration and a Bachelor's Degree in Finance from the University of Miami, USA. He has also completed the General Management Program (GMP) from Harvard Business School, USA.

Mr. Manaf Khaled AlMenaifi - General Manager- Strategic Planning & Monitoring

Mr. AlMenaifi joined Burgan Bank in 2020 and has over 21 years of experience in the banking industry mainly in Corporate Finance, SME Banking, Consumer Banking, Collections & Recoveries, and Investment Banking. He is currently responsible for formalizing Burgan's strategic planning process and the oversight of the entire strategic transformation plan for the Bank.

Previously, he has held several executive roles including Director General at the National Fund for SME Development, Principal at Investcorp, Executive Manager Corporate Finance Kuwait Finance House, and various key roles in Corporate Finance and Consumer Banking in National Bank of Kuwait, Boubyan Bank and Commercial Bank of Kuwait. He holds a Bachelor's Degree in Business Administration MIS (Management Information Systems) from Northeastern University Boston, Master of Business Administration from London Business School, certificate in Leading Strategic Growth and Change from Columbia Business School and CCM from the Institute of Banking studies. He has also completed his Senior Executive Leadership Program - Middle East (SELPME) with Harvard Business School.

Mr. Mohammad Abdullah Al Zayed- General Manager- Operations

Mr. AlZayed joined Burgan Bank in 2009 and has over 25 years of experience in communication systems, programming, and banking operations, is currently responsible for leading the strategic execution of the Bank's operational functions comprises of Banking Operations, Transfers, Customer Trade Services, Loan Operations, Treasury & Investment Operations. He has successfully established a framework for the management of Burgan Bank's operations including process requirements, design, and execution.

Previously, he has worked at HSBC Bank Middle East, Kuwait Investment Authority, and the Ministry of Defense. He holds a Diploma in Electronic Communications Engineering. He has completed his Senior Executive Leadership Program - Middle East (SELPME) with Harvard Business School.

Mr. Barrak Jassem AlMattar- General Manager - Information Technology

Mr. AlMattar joined Burgan Bank in 2023 and has more than 21 years of experience in the Information Technology domain. He is currently responsible for leading the Bank's efforts to strengthen its digital transformation, modernizing IT operations, implementing security controls, and aligning IT objectives with the Bank's strategies and goals, especially ensuring a seamless banking experience for customers.

Previously, he has worked with the Equate Petrochemical Company, and KIB Bank. At Equate Petrochemical Company, he executed several projects including Business Intelligence, Data Center Migration, Cloud Strategy Execution, and

notably, leading the IT facet of the acquisition of ME Global Company across multiple nations. At KIB, he propelled the bank into the digital era, pioneering a comprehensive IT overhaul underscored by strategic revamps, talent development, and organisational restructures. He holds a Bachelor of Science in Management Information Systems (MIS) from Kuwait University. He is an SAP-certified consultant and has been a Board Member of SAP User Group MENA and holds various certifications, including Six Sigma (Green Belt).

Mrs. Huda Fahad Al Shemmari - General Manager- International Banks Office

Mrs. Al Shemmari joined Bank in 2003 and has more than 30 years of experience. She is currently responsible for monitoring Burgan Bank Group's subsidiaries and affiliates and acts as the focal point of contact with the Bank's subsidiaries. Her role ensures an alignment with the overall group governance and regulatory mandates, whilst promoting constructive synergies and interaction between Burgan Bank and its subsidiaries.

Previously, she has worked for Commercial Bank of Kuwait. She holds a Master in Business Administration (MBA) in Financial Management, Bachelor of Science Degree in General Studies from Southeastern University and Bachelor of Arts in English Language & Literature from Arab Open University. She is also certified by local and international institutes such as the Institute of Banking Studies-CCM, ACIDealing Certificate, Business Continuity Institute-MBCI, SHRP and IRCA.

Mr. Kenneth Ashleigh Wainwright – Chief Internal Audit Officer

Mr. Wainwright joined Burgan Bank in 2019 and has over 31 years of experience in audit and risk management across the US, EMEA and APAC. He is currently responsible for leading the Internal Audit group to ensure the provision of independent assurance on the Bank's control environment as well as to provide and support appropriate governance for the Bank and its subsidiaries.

Previously, he has held several senior roles with Citigroup and the Royal Bank of Scotland. He is a Chartered Internal Auditor, and a Fellow of the International Compliance Association. He holds a Master of Science in Risk Management from University College Dublin's Michael Smurfit Graduate Business School (Ireland), a Bachelor of Arts (Honours) in European Business Studies from the University of Ulster (UK), a Maitrise from the University of Caen (France), a Professional Postgraduate Diploma from ICA / Alliance Manchester Business School (UK) and he has passed the Kuwait CMA Rules and Regulations exam.

Ms. Reham Essa Sultan - Deputy General Manager - Compliance Group

Mrs. Sultan joined Burgan Bank in 2007 and has over 25 years of experience in risk management, anti-money laundering and compliance. She is currently responsible for developing, monitoring, and implementing strategies under the guidance of the principles issued by the regulators within Kuwait as well as outside of Kuwait for all the subsidiaries. She has held several roles at Burgan Bank including specializing in risk, regulatory compliance, anti-money laundering as well as sanction risks.

Previously, she has worked in credit risk at the Bank of Kuwait and the Middle East. She holds a Bachelor's Degree of Science in Industrial Engineering from Kuwait University.

Mr. Hamad Abdulhadi Mohammad - Deputy General Manager- Anti Financial Crimes Group

Mr. Mohammad joined Burgan Bank in 2023 and has over 18 years of experience in Banking, Retail, Risk Management, Anti-Money Laundering and Combating Financing of Terrorism and Suspicious Activity Reports. He is currently responsible for guiding, directing, and overseeing the prevention, detection, investigation, analysis, and reporting of all suspected and confirmed internal and external financial crime incidents and risks that result in direct or indirect losses to Burgan Bank Group.

Previously, he was heading the AML and CFT Unit at Kuwait Finance House, responsible for handling of regulatory requirements, creating the policy and procedure ensuring effective accounts and transaction monitoring. He has also held various key roles during his tenure at Kuwait Finance House. Prior to that, he was in National Bank of Kuwait as Senior Branch Manager. He holds a Bachelors of Computer Science and Information degree and has attended Harvard Business School Executive Education programs, ACAMS, Lean Six Sigma (Blackbelt), RMP-PMI.

Ms. Kholoud AbdelRedha AlFeeli - Deputy General Manager - Marketing & Communication

Mrs. AlFeeli joined Burgan Bank in 2021 and has over 30 years of experience in communications, stakeholder engagement, strategic planning, CSR, and project management. She is currently responsible for Marketing and Corporate Communications for the Bank.

Previously, she has worked with several companies including Equate, Zain Kuwait and Zain International Group, Wataniya Telecom, Turkapital Investment (KFH), Kuwait International Bank (KIB) and Kuwait News Agency. She holds a Bachelor

of Arts in Political Science from Kuwait University and is a winner of the Dame Violet Dickson Award from the British Council.

Mr. Saud Al Hadbah - Deputy General Manager- General Services Administration

Eng. Saud. Al Hadbah joined the Bank in 2010 and has over 24 years of experience in the General Services Administration. He is currently responsible for guiding the General Services Administration department to achieve efficiency gains and cost savings with a heightened focus on environmental sustainability for the Bank. He has a pivotal role to play in optimizing the Bank's administrative and support functions, implementing innovative solutions, and streamlining processes.

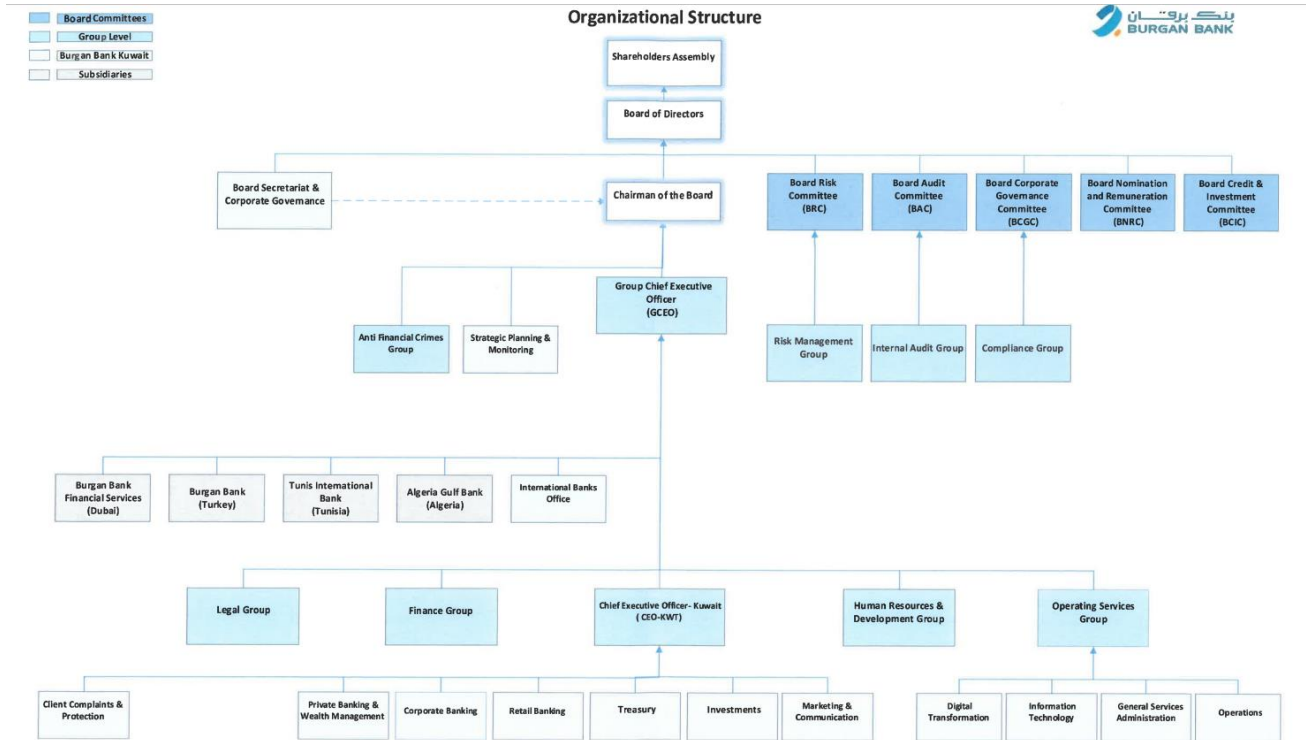
Previously, he has worked at the Ministry of Interior and Al Ahli Bank of Kuwait. He holds a Bachelor's Degree in Civil Engineering from the University of Toledo, Ohio.

Mr. Abdullah Alostha - Deputy General Manager- Board Secretariat & Corporate Governance

Mr. Alostha joined Burgan Bank as Board Secretary & Corporate Governance Officer in 2017. Mr. Al Osta possesses extensive expertise in corporate governance best practices in addition to over 30 years of experience in banking, local and international Investments, management and Board affairs, enabling him with the combination of skills and high-level expertise required for this responsibility. Mr. Alostha holds a Bachelor's degree in business from Grand View College, USA.

CORPORATE GOVERNANCE STRUCTURE

The diagram below summarises the Bank's corporate governance structure.



The Bank is committed to upholding the highest international standards of corporate governance, balancing innovation, control and transparency through all its dealings, and maintaining value for all of the Bank's stakeholders. The Board has resolved that good faith, integrity, compliance, quality and respect must guide the conduct of staff at all times, when engaged in the Bank's business. These principles apply equally in dealings with clients, counterparties, regulatory authorities, business colleagues and towards the Bank itself. In order to apply these principles in a consistent manner, the Board has approved a formal Code of Business Conduct, which all employees are given upon commencement of work with the Bank, including requiring them to enter into a confidentiality undertaking. In addition to the Code of Business Conduct, the corporate governance framework for the Bank comprises extensive operational policies and procedures, internal and external audit and compliance procedures, effective communications, transparent disclosure, accountability and measurement to assist the Board in shaping and monitoring corporate governance and practices as well as to evaluate the Bank's compliance with existing policies.

Key Board Committees

The following summarises the objectives and duties of the principal Board committees. In some cases, the detailed implementation of a committee function is delegated to a subcommittee on an ad hoc or ongoing basis.

Board Corporate Governance Committee ("BCGC")

The BCGC is mainly responsible for corporate governance framework, reviews and updates the corporate governance manual and develops new corporate governance policies, reviews the structure and composition of the Board and its committees, as well as their respective charters and reviews and recommends the Group's corporate governance disclosures to the Board. The BCGC consists of at least three Board members (one member must be an independent member).

Board Audit Committee ("BAC")

BAC is mainly responsible for setting and overseeing the sufficiency of internal controls and the audit functions of the Bank, along with ensuring compliance with applicable laws, regulations, policies and codes of business conduct and ethics. It also oversees the Bank's adherence to applicable laws, instructions, policies and codes of business conduct and ethics; and ensures compliance with disclosure rules as well as other financial reporting and legal requirements. The BAC consists of at least three non-executive members (one must be an independent member).

Board Risk Committee ("BRC")

The BRC is mainly responsible for reviewing and providing reports to the Board of Directors on the current and future risk strategy and tolerance of the Bank, supervising the implementation of this strategy by the Executive Management and

ensuring the existence of effective systems for risk management in the Bank and the independence of the Risk Management function. BRC is also responsible to appoint Chief Risk Officer on approval from the board, and review stress testing framework. The BRC consists of at least three non-executive members (one must be an independent member).

Board Nomination & Remuneration Committee ("BNRC")

The BNRC is responsible for setting up performance standard and succession plans for the Executive Management and for nominating potential Board members. BNRC also reviews the Board's structure on an annual basis and undertakes performance evaluations of the Board and its individual Members on an annual basis. It sets up program for upskilling of board members and develops a Bank-wide reward policy in line with applicable laws and regulations. The BNRC consists of at least three non-executive members (one must be an independent member).

The Board Credit and Investment Committee ("BCIC")

BCIC is responsible for overseeing the Bank's lending, credit recovery and investment activities, making recommendations to the Board of Directors ("the Board") within its delegated authorities, and implementing decisions made by the Board of Directors. It also reviews and monitors the exercise of delegations and ensuring compliance with the approved authorisation matrix under the Bank's Credit Policy; and oversees the rules and regulations governing related parties including the rules of granting credit to Board Members. The BCIC consists of at least four board members.

LITIGATION STATEMENT ABOUT DIRECTORS AND SENIOR MANAGEMENT

Within the period of five years preceding the date of this Prospectus, none of the Directors or members of Executive Management:

- has any convictions in relation to fraudulent offences;
- has been a director or senior manager of any company at the time of any bankruptcy, receivership or liquidation of such company; or
- has received any official public incrimination and/or sanction by any statutory or regulatory authorities (including designated professional bodies) or has been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of a company.

KEY SUBSIDIARY

Burgan Bank A.S. (BBT)

Overview

BBT was originally founded in 1989 as Tekfen Yatırım Finansman Bankası AŞ (Tekfen Investment Finance Bank Inc). In 2006, the Tekfen Group entered into a strategic partnership agreement with Eurobank EFG, as a result of which the bank's name was changed to Eurobank Tekfen. On 21 December 2012, the Group acquired a 99.3 per cent. stake in Eurobank Tekfen and subsequently rebranded it as Burgan Bank A.S. In December 2023, the Bank sold 52.0 per cent. stake in BBT to Al Rawabi United Holding Company. As at 31 December 2023, the Group's stake in BBT stood at 47.6 per cent.

Eurobank Tekfen's subsidiaries (EFG Istanbul Equities and EFG Leasing) have also been re-branded as Burgan Securities Inc. and Burgan Leasing, respectively. Burgan Securities Inc. is a financial intermediary that serves retail and institutional investors operating in the domestic and/or international markets. While, Burgan Leasing offers financial lease for equipment & technology investment and operating lease for full service fleet rent.

BBT is a mid-sized bank (in terms of asset size) with focus on corporate banking sector and is expanding its presence in retail business. It operates under the supervision of Banking Regulation and Supervision Agency (BRSA). It caters to the demands and expectations of customers through a diverse portfolio of products and services in corporate, commercial, small business, retail and private banking products and services. As at 31 December 2023, BBT had a network of 29 branches and 22 ATMs, and a total of 1,256 employees.

For the year ended 31 December 2023, BBT's operating income (before consolidation adjustments) was 34.6 per cent. of the Group's operating income compared to 25.8 per cent. for the year ended 31 December 2022 (before consolidation adjustments) and 15.0 per cent. for the year ended 31 December 2021 (before consolidation adjustments). As at 31 December 2023, BBT's total assets (before consolidation adjustments) amounted to 11.6 per cent. of the Group's total assets, compared to 13.4 per cent. of the Group's total assets as at 31 December 2022 (before consolidation adjustments), and 12.4 per cent. of the Group's total assets as at 31 December 2021 (before consolidation adjustments).

Financial Summary

BBT's capital adequacy ratio was 20.6 per cent as at 31 December 2023, in accordance with the CBK's regulations.

The following table summarises key financial information of BBT for the years ended 31 December 2023, 31 December 2022 and 31 December 2021 prepared in accordance CBK regulations.

	As at / for the year ended 31 December		
	2023	2022	2021
	<i>KD'000 unless otherwise stated</i>		
Total Assets	913,887	1,027,686	943,405
Loans and Advances to Customers	477,557	600,462	616,709
Customer Deposits	387,422	599,100	554,004
Shareholders' Equity Attributable to Parent	114,397	101,405	54,380
Net Interest Income	24,616	31,430	19,632
Operating Income	75,422	57,801	33,721
Expenses	28,386	20,232	18,290
Loan Loss Provisions	20,289	23,159	25,341
Net Income Attributable to Parent	13,392	4,595	(7,816)
Non-performing Loans Ratio	0.9%	4.2%	6.7%
Capital Adequacy Ratio	20.6%	18.2%	15.1%

Gulf Bank Algérie (AGB)

Overview

AGB was established on 15 December 2003 as a commercial bank in Algeria. It provides retail and corporate banking products and services, which include car loans, mortgages, consumer loans and Islamic financing. It has also invested in technology and provides real-time operations such as SWIFT services, SMS banking and internet banking. As at 31 December 2023, AGB had a network of 65 branches and 110 ATMs with a total of 1,042 employees.

For the year ended 31 December 2023, AGB's operating income (before consolidation adjustments) was 17.4 per cent. of the Group's operating income compared to 15.6 per cent. of the Group's operating income for the year ended 31 December 2022 and 15.4 per cent. of the Group's operating income for the year ended 31 December 2021 (before consolidation adjustments). As at 31 December 2023, AGB's total assets (before consolidation adjustments) amounted to 9.8 per cent. of the Group's total assets, compared to 9.2 per cent. of the Group's total assets as at 31 December 2022 (before consolidation adjustments), and 8.7 per cent. of the Group's total assets as at 31 December 2021 (before consolidation adjustments).

Financial Summary

AGB's capital adequacy ratio was 13.4 per cent. as at 31 December 2023, in accordance with the CBK's regulations.

The following table summarises key financial information of AGB for the years ended 31 December 2023, 31 December 2022 and 31 December 2021 prepared in accordance with CBK regulations.

	<i>As at / for the year ended 31 December</i>		
	2023	2022	2021
	<i>In KD'000 unless otherwise stated</i>		
Total Assets	771,799	707,007	659,681
Loans and Advances to Customers	432,891	424,164	403,529
Customer Deposits	623,017	577,572	538,018
Shareholders' Equity Attributable to Parent	97,914	89,398	81,269
Net Interest Income	28,039	28,076	27,564
Operating Income	38,024	35,085	34,694
Expenses	19,994	17,493	15,312
Loan Loss Provisions	3,899	3,583	3,618
Net Income Attributable to Parent	8,795	8,555	9,727
Non-performing Loans Ratio	4.0%	2.4%	2.6%
Capital Adequacy Ratio	13.4%	13.5%	13.2%

Tunis International Bank S.A. (TIB)

Overview

TIB was established in June 1982 as the first fully licensed offshore banking corporation in Tunisia. TIB operates under the supervision of the Central Bank of Tunisia (CBT). It is also a member of Tunisia's Clearing House Association. It provides a comprehensive range of products and services in Tunisia and overseas, which include foreign exchange and money market services in all convertible currencies (including Tunisian dinars), international trade financing, forfaiting, private banking facilities, commercial banking services, loan syndications and investments services and issuing Visa and American Express cards. TIB operates through 3 branches in Tunisia and a representative office in Libya and had 101 employees as at 31 December 2023.

For the year ended 31 December 2023, TIB's operating income (before consolidation adjustments) was 4.3 per cent. of the Group's operating income compared to 3.0 per cent. of the Group's operating income for the year ended 31 December 2022 (before consolidation adjustments) and 2.1 per cent. for the year ended 31 December 2021 (before consolidation adjustments). As at 31 December 2023, TIB's total assets (before consolidation adjustments) amounted to 2.0 per cent. of the Group's total assets, compared to 1.7 per cent. of the Group's total assets as at 31 December 2022 (before consolidation adjustments), and 1.8 per cent. of the Group's total assets as at 31 December 2021 (before consolidation adjustments).

Financial Summary

TIB's capital adequacy ratio was 30.1 per cent. as at 31 December 2023 in accordance with the CBK's regulations.

The following table summarises key financial information of TIB for the years ended 31 December 2023, 31 December 2022 and 31 December 2021 prepared in accordance with CBK regulations.

	As at / for the year ended 31 December		
	2023	2022	2021
	<i>In KD\$'000 unless otherwise stated</i>		
Total Assets	153,636	132,793	138,159
Loans and Advances to Customers	8,518	9,360	9,367
Customer Deposits	67,299	64,766	57,238
Shareholders' Equity Attributable to Parent	55,059	52,715	49,949
Net Interest Income	5,666	3,086	2,675
Operating Income	9,369	6,720	4,814
Expenses	2,371	2,184	2,258
Loan Loss Provisions	1,184	249	358
Net Income Attributable to Parent	2,876	2,464	1,378
Non-performing Loans Ratio	0.7%	0.3%	0.4%
Capital Adequacy Ratio	30.1%	31.9%	34.2%

CAPITALIZATION AND BORROWINGS

The following table presents the Bank's capitalization as at 31 December 2023, as well as pro-forma figures post the Bond issuance:

KD Million	31 December 2023	Post Bond Issuance 31 December 2023 (Pro Forma)
EQUITY		
Share capital	345.2	345.2
Share premium	282.8	282.8
Treasury shares	(1.7)	(1.7)
Statutory reserve	117.9	117.9
Voluntary reserve	118.3	118.3
Other reserves	(185.9)	(185.9)
Retained earnings	185.7	185.7
Total equity attributable to the equity holders of the Bank	862.2	862.2
Perpetual Tier 1 capital securities	153.4	303.4 ³
Non-controlling interests	(14.7)	(14.7)
Total Equity	1,000.9	1,150.9
LIABILITIES		
Due to banks	701.9	701.9
Due to other financial institutions	437.2	437.2
Deposits from customers	4,463.2	4,463.2
Other borrowed funds	550.0	550.0
Other liabilities	272.8	272.8
Total Liabilities	6,425.2	6,425.2
TOTAL LIABILITIES AND EQUITY	7,426.1	7,576.1

Affirmation of Paid-Up Capital

The Bank affirms that as at the 31 December 2023, the Bank's share capital is fully paid and amounts to KD 345.2 million represented by 3,452,203,125 shares of KD 100 fils each.

³ Assuming issuance of new Perpetual Tier 1 capital securities of KD 150 million

PROFIT DISTRIBUTIONS BY THE BANK

The following table presents the profit distributions by the Bank since 2018:

Dividend Distribution

<i>For the year ended 31 December</i>	2018	2019	2020	2021	2022	2023
Date of approval	27 March 2019	12 April 2020	6 June 2021	5 April 2022	1 April 2023	30 March 2024
Cash dividend (in Fils)	12	12	5	5	8	6
Stock dividend (%)	5%	--	5%	5%	5%	5%

SELECTED FINANCIAL INFORMATION

The selected financial information below has been extracted from, should be read in conjunction with, and is qualified in its entirety by reference to, the Group's consolidated financial statements and the notes thereto as at and for the years ended 31 December 2023, 31 December 2022 and 31 December 2021, which have each been incorporated by reference in this Base Prospectus.

Consolidated Statement of Financial Position Data

The following table shows the Group's consolidated statement of financial position data as at 31 December 2023, 31 December 2022 and 31 December 2021.

	As at 31 December		
	2023	2022	2021
	(KD 000's)	(KD 000's)	(KD 000's)
ASSETS			
Cash and cash equivalents	870,332	659,384	821,608
Treasury bills and bonds with CBK and others	364,286	301,554	247,393
Due from banks and other financial institutions	656,532	482,101	331,324
Loans and advances to customers.....	4,236,942	4,227,737	4,278,709
Investment securities	732,205	714,149	649,266
Other assets.....	372,114	258,048	277,562
Property and equipment.....	176,982	163,071	150,153
Intangible assets.....	16,738	17,530	18,412
	7,426,131	6,823,574	6,774,427
Disposal group held for sale	-	342,386	300,488
Total Assets	7,426,131	7,165,960	7,074,915
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks.....	701,942	278,146	518,756
Due to other financial institutions.....	437,236	699,421	364,829
Deposits from customers	4,463,243	3,932,491	4,161,731
Other borrowed funds.....	549,961	783,392	622,483
Other liabilities	272,845	243,891	225,768
	6,425,227	5,937,341	5,893,567
Liabilities directly associated with the disposal group held for sale	-	281,204	249,423
Total Liabilities	6,425,227	6,218,545	6,142,990
EQUITY			
Share capital	345,220	328,781	313,125
Share premium.....	282,802	282,802	282,802
Treasury shares.....	(1,742)	(1,742)	(1,742)
Statutory reserve.....	117,903	113,234	107,755
Voluntary reserve	118,281	113,612	108,133
Other reserves ⁴	(185,941)	(269,121)	(223,218)
Retained earnings	185,694	178,500	151,028

⁴ Other reserves and Retained earnings as at 31 December 2022 have been reclassified in the 2023 Annual Financial Statements.

	As at 31 December		
	2023	2022	2021
	(KD 000's)	(KD 000's)	(KD 000's)
Total equity attributable to the equity holders of the Bank	862,217	746,066	737,883
Perpetual Tier 1 capital securities.....	153,375	153,150	151,250
Non-controlling interests.....	(14,688)	48,199	42,792
Total Equity	1,000,904	947,415	931,925
Total Liabilities and Equity	7,426,131	7,165,960	7,074,915

Consolidated Statement of Income Data

The following table shows the Group's consolidated statement of income data for the years ended 31 December 2023, 31 December 2022 and 31 December 2021.

	For the year ended 31 December		
	2023	2022	2021
	(KD 000's)	(KD 000's)	(KD 000's)
Interest income	448,309	323,478	254,121
Interest expense	(313,446)	(176,014)	(125,947)
Net interest income	134,863	147,464	128,174
Fee and commission income.....	46,125	48,225	40,841
Fee and commission expense	(8,441)	(7,276)	(5,498)
Net fee and commission income	37,684	40,949	35,343
Net gain from foreign currencies.....	20,370	15,275	17,161
Net investment income	7,750	7,002	29,581
Dividend income	1,483	2,002	1,291
Other income ⁶	19,588	15,208	23,180
Net operating income	221,738	227,900	234,730
Staff expenses.....	(59,580)	(53,178)	(46,289)
Other expenses.....	(56,652)	(53,898)	(48,520)
Operating profit	105,506	120,824	139,921
Provision for credit losses.....	(47,818)	(25,287)	(84,636)
Recoveries from written-off debt ⁵	43,015	4,150	-
Provision (charge) release for other financial assets	(877)	10	12
Net monetary loss	(32,094)	(24,597)	-
Profit for the year before taxation and Board of Directors' remuneration	67,732	75,100	55,297
Taxation.....	(22,527)	(16,440)	(6,708)
Board of directors' remuneration	(110)	(110)	-
Profit for the year	45,095	58,550	48,589
Attributable to:			
Equity holders of the Bank	43,547	52,130	45,389
Non-controlling interests.....	1,548	6,420	3,200
	45,095	58,550	48,589
Basic and diluted earnings per share attributable to the equity holders of the Bank (fils)	10.0	12.0	12.5

⁵ Other Income and Recoveries from written-off debt for the year ended 31 December 2022 have been reclassified in the 2023 Annual Financial Statements.

Consolidated Statement of Comprehensive Income Data

The following table shows the Group's consolidated statement of comprehensive income data for the years ended 31 December 2023, 31 December 2022 and 31 December 2021.

	For the year ended 31 December		
	2023 (KD 000's)	2022 (KD 000's)	2021 (KD 000's)
Profit for the year	45,095	58,550	48,589
Other comprehensive loss:			
<i>Items that will not be reclassified to consolidated statement of income in subsequent periods:</i>			
Net change in fair value of equity instruments at fair value through other comprehensive income	(10,530)	(20,964)	(9,046)
	(10,530)	(20,964)	(9,046)
<i>Items that are or may be reclassified to consolidated statement of income in subsequent periods:</i>			
Debt instruments at fair value through other comprehensive income:			
Net change in fair value	7,463	(23,647)	(6,977)
Net transfer to consolidated statement of income .	(1,212)	(729)	(385)
Foreign currency translation adjustment	(34,413)	(18,844)	(43,147)
Changes in fair value of cash flow hedges	4,139	11,786	4,863
Net gain on hedge of a net investment	14,522	2,449	9,362
Reversal of disposal group held for sale:			
Net transfer to consolidated statement of income on sale of disposal group held for sale.....	6,153	-	-
Other comprehensive loss for the year	(13,878)	(49,949)	(45,330)
Total comprehensive income for the year	31,217	8,601	3,259
Attributable to:			
Equity holders of the Bank	30,425	1,360	1,062
Non-controlling interests	792	7,241	2,197
	31,217	8,601	3,259

Consolidated Statement of Cash Flows Data

The following table shows the Group's consolidated statement of cash flows data for the years ended 31 December 2023, 31 December 2022 and 31 December 2021.

	For the year ended 31 December		
	2023 (KD 000's)	2022 (KD 000's)	2021 (KD 000's)
Operating activities			
Profit for the year before taxation and Board of directors' remuneration	67,732	75,100	55,297
Adjustments:			
Net investment income	(7,750)	(7,002)	(29,581)
Provision for credit losses	47,818	25,287	84,636
Provision charge (release) for other financial assets.....	877	(10)	(12)
Dividend income	(1,483)	(2,002)	(1,291)
Depreciation and amortisation	15,803	14,053	12,684

	For the year ended 31 December		
	2023	2022	2021
	<i>(KD 000's)</i>	<i>(KD 000's)</i>	<i>(KD 000's)</i>
Net monetary loss	32,094	24,597	-
Operating profit before changes in operating assets and liabilities	155,091	130,023	121,733
Changes in operating assets and liabilities:			
Treasury bills and bonds with CBK and others	(62,732)	(106,960)	(51,698)
Due from banks and other financial institutions	(172,396)	(141,610)	132,350
Loans and advances to customers	(58,905)	35,802	(68,157)
Other assets	(112,248)	22,686	(11,208)
Due to banks	422,667	(243,487)	107,159
Due to other financial institutions	(262,185)	334,592	(245,425)
Deposits from customers	530,752	(200,613)	120,849
Other liabilities ⁶	(30,945)	(5,876)	(10,470)
Taxation paid	(9,699)	(12,646)	(4,737)
Net cash flows (used in) from operating activities	399,400	(188,089)	90,396
Investing activities			
Purchase of investment securities	(554,404)	(497,159)	(512,185)
Proceeds from sale of investment securities	557,790	409,297	480,792
Purchase of property and equipment	(19,980)	(24,715)	(2,951)
Net movement in non-controlling interests	-	26	-
Dividend income received	1,483	2,002	1,291
Net cash outflow on sale of disposal group held for sale	(109,692)	-	-
Proceeds from partial sale of subsidiary	57,830	-	-
Net cash flows used in investing activities	(66,973)	(110,549)	(33,053)
Financing activities			
Other borrowed funds	(233,431)	160,695	(56,629)
Cash dividend paid to equity holders of the Bank	(26,262)	(15,632)	(13,102)
Cash dividend paid to non-controlling interests	(820)	(1,932)	(271)
Proceeds from increase of share capital	-	-	71,250
Right shares issuance cost	-	-	(298)
Interest payment on Tier 1 capital securities	(8,835)	(8,815)	(8,677)
Net cash flows (used in) from financing activities	(269,348)	134,316	(7,727)
Net increase / (decrease) in cash and cash equivalents	63,079	(164,322)	49,616
Effect of foreign currency translation ⁷	-	-	(42,604)
Cash and cash equivalents at 1 January	807,253	971,575	964,563
Cash and cash equivalents at 31 December	870,332	807,253	971,575
Additional cash flow information:			
Interest received	398,216	337,137	226,778
Interest paid	283,321	167,883	133,416

⁶ Other liabilities and Effect of foreign currency translation for the year ended 31 December 2022 have been reclassified in the 2023 Annual Financial Statements.

FINANCIAL REVIEW

Consolidated Statement of Financial Position Data

As at 31 December 2023, 31 December 2022 and 31 December 2021

As at 31 December 2023, the Group's consolidated total assets stood at KD 7,426.1 million compared to KD 7,166.0 million as at 31 December 2022, representing an increase of 3.6 per cent. The increase in consolidated total assets was primarily a result of a 36.2 per cent. increase in due from banks and other financial institutions, which accounted for 8.8 per cent. of the total assets, from KD 482.1 million as at 31 December 2022 to KD 656.5 million as at 31 December 2023.

As at 31 December 2023, loans and advances to customers (net of provisions), which accounted for 57.1 per cent. of the Group's total assets, increased by 0.2 per cent., from KD 4,227.7 million as at 31 December 2022 to KD 4,236.9 million as at 31 December 2023.

The table below shows the Group's gross loans and advances to customers portfolio, provisions and net loans and advances to customers to total deposit ratios as at 31 December 2023, 31 December 2022 and 31 December 2021.

	As at 31 December		
	2023	2022	2021
	<i>(KD 000's)</i>	<i>(KD 000's)</i>	<i>(KD 000's)</i>
Gross loans and advances to customers ⁽¹⁾	4,419,668	4,383,542	4,436,257
Less: provision.....	(182,726)	(155,805)	(157,548)
Net loans and advances to customers⁽²⁾.....	4,236,942	4,227,737	4,278,709
Loans to customer deposits.....	94.9%	107.5%	102.8%
Net loans and advances to customers/total deposits ⁽³⁾	75.6%	86.1%	84.8%

Notes:

(1) Gross loans and advances to customers comprises total loans and advances provided to customers disregarding provision.

(2) Net loans and advances to customers comprise gross loans and advances to customers less provision.

(3) Total deposits comprises due to banks, due to other financial institutions and deposits from customers.

Cash and cash equivalents, which represented 11.7 per cent. of the Group's total assets as at 31 December 2023, increased by 32.0 per cent. from KD 659.4 million as at 31 December 2022 to KD 870.3 million as at 31 December 2023. The increase was primarily due to a 70.4 per cent. increase in due from banks and OFIs with original maturity within thirty days from KD 189.3 million as at 31 December 2022 to KD 322.6 million as at 31 December 2023. The balance with CBK increased by 49.5 per cent. from KD 168.7 million as at 31 December 2022 to KD 252.2 million as at 31 December 2023.

Treasury bills and bonds with CBK and others, which accounted for 4.9 per cent. of the total assets, increased by 20.8 per cent. from KD 301.6 million as at 31 December 2022 to KD 364.3 million as at 31 December 2023. Investment securities, which accounted for 9.9 per cent. of the Group's total assets, increased by 2.5 per cent., from KD 714.1 million as at 31 December 2022 to KD 732.2 million as at 31 December 2023. Property and equipment, which accounted for 2.4 per cent. of the Group's total assets, increased by 8.5 per cent., from KD 163.1 million as at 31 December 2022 to KD 177.0 million as at 31 December 2023.

Consolidated Assets - Geographic segmentation

The following table sets out the Bank's consolidated assets by country as at 31 December 2023, 31 December 2022 and 31 December 2021.

	As at 31 December		
	2023 (KD 000's)	2022 (KD 000's)	2021 (KD 000's)
Assets – Geographical segmentation			
Kuwait	6,029,406	5,462,902	5,547,991
Turkey	913,887	1,027,686	943,405
Algeria	771,799	707,007	659,681
Iraq	-	355,223	317,466
Tunisia	153,636	132,793	138,159
Consolidation adjustments	(442,597)	(519,651)	(531,786)
Total	7,426,131	7,165,960	7,074,915

As at 31 December 2023, the Group's largest geographical asset exposure after Kuwait was Turkey, followed by Algeria, and Tunisia, representing 11.6 per cent., 9.8 per cent. and 2.0 per cent. of the Group's total assets, respectively (calculated on a consolidated basis before consolidation adjustments). As at 31 December 2022, the Group's largest geographical asset exposure after Kuwait was Turkey, followed by Algeria, Iraq and Tunisia, representing 13.4 per cent., 9.2 per cent., 4.6 per cent. and 1.7 per cent. of the Group's total assets, respectively (calculated on a consolidated basis before consolidation adjustments).

Total Liabilities

The table below shows the Group's funding in the form of due to banks, due to other financial institutions, deposits from customers, other borrowed funds other liabilities and liabilities directly associated with the disposal group held for sale as at 31 December 2023, 31 December 2022, and 31 December 2021.

	As at 31 December					
	2023		2022		2021	
	(KD 000's)	(% of total liabilities)	(KD 000's)	(% of total liabilities)	(KD 000's)	(% of total liabilities)
Due to banks	701,942	10.9%	278,146	4.5%	518,756	8.4%
Due to other financial institutions	437,236	6.8%	699,421	11.2%	364,829	5.9%
Deposits from customers	4,463,243	69.5%	3,932,491	63.2%	4,161,731	67.7%
Other borrowed funds	549,961	8.6%	783,392	12.6%	622,483	10.1%
Other liabilities	272,845	4.2%	243,891	3.9%	225,768	3.7%
Liabilities directly associated with the disposal group held for sale	-	-	281,204	4.5%	249,423	4.1%
Total Liabilities	6,425,227	100.0%	6,218,545	100.0%	6,142,990	100.0%

As at 31 December 2023, the consolidated total liabilities of the Group increased by 3.3 per cent. to KD 6,425.2 million as compared to KD 6,218.5 million as at 31 December 2022. The increase was principally due to increase in deposits from customers by 13.5 per cent. to KD 4,463.2 million as at 31 December 2023 as compared to KD 3,932.5 million as at 31

December 2022 and increase in amount due to banks by 152.4 per cent. to KD 701.9 million as at 31 December 2023 as compared to KD 278.1 million as at 31 December 2022.

Customer deposits (which as at 31 December 2023 constituted 69.5 per cent. of the Group's total liabilities) increased by 13.5 per cent. from KD 3,932.5 million as at 31 December 2022 to KD 4,463.2 million as at 31 December 2023. This increase is on account of improvement in the domestic deposits by 25.8 per cent. from KD 2,691.1 million as at December 2022 to KD 3,385.5 million as at 31 December 2023.

Consolidated Statement of Income and Consolidated Statement of Comprehensive Income

Years ended 31 December 2023, 31 December 2022 and 31 December 2021

Net Operating Income

The Group's net interest income decreased by 8.5 per cent. from KD 147.5 million for the year ended 31 December 2022 to KD 134.9 million for the year ended 31 December 2023. This decrease was principally the result of 78.1 per cent. increase in interest expense from KD 176.0 million for the year ended 31 December 2022 to KD 313.4 million for the year ended 31 December 2023. Interest income increased from KD 323.5 million for the year ended 31 December 2022 to KD 448.3 million for the year ended 31 December 2023, representing an increase of 38.6 per cent.

The Group's net fee and commission income decreased by 8.0 per cent. from KD 40.9 million for the period ended 31 December 2022 to KD 37.7 million for the period ended 31 December 2023. The Group's net operating income decreased by 2.7 per cent. from KD 227.9 million for the year ended 31 December 2022 to KD 221.7 million for the year ended 31 December 2023.

Consolidated Net Operating income - Geographic segmentation

The following table sets out the Bank's consolidated net operating income data by country for the years ended 31 December 2023, 31 December 2022, and 31 December 2021.

	As at 31 December		
	2023	2022	2021
	<i>(KD 000's)</i>	<i>(KD 000's)</i>	<i>(KD 000's)</i>
Net Operating Income			
Kuwait	95,442.3	102,221.9	134,446.4
Turkey	75,422.5	57,801.0	33,721.2
Algeria	38,024.0	35,084.8	34,694.4
Iraq	-	22,548.9	16,961.4
Tunisia	9,369.4	6,719.9	4,813.6
Consolidation adjustments	3,479.4	3,523.6	10,093.0
Total	221,737.6	227,900.0	234,730.0

Operating Profit and Profit for the Year

Operating profit before provision decreased by 12.7 per cent. from KD 120.8 million for the year ended 31 December 2022 to KD 105.5 million for the year ended 31 December 2023. Profit for the year decreased by 23.0 per cent. from KD 58.6 million for the year ended 31 December 2022 to KD 45.1 million for the year ended 31 December 2023.

Total comprehensive income

The Group recorded total comprehensive income of KD 31.2 million for the year ended 31 December 2023 compared to a total comprehensive income of KD 8.6 million for the year ended 31 December 2022. The increase was primarily due to a positive net change in fair value of KD 7.5 million for the year ended 31 December 2023 as compared to negative KD 23.6 million for the year ended 31 December 2022 and higher net gain on hedge of a net investment which increased from KD 2.4 million in year ended 31 December 2022 to KD 14.5 million for year ended 31 December 2023.

Key Financial Ratios

The following table sets out certain key ratios calculated with results derived from the Financial Statements. These ratios are not calculated on the basis of IFRS and are not IFRS measures of financial performance.

	As at / for the year ended 31 December		
	2023	2022	2021
Key Measures of Profitability			
Return on Average ¹ Assets (ROAA) ²	0.6	0.7	0.6
Return on Average ¹ Equity (ROAE) ³	5.4	7.0	6.4
Net interest margin ⁴	2.0	2.2	1.9
Net interest spread ⁵	1.3	1.7	1.6
Efficiency			
Cost to income ⁶	52.4	47.0	40.4
Total operating expenses ⁷ to average total assets	1.6	1.5	1.3
Asset Quality			
Non-performing loans ⁸ to cash exposure ⁹	2.0	1.9	1.7
Risk provision ¹⁰ to non-performing loans ⁸	220.5	205.7	226.6
Non-performing loans ⁸ net of collateral to cash exposure ⁹ .	0.4	0.2	0.3
Non-performing assets ⁸ to total exposure ⁹	1.8	1.8	1.6
Risk provision ¹⁰ to non-performing assets ⁸	213.0	197.5	213.1
Non-performing assets ⁸ net of collateral to total exposure ⁹	0.5	0.4	0.5
Cost of credit ratio ¹¹	0.1	0.5	1.9
Funding / Liquidity / Capitalisation			
Loans to customer deposits.....	94.9	107.5	102.8
Loans to total assets	57.1	59.0	60.5
Total assets to total equity ¹²	8.6	9.6	9.6
Total liabilities to total equity ¹²	7.5	8.3	8.3
Capital Adequacy Ratio ¹³	20.0	16.8	17.5
Tier 1 Capital Ratio ¹³	16.1	13.2	13.8
Liquidity ratio ¹⁴	25.5	20.1	19.8

¹ Average numbers for 31 December are computed as average of the fiscal year end and corresponding preceding fiscal year end.

² Calculated as profit for the year attributable to equity holders of the Bank divided by average total assets.

³ Calculated as profit for the year attributable to equity holders of the Bank divided by average total equity attributable to the equity holders of the Bank.

⁴ Calculated as net interest income for the year divided by average interest earning assets. Interest earning assets comprise all assets excluding other assets, property and equipment, and intangible assets. The average for these assets is calculated as a simple average of the opening and closing balances of interest earning assets for the relevant year.

⁵ Calculated as yield (interest income / average interest earning assets) less cost of funds (interest expenses / average interest-bearing liabilities). Interest bearing liabilities comprise due to banks, due to other financial institutions, deposits from customers, other borrowed funds and liabilities directly associated with the disposal group held for sale. The average for these liabilities is calculated as a simple average of the opening and closing balances of interest bearing liabilities for the relevant year.

⁶ Calculated as total operating expenses (being the sum of staff expenses and other expenses) divided by net operating income.

⁷ Sum of staff expenses and other expenses.

- ⁸ Non-performing loans constitute a subset of non-performing assets and includes exposures to OFIs / banks. In addition to loans and advances to customers and cash exposures to OFIs / banks, non-performing assets include non-cash exposures.
- ⁹ Cash exposure includes cash credit facilities to customers, OFIs and banks (excluding placements). Total exposure includes cash and non-cash credit facilities to customers, OFIs and banks (excluding placements).
- ¹⁰ Risk provision against non-performing loans is a sub-set of risk provision against non-performing assets. In addition to total provisions, i.e. sum of general and specific provisions, available against loans and advances to customers and exposure to OFIs / banks, risk provision against non-performing assets also includes provisions for non-cash credit facilities.
- ¹¹ Calculated as provision for credit losses for the year divided by gross loans and advances to customers.
- ¹² Total equity represents total equity attributable to the equity holders of the Bank.
- ¹³ Calculated in accordance with the requirements of the CBK's Basel III regulations.
- ¹⁴ Calculated as the sum of cash and cash equivalents, treasury bills and bonds with CBK and others and due from banks and other financial institutions divided by total assets.

Further information

For further detail on the financial information of the Group, please see: (i) the notes to the 2023 Annual Financial Statements and (ii) the notes to the 2022 Annual Financial Statements

PREVIOUS ISSUANCES BY THE BANK

The Bank has issued various securities in the past. All previous securities issuances of the Bank are listed below.

1) Number and details of securities issuances by the Bank, not classified as capital securities:

Issue Date	Value (million)	Tenor (Yrs)	Basis	Coupon (Per cent)	Interest Payment Frequency	Status
11-Jun-01	KD 30.0	5	Fixed	6.750	Semi-annual	Repaid
17-Apr-02	KD 30.0	5	Fixed	5.875	Semi-annual	Repaid
14-Sept-16	USD 500	5	Fixed	3.125	Semi-annual	Repaid
30-Dec-18	KD100	3	Fixed	4.125	Semi-annual	Repaid

All the above issuances have been repaid.

2) Number and details of securities issuances guaranteed by the Bank, and classified as Additional Tier 1 Capital Securities:

Issue Date	Value (million)	Tenor (Yrs.)	Basis	Coupon (Per cent)	Interest Payment Frequency	Status
30-Sep-14	USD 500 ^(a)	Perpetual ^(b)	Fixed	7.250	Semi-annual	Repaid
9-July-19	USD 500	Perpetual	Fixed	5.7492 ^(c)	Semi-annual	Outstanding

(a) The Perpetual Securities were fully redeemed on their first call date of 30 September 2019.

(b) The Bank has the option to redeem the securities on their first call date of 30 September 2019, or on any interest payment date thereafter.

(c) So long as the securities remain outstanding, pricing will be reset every five years to a rate equal to the weekly average yield to maturity for U.S. Treasury securities with a maturity of five years plus a margin of 4.007%.

3) Number and details of securities issuances by the Bank, and classified as Tier 2 Capital Securities:

Issue Date	Value (million)	Tenor (Yrs.)	Basis	Coupon (Per cent)	Interest Payment Frequency	Status
27-Sep-10	USD 400	10	Fixed	7.875	Semi-annual	Repaid
27-Dec-12	Fixed KD 41.1 Floating KD 58.9	10	Fixed Floating	5.650 CBK DR + 390bps	Semi-annual	Repaid
9-Mar-16	Fixed KD 30.1 Floating KD 69.9	10	Fixed Floating	6.000 CBK DR + 395bps	Semi-annual	Repaid
8-Dec-20	USD 500 ^(a)	11 ^(b)	Fixed	2.750 ^(c)	Semi-annual	Outstanding

(a) The Tier 2 securities are non-callable for the first six years (11NC6).

(b) The Bank has the option to redeem the securities on their first call date of 15 September 2026, or on any interest payment date thereafter.

(c) So long as the securities remain outstanding, pricing will be reset on the first call date to a rate equal to the weekly average yield to maturity for U.S. Treasury securities with a maturity of five years plus a margin of 2.229%.

4) Number and details of Share Capital issuances since incorporation:

Issue Date	Issue type	Total Number of shares	Value (KD)	Increase (%)	Type of shares
1980	New shares issuance	3,000,000	12,000,000	30.0	Ordinary shares
1982	New shares issuance	4,200,000	16,800,000	30.0	Ordinary shares
1984	New shares issuance	24,068,406	96,273,624	100.0	Ordinary shares
27-Apr-10	Rights Issue	360,000,000	100,800,000	34.6	Ordinary shares
15-Mar-11	Bonus Shares	70,066,544	7,006,654	5.0	Ordinary shares
12-Mar-12	Bonus Shares	73,569,870	7,356,987	5.0	Ordinary shares
01-Apr-13	Bonus Shares	77,248,359	7,724,836	5.0	Ordinary shares
20-Apr-14	Bonus Shares	113,555,088	11,355,509	7.0	Ordinary shares

30-Nov-14	Rights Issue	216,000,000	102,600,000	12.4	Ordinary shares
15-Apr-15	Bonus Shares	97,588,531	9,758,853	5.0	Ordinary shares
30-Apr-17	Bonus Shares	102,467,957	10,246,796	5.0	Ordinary shares
25-Apr-18	Bonus Shares	107,591,355	10,759,136	5.0	Ordinary shares
10-Oct-18	Rights Issue	240,581,530	62,551,198	10.6	Ordinary shares
17-April-19	Bonus Shares	125,000,000	12,500,000	5.0	Ordinary shares
10-Jun-21	Bonus Shares	131,250,000	13,125,000	5.0	Ordinary shares
28-Nov-21	Rights Issue	375,000,000	71,25,000	13.6	Ordinary shares
27-April-22	Bonus Shares	156,562,250	15,656,250	5.0	Ordinary shares
26-April-23	Bonus Shares	164,439,062	16,443,906	5.0	Ordinary shares

Burgan Bank K.P.S.C. - Movement in Share Capital from 1 January 2015 to Q3 2023

Year	As at 1 January (KD'000)	Bonus Shares (KD'000)	Rights Issue (KD'000)	As at 31 December/30 June(KD'000)
2015	195,177	9,759		204,936
2016	204,936			204,936
2017	204,936	10,247		215,183
2018	215,183	10,759	24,058 ^(a)	250,000
2019	250,000	12,500		262,500
2020	262,500			262,500
2021	262,500	13,125	37,500 ^(b)	313,125
2022	313,125	15,656		328,781
Q3 2023	328,781	16,439		345,220

- (a) On 10 October 2018, the Bank raised KD 62,551,198 through the Rights Issue of 240,581,530 shares at an offer price of KD 0.260 per share, comprising a nominal value of KD 0.100 per share and a premium of KD 0.160 per share. The Rights Issue was fully subscribed to, resulting in a KD 24,058,153 increase in Share Capital, and a Share Premium of KD 38,493,045.
- (b) On 28 November 2021, the Bank raised KD 71,25,000 through the Rights Issue of 375,000,000 shares at an offer price of KD 0.190 per share, comprising a nominal value of KD 0.100 per share and a premium of KD 0.90 per share. The Rights Issue was fully subscribed to, resulting in a KD 37,500,000 increase in Share Capital, and a Share Premium of KD 33,750,000.

RISK FACTORS

Any investment in the Bonds is subject to a number of risks and uncertainties. Prospective investors should consider carefully the risks and uncertainties associated with the Group's business and any investment in the Bonds, together with all of the information that is included in this Prospectus and should form their own view before making an investment decision in with respect to the Bonds. In particular, prospective investors should evaluate the risks and uncertainties referred to or described below, which may have a material adverse effect on the Group's business, results of operations and financial condition. Should one or more of the following events or circumstances occur at the same time or separately, the value of the Bonds could decline, and an investor might lose part or all of their investment.

The Group believes that the factors described below represent the principal risks inherent in investing in the Bonds, but the Group's inability to pay interest, principal or other amounts on or in connection with the Bonds may occur for other reasons and the Group does not represent that the statements below regarding the risks of holding the Bonds are exhaustive. Additional risks not presently known to the Group or that the Group currently deems immaterial may also impair the Group's ability to pay interest, principal or other amounts on or in connection with the Bonds.

This Prospectus also contains forward-looking statements that involve risks and uncertainties. The Group's actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including the risks faced by the Group described below and elsewhere in this Prospectus. See the statement about forward-looking statements under "Important Notices".

FACTORS THAT MAY AFFECT THE ISSUER'S ABILITY TO FULFIL ITS OBLIGATIONS UNDER OR IN CONNECTION WITH THE BONDS

The Bank may experience a higher level of customer and counterparty defaults arising from adverse changes in credit and recoverability that are inherent in the Bank's business

Risks arising from a deterioration in the credit quality and the recoverability of amounts due from borrowers and counterparties are inherent in banking businesses. While the Bank has detailed policies to deal with overdue loans, there can be no assurance that these policies will result in the full or partial recovery of its overdue loans. As at 31 December 2023, 31 December 2022, and 31 December 2021 non-performing loans (net of collateral) amounted to 0.4 per cent., 0.2 per cent., and 0.3 per cent., respectively, of the Bank's cash exposure. A substantial increase in loan losses would have a material adverse effect on the Bank's business, financial condition, results of operations or prospects.

Credit risks could also arise from a deterioration in the credit quality of specific borrowers and counterparties of the Bank or from adverse changes in global and regional economic conditions, or adverse changes which arise from systemic risks in the financial systems, which could affect the recovery and value of the Bank's assets and require an increase in the Bank's provisions. Adverse fluctuations in the factors mentioned above, amongst others, could have a material adverse effect on the Bank's business, financial condition, results of operations or prospects.

Economic, political and related considerations

The Bank's operations are focused on the Middle East, North Africa and Turkey (**MENAT**) region. While its primary operations are based in Kuwait, the Bank also operates through subsidiaries in Algeria, Tunisia and Turkey. The Bank's operations are thus exposed to geo-political risks associated with the relatively unstable MENAT region which could adversely affect its performance. The demand for services provided by the Bank and its subsidiaries is particularly susceptible to adverse changes in economic and market conditions in the MENAT region.

Kuwait's economy remains exposed to both external and internal shocks, including volatility in oil prices, political, economic and related developments in Kuwait, the other Gulf Cooperation Council (**GCC**) countries (i.e. Bahrain, Oman, Qatar, Saudi Arabia and the UAE) and the MENAT region, but also resulting from political and economic instability in surrounding countries such as Iran and Iraq. These risks include, but are not limited to, external acts of warfare, civil clashes, terrorist activity, natural disasters, and regulatory, taxation and legal structure changes.

The oil sector is the principal contributor to Kuwait's economy and oil revenues account for the majority of the Kuwaiti government's (the **Government**) total revenues and export earnings. According to the Central Statistics Bureau (the **CSB**),

the oil sector accounted for 44.3 per cent., 55.0 per cent. and 49.3 per cent. of Kuwait's real gross domestic product (**GDP**) in 2021, 2022 and nine months ended 30 September 2023. The oil sector continues to be the main contributor to Kuwait's annual revenues and is estimated to account for 88.0 per cent. of total Government revenues for the fiscal year ended 31 March 2024, according to the Kuwait Ministry of Finance. Accordingly, Kuwait's economy is significantly impacted by, and is dependent upon, international oil prices.

The price of the Organization of the Petroleum Exporting Countries (**OPEC**) reference basket has fluctuated significantly in recent years. The yearly price trend indicates the prices have varied from c.USD 59 between 2014-2024, based on OPEC Data. The Kuwaiti Government recorded fiscal deficits in each fiscal year from and including 2019-2022 but reported surplus in 2023, according to the Kuwait Ministry of Finance. The Kuwait Ministry of Finance has recently approved a budget for the fiscal year 2023-24 projecting a deficit of KD 6.8 billion based on an oil price of USD 70.0 per barrel. The budget is expansionary with spending expected to increase by 11.7 per cent. over the previous budget. Capital expenditures are targeted to be KD 2.5 billion.

Any sustained period of low crude oil prices will negatively affect Kuwait's economy. For example, the Government reduced Government expenditure by undertaking a process of rationalisation of its subsidy framework, fully removing kerosene and diesel subsidies in January 2015, introducing new electricity and water tariff structures to reduce the related subsidies and partially removing gasoline subsidies in September 2016. The subsidy structure may be further reviewed in case of drop in oil prices due to expected global slowdown. Ancillary industrial activities related to oil and gas exploration and production may be negatively affected by any sustained period of low oil prices. Furthermore, sectors that are dependent on Government consumption may also be adversely affected by lower levels of economic activity that may result from reduced Government revenue from oil and gas production. Additionally, although the CBK has the ability to adjust the components of the undisclosed weighted basket of international currencies of Kuwait's major trade and financial partner countries (the **Kuwaiti Dinar Basket**) against which the KD is pegged, there can be no assurance that the CBK will maintain the Kuwaiti Dinar Basket at its current level, which could lead to higher inflation, and negatively affect confidence in the Kuwaiti economy.

See "*Risks relating to Kuwait and the MENAT region — The Bank's subsidiaries are located in a region that is subject to ongoing political and security concerns*" below for further details on how developments in the operating environments of the Bank's subsidiaries may adversely affect its performance.

The business and results of operations of the Bank and its subsidiaries and the market price of the Bonds are influenced by economic and market conditions in Kuwait and the jurisdictions in which the Bank's subsidiaries are located and, to a varying degree, economic and market conditions in the global markets generally. Developments in the subsidiaries' operating environments could have a material adverse effect on the Bank and its subsidiaries' business, financial condition, results of operations or prospects. Additionally, global financial crises and volatility in the emerging markets in the past have adversely affected market prices in the world's securities markets for companies that operate in developing economies. Even if the Kuwaiti economy, and/or the economies of the jurisdictions in which the Bank's subsidiaries are located, remain relatively stable, financial turmoil in emerging markets and globally could have a material adverse effect on the Bank and its subsidiaries' business, financial condition, results of operations or prospects and the market price of the Bonds.

Security interests or loan guarantees provided in favour of the Bank may not be sufficient to cover any losses and may not be legally enforceable

The practice of pledging assets (such as share portfolios and real estate assets) to obtain a bank loan is subject to certain limitations and administrative restrictions under Kuwaiti law. In particular, such security may not be enforced without a court order. As a result, security over certain pledged assets may not be enforced in Kuwaiti courts. Accordingly, the Bank may have difficulty foreclosing on collateral (including any real estate collateral) or enforcing guarantees or other third-party credit support arrangements when debtors default on their loans.

In addition, even if such security interests are enforceable in Kuwaiti courts, the time and costs associated with enforcing security interests in Kuwait may make it uneconomic for the Bank to pursue such proceedings, adversely affecting the Bank's ability to recover its loan losses.

The Bank typically requires additional collateral in the form of cash and/or other assets in situations where the Bank may not be able to exercise rights over pledged shares or where it enters into guarantees or other third-party credit support arrangements for loans made to individuals and corporations. Any decline in the value or liquidity of such collateral may prevent the Bank from foreclosing on such collateral for its full value or at all in the event that a borrower becomes insolvent and enters bankruptcy and could thereby adversely affect the Bank's ability to recover the full amounts advanced to the borrower.

The occurrence of any of the foregoing could have a material adverse effect on the Bank's business, results of operations, financial condition and prospects.

Lending base concentration risk

A substantial proportion of the Bank's total loan portfolio constitutes loan exposures to related parties, see "Ownership concentration and related party exposures" below. As at 31 December 2023, the Bank's top 10 largest loans accounted for 29.3 per cent., of its "gross loans and advances to customers plus due from other financial institutions". Of these loans, 81.2 per cent. as at 31 December 2023, (representing 23.8 per cent. of "gross loans and advances to customers plus due from other financial institutions" as at 31 December 2023) were made to related parties. In addition, the Bank has a high concentration of loans provided within Kuwait and has substantial exposure to the real estate sector, mainly in Kuwait, which as at 31 December 2023, 31 December 2022 and 31 December 2021 accounted for 21.3 per cent., 22.8 per cent. and 25.6 per cent., respectively, of "gross loans and advances to customers plus due from other financial institutions".

The Bank has cash exposure to local investment companies, as at 31 December 2023, 31 December 2022, and 31 December 2021 of 0.9 per cent., 1.3 per cent., and 0.9 per cent., respectively, of "gross loans and advances to customers plus due from other financial institutions".

As at 31 December 2023 retail loans made up 11.8 per cent. and corporate loans made up 88.2 per cent. of the Bank's aggregate loan portfolio, 78.6 per cent. of which comprises loans issued to individuals or corporates in Kuwait.

If Kuwait experiences adverse economic or geopolitical conditions generally or any crisis in the real estate sector more specifically, then this may affect the repayment ability of a large proportion of the Bank's borrowers, which could have a material adverse effect on the Bank's business, financial condition, results of operations or prospects.

Deposit base concentration risk

As at 31 December 2023, the Bank received 76.3 per cent. (KD 4,900.5 million), of its total funding⁷ from deposits (retail, corporate, government and non-bank financial institutions). As at 31 December 2023, the Bank's top 10 largest deposits accounted for 24.5 per cent., of these deposits. As at 31 December 2023, the Bank's top depositor represented 8.5 per cent., of these deposits.

The Bank's funding includes institutional, government and quasi-governmental entities' deposits in Kuwait which are contracted on a commercial basis. As at 31 December 2023 the Bank's total funding from deposits by government and quasi-governmental entities accounted for 2.7 per cent., of its total deposits in Kuwait (or 2.1 per cent. of the Group's total deposits as at 31 December 2023). These funds have been a stable source of funding to the Kuwaiti banking sector for many years but there can be no assurance that deposits from government and quasi-governmental entities will be available at the current level in the future. The loss of a significant source of funding could increase the Bank's cost of funding by requiring it to seek funding from other expensive sources and have a material adverse effect on the Bank's business, financial condition, results of operations or prospects.

As at the date of this Prospectus, the CBK guarantees all banks' retail and corporate customer deposits in Kuwait.

Liquidity risk

⁷ Total funding refers to total liabilities excluding, in 2019, liabilities directly associated with the disposal group held for sale

Liquidity risk is the risk that the Bank will be unable to meet its obligations, including funding commitments, as they fall due. This could arise from, amongst other factors, the inability of the Bank to anticipate and provide for an unforeseen decrease or changes in funding sources.

In common with other banks in Kuwait and the MENAT region, the Bank has historically relied substantially on customer deposits to meet most of its funding needs. Such deposits are subject to fluctuation due to certain factors outside the Bank's control, such as any possible loss of confidence and competitive pressures, which could result in a significant outflow of deposits within a short period of time. If such outflows of deposits were to occur, it could cause liquidity difficulties for the Bank, which in turn could have a material adverse effect on the Bank's business, financial condition, results of operations or prospects.

The Bank's liquidity may also be adversely affected by a number of factors, including significant unforeseen changes in interest rates, ratings downgrades, maturity mismatches between the Bank's funding and assets, higher than anticipated losses on investments and disruptions in the financial markets generally which in turn may result in the Bank not being able to access the markets from which it raises funds at favourable rates.

Should any of the abovementioned factors materialise, they could have a material adverse effect on the Bank's business, financial condition, results of operations or prospects.

Changes in interest rate levels may affect the Bank's net interest margins and borrowing costs, and the value of assets sensitive to interest rates and spread changes may be adversely affected

The Bank is exposed to unexpected fluctuations in market interest rates. An increase in interest rates generally may decrease the value of the Bank's fixed rate loans and raise the Bank's funding costs. Such an increase could also generally decrease the value of fixed rate debt securities in the Bank's securities portfolio. Volatility in interest rates may result in a pricing gap between the Bank's interest-rate sensitive assets and its liabilities. As a result, the Bank may incur additional costs in raising and maintaining capital. Interest rates react to many factors beyond the Bank's control, including, for example, the policies of central banks, political factors and domestic and international economic conditions. Any adverse effects of future interest rate fluctuations could have a material adverse effect on the Bank's business, financial condition, results of operations or prospects.

Deterioration in the market value of the Bank's securities portfolio may affect the values of the Bank's investment and trading portfolios. The Bank's income from securities operations depends on numerous factors beyond its control, such as overall market trading activity, interest rate levels, fluctuations in currency exchange rates and general market volatility. The Bank also engages, to a limited extent, in foreign currency transactions and maintains open currency positions in relation to a number of currencies, which give rise to currency risks.

Future changes in foreign currency and interest rate risks may have a material adverse effect on the Bank's business, financial condition, results of operations or prospects.

If the Bank is unable to effectively control the level of, or successfully restructure, its non-performing loans with debtors in financial distress, or if its provision for credit losses are insufficient to cover loan losses the Bank's financial condition and results of operations could be adversely affected

The Bank's asset quality has remained robust during the year ended 31 December 2023, 31 December 2022, and 31 December 2021. Non-performing loans were 2.0 per cent. of total exposure as at 31 December 2023 as compared to 1.9 per cent., and 1.7 per cent. of total exposure as at 31 December 2022, and 31 December 2021, respectively. Current levels of non-performing loans may not be indicative of future trends.

The Bank's coverage ratio (excluding collateral) stood at 213.0 per cent. as at 31 December 2023 as compared to 197.5 per cent., and 213.1 per cent., as at 31 December 2022, and 31 December 2021, respectively. There can be no assurance that the coverage ratio will increase in the future and affect the financial results of the Bank. Any further decrease in the

coverage ratio may have a material adverse effect on the Bank's business, financial condition, results of operations or prospects.

The Bank has credit-related contingent liabilities and commitments that may lead to potential losses

As part of its normal banking business, the Bank issues guarantees, letters of credit and acceptances which are accounted for off the Bank's balance sheet until such time as they are actually funded or cancelled. In addition, the Bank makes irrevocable commitments to advance credit to its customers. Although these commitments are contingent, they nonetheless subject the Bank to both credit and liquidity risks. As at 31 December 2023, the Bank had KD 1,251.0 million in such contingent liabilities and commitments outstanding, equal to 22.1 per cent. of its combined loans and advances to customers and contingent liabilities (excluding advances to OFI).

Although the Bank anticipates that only a portion of its obligations in respect of these commitments will be triggered and funds itself accordingly, the Bank may need to make payments in respect of a greater portion of such commitments, particularly in cases where there has been a general deterioration in market conditions. This would result in the Bank needing to obtain additional funding, potentially at relatively short notice, which could have an adverse effect on its financial condition and results of operations.

The Bank could be adversely affected by the soundness or the perceived soundness of other financial institutions and counterparties

Against a backdrop of potential constraints on liquidity and high cost of funds in the interbank lending market and given the high level of interdependence between financial institutions that became most evident following the bankruptcy of Lehman Brothers in 2008, the Bank is subject to the risk of deterioration in the commercial and financial soundness, or perceived soundness, of other financial institutions. Within the financial services industry, the default of any one institution could lead to significant losses, and potentially defaults, by other institutions. As was experienced in 2008 and 2009, concerns about, or a default by, one institution could also lead to significant liquidity problems, losses or defaults by other institutions, because the commercial and financial soundness of many financial institutions is closely related as a result of their credit, trading, clearing or other relationships. Even the perceived lack of creditworthiness of, or questions about, a counterparty may lead to market-wide liquidity problems and losses or defaults by the Bank or other institutions. This risk, often referred to as "systemic risk", may also adversely affect other financial intermediaries, such as clearing agencies, clearing houses, securities firms and exchanges, with whom the Bank interacts on a daily basis. Systemic risk, should it materialise, could have a material adverse effect on the Bank's ability to raise new funding and on its business, financial condition, results of operations and prospects.

A downgrade in the Bank's credit ratings

The Bank's credit ratings by the major credit rating agencies are intended to measure the probability of its ability to meet its debt obligations as they mature and thus are an important factor in determining the Bank's cost of borrowing funds and the amount of funding it could raise. The cost of funding of the Bank's borrowings is partly dependent on its credit ratings. As at the date of this Base Prospectus, the Bank had the following ratings:

- Standard & Poor's: BBB+ for long-term issuer credit and A-2 for short-term counterparty credit, with a stable outlook;
- Moody's: Baa1 for long-term bank deposits and P-2 for short-term deposits, with a stable outlook;
- Fitch: A for long-term issuer default and F1 for short-term issuer default, with a stable outlook; and
- Capital Intelligence: A+ for long term foreign currency rating, and A1 for short-term foreign currency rating with stable outlook.

Further increases in non-performing loans or a deterioration in the Bank's balance sheet could cause a downgrade in the Bank's credit ratings or cause the Bank to be placed on a negative rating watch. A downgrade of the Bank's credit ratings

or being placed on a negative rating watch, may increase its cost of borrowing which could have a material adverse effect on the Bank's business, financial condition, results of operations or prospects and its relationship with creditors.

Furthermore, in determining the Bank's credit rating, the credit rating agencies consider anticipated support from the Government. If the Government's credit rating is downgraded or is placed on a negative rating watch or there is a change in anticipated support from the Government for the Bank, this may have a consequential impact on the Bank's own credit rating.

Any potential future downgrade of the Bank's credit ratings (or announcement of a negative ratings watch) may also limit its or its subsidiaries' ability to raise capital. Moreover, actual, or anticipated changes in the Bank's credit ratings may affect the market price of the Bonds. Ratings may be subject to revision or withdrawal at any time by the assigning rating organisation and each rating should be evaluated independently of any other rating.

The Bank's risk management and internal controls may leave it exposed to unidentified or unanticipated risks, which could result in material losses

In the course of its business activities, the Bank is exposed to a variety of risks, the most significant of which are credit risk, market risk, liquidity risk and operational risk. Investors should note that any failure to adequately control these risks could result in material adverse effects on the Bank's business, results of operations, financial condition and prospects, as well as its general reputation in the market.

The Bank's risk management techniques may not be fully effective or consistently implemented in mitigating its exposure in all market environments or against all types of risk, including risks that are unidentified or unanticipated. Some of the Bank's methods of managing risk are based upon its use of historical market behaviour. These methods may not always predict future risk exposures, which could be significantly greater than such historical measures indicate. Other risk management practices, including "know your client" practices, depend upon the evaluation of information regarding the markets in which the Bank operates, its clients or other matters that are publicly available or information otherwise accessible to the Bank. As such practices are less developed in the GCC than they are in other markets and may not have been consistently and thoroughly implemented in the past, this information may not be accurate, complete, up-to-date or properly evaluated in all cases.

There can be no assurance that the Bank's risk management and internal control policies and procedures will adequately control, or protect the Bank against, all credit, liquidity, market and other risks. In addition, certain risks could be greater than the Bank's empirical data would otherwise indicate. The Bank also cannot give assurance that all of its staff have adhered or will adhere to its risk policies and procedures.

The Bank is susceptible to, amongst other things, failure of internal processes or systems, unauthorised transactions by employees and operational errors, including clerical or record-keeping errors, or errors resulting from faulty computer or telecommunications systems, and fraud by employees or outsiders. The Bank's risk management and internal control capabilities are also limited by the information tools and technologies available to it. Any material deficiency in the Bank's risk management or other internal control policies or procedures may expose it to significant credit, liquidity, market or operational risk, which may in turn have a material adverse effect on the Bank's business, results of operations, financial condition and prospects.

Neither the Government nor the Kuwaiti Investment Authority is under any obligation to invest in, or otherwise engage in business with, the Bank

In response to the global economic crisis, the Government and the CBK introduced a number of measures to provide support to the Kuwaiti economy. The Government passed Decree No. 2 of 2009 (the **Financial Stability Law**) (now repealed). The Financial Stability Law sought to stabilise the financial sector in Kuwait and other economic sectors so as to encourage the financing of such sectors by local banks. The Financial Stability Law applied only to specific classes of economic ventures which had been entered into as at 31 December 2008. As a further measure, the Government passed Law No. 30 of 2008 regarding the guarantee of deposits held with local banks (the **Deposit Guarantee Law**) (still in

effect). Under the Deposit Guarantee Law, the Government has undertaken to guarantee the principal (but not interest) of all deposits held with local banks in Kuwait, including savings accounts and current accounts.

In addition, the Kuwait Investment Authority (the **KIA**), in 2009, acquired a 16 per cent. stake in Gulf Bank (K.S.C.) (**Gulf Bank**) as part of a rescue plan after the bank posted heavy losses from derivatives trading in the previous year.

In April 2020, the CBK announced a regulatory stimulus package for local banks to counter the repercussions of the COVID-19 pandemic. The CBK adjusted its regulatory instructions and macro-prudential policy tools to enhance the ability of the Kuwaiti banks to provide financing to productive economic sectors and offer liquidity to help businesses continue operations.

Although the Government, the CBK and the KIA have supported the domestic banking industry during the global economic crisis of 2008 and 2009 and the COVID-19 pandemic of 2020, there can be no assurance that such support will be provided to the Bank or the domestic banking industry generally if another major economic disruption were to occur in the future.

Foreign exchange movements

The Bank maintains its accounts and reports its results in KD. Since May 2007, the KD has been pegged to an undisclosed weighted basket of international currencies. The undisclosed weighted basket of currencies is calculated using various national currencies, reflecting the foreign trade and financial relations of Kuwait. However, with the removal of the previous peg to the U.S. dollar, relative flexibility has been achieved in exchange rate determination.

The Bank is exposed to the potential impact of any alteration to, or abolition of, this foreign exchange "peg" as well as potential volatility of the constituent basket currencies.

Ownership concentration and related party exposures

The Bank's shares are listed on the Boursa Kuwait (previously known as the Kuwait Stock Exchange). As at 31 December 2023, KIPCO held a direct shareholding interest of 33.5 per cent. in the Bank and a consolidated interest (including shares held through other KIPCO group companies) of 64.5 per cent. in the Bank, Public Institute for Social Security held 7.4 per cent. and the remainder of the shares were publicly held.

While KIPCO has a controlling interest in a diversified range of financial services and media companies in the GCC region, there is no assurance that KIPCO will maintain the existing levels of its shareholding in the Bank, nor that KIPCO will continue its support of the Bank through future injections of capital or deposits with the Bank where necessary. Any change in the controlling interest by KIPCO may have an adverse effect on the business, financial condition, results of operations and prospects of the Bank.

While the Bank does not have any loan exposure to KIPCO or its other main shareholder, it does have exposures to other members of the KIPCO group and other related parties of the KIPCO group. As at 31 December 2023, the aggregate of loan exposures to such related parties represented 21.4 per cent. of the total loan portfolio (excluding banks and OFIs within the KIPCO group). Related party transactions could create conflicts of interest for the Bank and its affiliates, which could potentially impact the Bank's business.

By virtue of its controlling interest, KIPCO has the ability to influence the Bank's business significantly through its ability to control actions which require shareholder approval and to nominate the majority of the board of directors of the Bank (the **Board**). The interests of KIPCO may be different from those of the Bank's creditors (including the Bondholders). If the interests of shareholders, including those of the majority shareholder, KIPCO, conflict with the interests of the Bondholders, decisions may be made that advantage shareholders of the Bank, leaving the Bondholders at a disadvantage.

Small branch network and limited retail franchise

As at 31 December 2023, the Bank operated 29 branches and 165 ATMs in Kuwait. Among the Bank's banking subsidiaries, as at 31 December 2023, Burgan Bank A.Ş.-Turkey (**BBT**) operated 29 branches and 22 ATMs in Turkey, Tunis International Bank S.A. (**TIB**) operated three branches and one representative office in Libya and had no ATMs in Tunisia, Gulf Bank Algérie S.A. (**AGB**) operated 65 branches and 110 ATMs in Algeria. Due to its small branch network and limited retail franchise, the Bank may not be able to capitalise fully on opportunities or developments in the MENAT retail banking sector. Any potential inability to capitalise on these opportunities may affect the Bank's competitive advantage or the implementation of its expansion strategy.

The Bank may not be able to recruit and retain qualified and experienced personnel, which could have an adverse effect on its business and its ability to implement its strategy

The Bank's ability to maintain and grow its business will depend, in part, on its ability to continue to recruit and retain qualified and experienced banking and management personnel. The Bank is likely to face challenges in recruiting qualified personnel to manage its business. In common with other banks in the GCC, the Bank may also experience a shortage of qualified employees residing in Kuwait, which requires it to recruit from outside Kuwait. In addition, even after hiring its employees, the Bank has faced and may face future challenges in retaining such employees due to the continued recruitment efforts of its competitors.

In recent years, the Kuwaiti Government has made a number of announcements regarding its intention to encourage a better balance of Kuwaitis and non-Kuwaiti nationals in the private-sector workforce. This process, known as "Kuwaitisation", involves the establishment of suggested ratios for the numbers of Kuwaiti nationals who should be employed by respective industries, with the Government's recommended policy for financial institutions being that 70.0 per cent. of a bank's total personnel should consist of Kuwaiti nationals. The Bank's Kuwaitisation level as at 31 December 2023 was at 83 per cent. If the Bank is not able to meet or exceed the Kuwaiti Government's minimum threshold for Kuwaiti employees, it may be subject to certain penalties, including an exclusion from participation in certain Kuwaiti Government-related tender processes, the imposition of fines by the Ministry of Social Affairs or the imposition of administrative or corrective action by the CBK and other governmental authorities.

The Bank depends on the efforts, skill, reputation and experience of its senior management, as well as synergies among their diverse fields of expertise and knowledge. The loss of key personnel could impact the Group in the implementation of its strategies.

While the Bank believes that it has effective staff recruitment, training and incentive programmes in place, challenges in the recruitment, training and/or retention of necessary personnel, or the shortage of qualified Kuwaiti nationals or other nationals prepared to relocate to Kuwait, could have a material adverse effect on its business, financial condition, results of operations or prospects.

The banking industry is competitive and the Bank is exposed to significant competition in Kuwait

The Bank faces high levels of competition for all of its products and services in Kuwait. In particular, the Bank competes with other domestic banks (both conventional and Islamic), in addition to the Kuwaiti branches of non-Kuwaiti banks, and such competition may increase.

The Kuwaiti banking sector comprises five local conventional commercial banks and branches of 11 other non-Kuwaiti banks. In addition, there is a specialised bank and five banks operating according to the provisions of Islamic Shari'a. The domestic consumer banking sector is dominated by Kuwaiti banks in terms of market share.

Considering the competitive nature of the Kuwaiti banking market, any failure by the Bank to continue to compete successfully in Kuwait may adversely affect its business, financial condition and results of operations.

The Bank's business is dependent on its information and technology systems which are subject to potential cyber-attacks

In common with other financial institutions based in the GCC and elsewhere in the world, the threat to the security of the Bank's information and customer data from cyber-attacks is real and continues to grow at pace. Activists, rogue states and cyber criminals are among those targeting computer systems around the world. Risks to technology and cyber-security change rapidly and require continued focus and investment. Given the increasing sophistication and scope of potential cyber-attacks, it is possible that future attacks may lead to breaches of security. Failure to adequately manage cyber-security risk and continually review and update current processes in response to new threats could disrupt its business, result in the disclosure of confidential information, create financial and/or legal exposure and damage the Bank's reputation and/or brands, which could have an adverse effect on the Bank's business, results of operations and financial condition.

RISKS RELATING TO LEGAL, REGULATORY, COMPLIANCE, ACCOUNTING AND CORPORATE GOVERNANCE ISSUES

The Bank is a highly regulated entity and changes to applicable laws or regulations, the interpretation or enforcement of such laws or regulations or the failure to comply with such laws or regulations or a change in the capital treatment of the Bank's instruments could have an adverse impact on the Bank's business

Capital adequacy and leverage regulations

The Basel Committee on Banking Regulation and Supervisory Practices (the **Basel Committee**) has set international standards for the capital adequacy of banks. The minimum capital adequacy ratio recommended by the 1988 Basel Committee guidelines is 8.0 per cent. Pursuant to its Basel III reforms, the Basel Committee recommended a minimum total capital adequacy ratio of 8.0 per cent., which can rise to 10.5 per cent. after factoring in the capital conservation buffer over a period of time. However, the CBK, as the banking regulator in Kuwait, requires Kuwaiti commercial banks to maintain a capital adequacy ratio based on the final instructions entitled "*Implementing Capital Adequacy Standards – Basel III – for conventional banks*" issued by the CBK on 24 June 2014, as may be amended or superseded from time to time (the **Instructions**). Pursuant to the Instructions, Kuwaiti commercial banks are required to maintain a capital adequacy ratio of 13.0 per cent. Additionally, all commercial banks are required to maintain additional capital (0.5 per cent. to 2.0 per cent. depending on the bank's size and complexity, as determined by CBK) in the form of a domestic systemically important bank (**D-SIB**) charge.

The Bank's capital adequacy ratio under the CBK guidelines, based on the Basel III guidelines, was 20.0 per cent. as at 31 December 2023, compared to 16.8 per cent. as at 31 December 2022, and 17.5 per cent. as at 31 December 2021. The Bank's Tier 1 capital adequacy ratio was 16.1 per cent. as at 31 December 2023, compared to 13.2 per cent. as at 31 December 2022, and 13.8 per cent. as at 31 December 2021, based on Basel III guidelines. The Bank's CET 1 ratio under CBK guidelines, based on Basel III regulations, was 13.5 per cent. as at 31 December 2023, compared to 10.8 per cent. as at 31 December 2022, and 11.4 per cent. as at 31 December 2021.

As mentioned above, the capital adequacy level maintained by the Bank currently exceeds the minimum requirements set out by the CBK, based on the Basel III regulations. However, if the Bank's loan portfolio continues to grow significantly, or if the level of loan impairments increases, and the Bank fails to generate a sufficient level of profits to ensure consistent growth in equity through retained earnings, or if any of the Bank's instruments lose their capital treatment as a result of a change in the guidelines on capital adequacy issued by the Basel Committee, or corresponding implementing measures as implemented by the CBK, the Bank may need to raise new capital to maintain the minimum capital adequacy ratios set by the CBK. Such capital, whether in the form of debt financing or additional equity, may not be available on attractive terms, or at all.

Any failure by the Bank to maintain certain capital adequacy ratios could lead to the imposition of sanctions by the CBK, such as limitations on the Bank's ability to pay dividends, the issuance by the CBK of a directive to increase capital and/or sell or reduce assets, the imposition of fines, as well as to an increase of the cost of funding. Any of these outcomes could have an adverse effect on the Bank's business, financial condition, results of operations or prospects (see "*Risks Relating to Legal, Regulatory, Compliance, Accounting and Corporate Governance Issues – The regulatory framework of the CBK*" below).

Credit risk regulations

With effect from October 2016, Kuwaiti banks are restricted by the CBK from lending amounts in excess of 90 per cent. of qualifying deposits, irrespective of the maturity profile of the relevant qualifying deposit. As at 31 December 2023, the Bank is in compliance with this regulation.

Concentration risk regulations

Subject to certain exceptions or where prior CBK approval has been obtained, the total credit liabilities of any single customer (including its legally or economically associated entities) to a bank may not exceed 15 per cent. of the bank's regulatory capital. As at 31 December 2023, the Bank is in compliance with this regulation.

The aggregate of large credit concentrations (being concentrations which exceed 10 per cent. of a bank's regulatory capital), including any exceptions approved by the CBK, may not exceed four times a bank's regulatory capital. As at 31 December 2023, the Bank is in compliance with this regulation.

Interest rate cap regulations

The CBK's resolutions issued in respect of interest rate ceilings provide that the maximum limits for interest rates on KD-denominated loans to corporates should not exceed: (i) 2.5 per cent. over the CBK's discount rate in the case of commercial loans with a maturity of one year or less; and (ii) 4 per cent. over the CBK's discount rate in the case of commercial loans exceeding one year. As at 31 December 2023, the CBK's discount rate available to banks in Kuwait was 4.25 per cent. and, in the period between 2014 and 2023, has fluctuated between 2 per cent. and 4.25 per cent.

Each of the regulations described above may limit the Bank's ability to increase its loan portfolio or may increase the Bank's cost of doing business. Any further changes in laws or in CBK and other applicable regulations or policy and/or the manner in which they are interpreted or enforced may affect the Bank's reserves, revenues and performance and may have a material adverse effect on the Bank's business, results of operations and financial condition.

If the Bank fails to comply with applicable anti-money laundering, anti-terrorism financing, OFAC sanctions and other related regulations, it could face fines and damage to its reputation

The Bank is required to comply with applicable anti-money laundering (AML) laws, anti-terrorism financing laws, Office of Foreign Assets (OFAC) sanctions and other regulations. These laws and regulations require the Bank, among other things, to adopt and enforce "know your customer" (KYC) policies and procedures and to report suspicious and large transactions to the applicable regulatory authorities. The Bank has adopted KYC/AML policies and procedures and reviews them regularly in light of any relevant regulatory and market developments. To the extent the Bank may fail to fully comply with applicable laws and regulations, the relevant government agencies to which it reports have the power and authority to impose fines and other penalties on the Bank. In addition, the Bank's business and reputation could suffer if customers use the Bank for money laundering or illegal purposes.

Legal and regulatory systems may create an uncertain environment for investment and business activities

Kuwait is in the process of developing governing institutions and legal and regulatory systems, which are not yet as firmly established as they are in Western Europe and the United States. Kuwait, along with other countries within the GCC region, has enacted measures to promote greater efficiency and certainty within their legal and regulatory systems. Among those measures, Kuwait and countries within the GCC region have assumed obligations under the General Agreement on Tariffs and Trade (GATT) (as administered by the World Trade Organisation (WTO)) and Kuwait has already enacted legislation, *inter alia*, to extend foreign ownership. However, Kuwait may experience changes in its economy and Government policies (including, without limitation, policies relating to the continued extension of the rights of foreign ownership pursuant to Kuwait's GATT/WTO obligations) that may affect the Bank's business.

The legal system in Kuwait may not provide the same degree of protection or require the levels of disclosure of information that would be the case in Western Europe or the United States. No assurance can be given that the Government will not

implement regulation or fiscal or monetary policies, including policies, regulations, or new legal interpretations of existing regulations, relating to or affecting expropriation, nationalisation, taxation, interest rates or exchange controls, or otherwise take actions which could have a material adverse effect on the Bank's business, financial condition, results of operations or prospects.

The regulatory framework of the CBK

As the Bank is a regulated entity, changes in applicable laws or regulations, the interpretation or enforcement of such laws or regulations, or the Bank's failure to comply with such laws or regulations, could have a material adverse effect on the Bank's business, financial condition, results of operations or prospects. The supervisory and regulatory rules and activities of the CBK, and other relevant central banks in respect of the Bank's subsidiaries, cover in greater detail than in many other countries matters such as capital adequacy requirements, liquidity, the rationalisation and organisation of credit policy, the policy for the classification of credit facilities and the calculation of relevant provisions, credit concentration, the organisation of investment policy, internal control systems, risk measurement and management systems, rules and regulations concerning the required experience of banks' board members and executive officers, and the combating of money laundering, suspicious operations and the financing of terrorism.

These regulations may limit banks' activities (including those of the Bank and its subsidiaries) while changes by any of the relevant central banks in their supervision and regulation policies and practices could affect, to varying degrees, each bank's business, the products or services that it offers or may offer, the value of its assets, the costs of doing business and its financial condition.

The Bank's accounting policies and methods are critical to how it reports its financial condition and results of operations and require management to make estimates about matters that are uncertain

Accounting policies and methods are fundamental to how the Bank records and reports its financial condition and results of operations. Management must exercise judgement in selecting and applying many of these accounting policies and methods, so they comply with IFRS, as adopted for use by Kuwait. These judgements and estimates include, for example, the determination of when assets may be impaired, the classification of financial assets, the determination of provisions for credit losses and provisions for investment securities.

A variety of factors could affect the ultimate value that is obtained either when earning income, recognising an expense, recovering an asset or reducing a liability. The Bank has established policies and control procedures that are intended to ensure that its significant accounting estimates and judgements are well controlled and applied consistently. In addition, the policies and procedures are intended to ensure that the process for changing methodologies occurs in an appropriate manner. However, due to the uncertainty surrounding the Bank's judgements and the estimates pertaining to these matters, the Bank cannot guarantee that it will not be required to make changes in accounting estimates or restate prior period financial statements in the future.

RISKS RELATING TO KUWAIT AND THE MENAT REGION

Investing in securities involving emerging markets generally involves a higher degree of risk

Investors in emerging markets, such as Kuwait, should be aware that these markets are subject to greater risks than more developed markets, including, but not limited to, higher volatility, limited liquidity and changes in the political and economic environment. In addition, there can be no assurance that the market for securities bearing emerging market risk, such as the Bonds, will not be affected negatively by events elsewhere, especially in emerging markets.

The economies of most of the countries in the MENAT region are mainly driven by revenues from oil exports and therefore exposed to volatility in oil prices. The national economies of most of the countries in the MENAT region have expanded significantly in recent years, in large part as a result of historically high oil prices, which has led to increased financial activity by banks in the region. Thus, the fluctuation in the oil prices has bearing on the economic growth of these countries. A sustained deterioration in the economies of these countries or political upheaval in the region could have a material adverse effect on the Bank and its subsidiaries' business, financial condition, results of operations or prospects.

Although economic conditions are different in each country in the MENAT region, investors' reactions to developments in one country may affect the price of securities of issuers in other countries in the MENAT region, including Kuwait. Accordingly, the market price of the Bonds may be subject to significant fluctuations, which may not necessarily be related to the financial performance of the Bank and its subsidiaries.

In respect to Turkey, the economy is estimated to have grown by 4.0 per cent. year-on-year in 2023, due to weak exports and impact of earthquake in Southern Türkiye. Additional tax hikes were implemented in a supplementary budget, with corporate tax rate being raised by 5% in July 2023. The value-added tax was also raised by 2%, to 20% for goods and services. The CBRT has raised the rate by 3,400bps since June 2023 to 42.5% in December 2023. The move was seen as a continuation of the CBRT's attempt to combat high inflation and a falling TRY. Inflation is expected to decline due to factors like diminishing exchange rate passthrough, favorable base effects, and expected reductions in commodity prices along with the increase in interest rates.

No assurance can be given that the government of Turkey will not implement regulations or fiscal or monetary policies, including policies or new regulations or new legal interpretations of existing regulations or exchange controls, or otherwise take actions which could have a material adverse effect on the Bank's business, financial condition, results of operations or prospects or which could adversely affect the market price and liquidity of the Bonds. Further, no assurance can be given on any outcome due to the volatility of the TRY versus other major currencies.

Accordingly, prospective investors should exercise particular care in evaluating the risks involved with investing in the Bonds and must determine for themselves whether, in light of those risks, an investment in the Bonds is appropriate.

Generally, investment in emerging markets is only suitable for sophisticated investors who fully appreciate the significance of the risk involved.

The Bank's subsidiaries are located in a region that is subject to ongoing political and security concerns

Although Kuwait generally enjoys domestic political stability, and healthy international relations, a number of countries located in the MENAT region are either experiencing, or have in the past experienced, political and social instability, domestic turmoil, violence, and armed conflict. Over the past few decades' countries in MENAT such as Iraq, Tunisia, Iraq, Lebanon, Libya, Syria have seen social/political unrest and violence. This turmoil in these countries has impacted the economic climate and has impacted the prices of oil as well. The ongoing tension in Red Sea, the tension between the US and Iran and many other such factors may not have direct involvement of Kuwait however they could have an adverse effect on Kuwait's economy, and its ability to engage in international trade which, in turn, could have an adverse effect on the Bank's business, financial condition, results of operations and prospects.

Tunisia had seen the political turmoil in 2011 with the start of "Arab Spring". Since 2011, Tunisia has witnessed ten major government changes, and public trust in political parties and institutions has plummeted. Tunisia continued its crackdown on corruption after President Kais Saied dismissed government officials, removed the prime minister, suspended parliament and assumed executive powers. The effort remains to bring in political stability. In this direction, Tunisia replaced the constitution adopted in 2014 with new constitution in 2022. This constitution has brought presidential system of government and a bicameral legislative system. The impact of this political uncertainty was visible on the growth with slowed GDP growth after the 2011 revolution, resulting in a decade of lost growth, exacerbated by the COVID-19 pandemic in 2020. Gross domestic product (GDP) growth fell to 1.7 percent on average between 2011 and 2019, down from 3.5 percent between 2000 and 2011 (source: *World Bank*). Real GDP is expected to grow by 1.3 per cent. in 2023, after a contraction of 8.8 per cent. in 2020 (source: *IMF*). Tunisia's economic recovery slowed in the 2023 as the country continued to grapple with persistent drought, external financing challenges, increasing domestic debt build-up of important public service enterprises and regulatory obstacles. The country is closed out of capital markets and faces large debt repayments. While it is expected that the country will meet Eurobond repayments maturing in 2024, but public finances will be increasingly strained, leading to payment arrears and shortages of subsidised goods, and dragging on growth, which is projected at just 1.1% in 2024, with inflation elevated at 8.2% (Source: Economist Intelligence Unit). See "*Description of the Bank - Key Subsidiaries - Tunis International Bank S.A. (TIB) - Business Environment*" for further details in respect of the business environment in which the Bank, and TIB operate.

Algeria is one of the countries in the region that remained relatively stable during the "Arab Spring" uprising. The government-maintained stability largely through public sector expenditure, and minimal political reforms, although there were periods of social and domestic instability. Algeria has benefitted from the presence of Hydrocarbon. The elevated Hydrocarbon prices have supported the recovery of the economy post COVID-19. The country had posted current account surplus of 7.6% of GDP in 2022 and is expected to post small current account surplus in 2023 as well (source: *Fitch*). The country has benefitted from strong demand for non-Russian gas from Europe, and higher energy production. The country has facing challenge of elevated inflation. The Central Bank has kept discount rate unchanged at 3% across 2022 and 2023. Given the expected decline in global growth, the oil output may also be lower. This may force central bank to revert to its older policy stance of allowing the nominal exchange rate to depreciate gradually to moderate import demand, reduce pressure on reserves, and maintain export competitiveness. The government adopted a corrective budget for 2023 that boosts spending by over DZD1tn. The increased government spending will also translate into stronger consumer demand, as higher wage packets for civil servants are spent in the economy. See "*Description of the Bank – Key Subsidiaries – Gulf Bank Algérie (AGB) – Business Environment*" for further details in respect of the business environment in which the Bank and AGB operate.

In Turkey, the economic downturn in 2020 led to the biggest credit growth boom in a decade, facilitated by Türkiye's state banks and the central bank. This has kept inflation high, due to TRY depreciation against all other major currencies. The CBRT has raised the rate by a total of 3,400bps since June to 42.5% in December 2023. The move was seen as a continuation of the CBRT's attempt to combat high inflation and a falling TRY. To slow down the exponential rise of public debt, additional tax hikes were implemented in a supplementary budget draft in July 2023, alongside USD 42bn in new government spending for the remainder of the year. The corporate tax rate was raised by 5%, reaching 30% for financial institutions and 25% for companies in other sectors. The value-added tax was also raised by 2%, to 20% for goods and services and 20% rise in the special consumption tax for gasoline and diesel. With policies turning appropriately less accommodative, growth and average inflation are forecasted to come down. By 2025, if investor confidence recovers fully, a cycle of inflows and a stronger exchange rate could bring down inflation faster than expected, while boosting growth.

Furthermore, other world events could have an impact on Kuwait's political and security situation. Since the Gulf War in 1990, Kuwait and the United States have enjoyed close economic and strategic ties. A shift in the relationship between Kuwait and the U.S. or changing U.S. political interests in the Gulf region, could have a material adverse effect on Kuwait's economic, political or financial condition – which in turn, could have a material adverse effect on the Bank's ability to perform its obligations under the Bonds.

Kuwait's economy and growth could be affected by Kuwaiti political considerations

Relations between the Government and Kuwait's parliament (the **National Assembly**) have been tumultuous in the past. Because all legislation must be approved by National Assembly vote, measures requiring legislation that are proposed by the Council of Ministers (the **Council of Ministers**) can also be stalled indefinitely before being sent to the Emir for assent and ratification.

Recent years have seen a series of National Assembly sessions that have not lasted through a full term with the Emir dissolving sessions multiple times, citing a number of different reasons. In February 2024, the Kuwait's parliament has been dissolved by royal decree. Now, the fresh elections have to take place to elect new assembly. Sheikh Meshal has stated that post elections, the legal and political reforms will be undertaken. Therefore, there is the possibility of political gridlock that could stall the Government's proposed fiscal and economic measures as well as other reform initiatives that are expected to take place.

FACTORS WHICH ARE MATERIAL FOR THE PURPOSE OF ASSESSING THE MARKET RISKS ASSOCIATED WITH BONDS ISSUED

The Bonds are subordinated and unsecured obligations of the Issuer

Prospective investors should note that the payment obligations of the Issuer under the Bonds are subordinated to Senior Obligations (as defined in the Conditions), rank *pari passu* with all other Parity Obligations (as defined in the Conditions) and rank in priority only to Junior Obligations (as defined in the Conditions). Accordingly, the payment obligations of the

Issuer under the Bonds rank and will rank junior to all present and future unsubordinated payment obligations of the Issuer (including depositors of the Issuer in respect of their due claims) and all (if any) present and future subordinated payment obligations of the Issuer to which the payment obligations under the Bonds rank, or are expressed to rank, junior, and pari passu and without preference amongst themselves and with all subordinated payment obligations of the Issuer which rank or are expressed to rank pari passu with the payment obligations under the Bonds.

Further, the payment obligations of the Issuer under the Bonds are unsecured, no collateral is or will be given by the Issuer in relation thereto, and by virtue of holding any Bond or any interest therein each holder will waive any rights of set off, counterclaim, abatement or similar remedy which it might otherwise have in respect of its Bond(s).

Enforcement rights in respect of the Bonds are limited

A holder of the Bonds may exercise its enforcement rights in relation to the Bonds only in the manner provided in Condition 8 (*Events of Default*). These provide, in particular, that any amounts in respect of the Bonds shall only be capable of acceleration in the event of a winding-up, liquidation or dissolution of the Issuer, and the Bondholders' claims in any such winding-up, liquidation or dissolution will be subordinated as described above.

If the Issuer were to be wound up, liquidated or dissolved, the Issuer's liquidator would apply the assets of the Issuer to satisfy all claims of creditors in respect of Senior Obligations in priority to the claims of the holders of the Bonds and pari passu with creditors whose claims are in respect of the Parity Obligations. In such case, there may not be sufficient assets to satisfy the claims of the holders of the Bonds in full or at all.

There are few limitations on the Issuer issuing senior or pari passu securities; subordination

There is no restriction on the Issuer incurring additional indebtedness or on issuing securities or creating any guarantee or contractual support arrangement which would rank senior to or pari passu with the Bonds and therefore constitute Senior Obligations or Parity Obligations, respectively. The issue of or the creation of any such Senior Obligations and/or Parity Obligations may reduce the amount recoverable by holders of the Bonds on a winding up or liquidation of the Issuer. Accordingly, in the winding up or liquidation of the Issuer and after payment of the claims of creditors in respect of Senior Obligations, there may not be a sufficient amount to satisfy the amounts owing to the holders of the Bonds and the holders of Parity Obligations in full or at all. See also "– The Bonds are subordinated and unsecured obligations of the Issuer" above.

Although the Bonds may pay a higher rate of interest than securities which are not subordinated, there is a substantial risk that investors in the Bonds will lose all or some of the value of their investment should the Issuer become insolvent.

Payments of Interest Payment Amounts are discretionary and conditional upon certain events and may be cancelled and are non-cumulative

No Interest Payment Amounts are payable if either a Non-Payment Event or a Non-Payment Election occurs.

Pursuant to Condition 3(f) (*Non-Payment Event*), if a Non-Payment Event occurs, the Issuer shall not pay Interest Payment Amounts on the relevant Interest Payment Date. Non-Payment Events include, but are not limited to, where the Interest Payment Amount payable by the Issuer, when aggregated with any distributions payable by the Issuer on any Parity Obligations having the same date in respect of payment of such distributions (or otherwise due and payable on such date) as the date for payment of the Interest Payment Amount, exceeds, on the relevant date for payment of the relevant Interest Payment Amount, the Issuer's Distributable Funds. As at 31 December 2023, the Issuer's Distributable Funds amounted to KD 73.15 million.

Pursuant to Condition 3(g) (*Non-Payment Election*), the Issuer may in its sole discretion elect not to make payment of an Interest Payment Amount (in whole or in part) to holders of the Bonds on the corresponding Interest Payment Date.

In the event of a Non-Payment Event or a Non-Payment Election, certain restrictions on the declaration of dividends and redemption of certain securities by the Issuer will apply in accordance with Condition 3(i) (*Dividend and Redemption Restrictions*). However, the holders of the Bonds shall have no claim in respect of any Interest Payment Amount not paid as a result of either a Non-Payment Election or a Non-Payment Event and the consequential non-payment of any Interest Payment Amount in such a circumstance shall not constitute an Event of Default. Any such cancelled interest on the Bonds

shall not be due and shall not accumulate or be payable at any time thereafter, and holders of the Bonds shall have no rights thereto or to receive any additional interest or compensation or to take any action to cause the bankruptcy, liquidation, dissolution or winding-up of the Issuer as a result of such cancellation.

Any actual or anticipated cancellation of interest on the Bonds will likely have an adverse effect on the market price of the Bonds. In addition, as a result of the interest cancellation provisions of the Bonds, the market price of the Bonds may be more volatile than the market prices of other debt securities on which interest accrues that are not subject to such cancellation and may be more sensitive generally to adverse changes in the Issuer's financial condition.

Perpetual Securities

The Bonds are perpetual securities which have no scheduled redemption date. Holders of the Bonds have no ability to require the Issuer to redeem their Bonds other than in the limited circumstances described in Condition 8 (*Events of Default*). The Issuer has the option to redeem the Bonds in certain circumstances as more particularly described in Condition 4 (*Redemption, Variation and Purchase*), although there is no assurance that it will do so.

This means that the holders of the Bonds have no ability to cash in their investment, except:

- (a) if the Issuer exercises its rights to redeem the Bonds in accordance with Condition 4 (*Redemption, Variation and Purchase*);
- (b) in the limited circumstances described in Condition 8 (*Events of Default*) (subject to the subordination provisions contained in the Conditions); or
- (c) by selling their Bonds.

The exercise of (or perceived likelihood of exercise of) any such redemption feature of the Bonds may limit their market value, which is unlikely to rise substantially above the price at which the Bonds can be redeemed.

There can be no assurance that holders of the Bonds will be able to reinvest the amount received upon redemption at a rate that will provide the same rate of return as their investment in the Bonds. Further, there can be no assurance that a holder of Bonds will receive the full amount of their investment if they sell their Bonds or upon exercising their remedies pursuant to Condition 8 (*Events of Default*).

Bondholders' right to receive repayment of the principal amount of the Bonds and the Bondholders' right for any further interest may be written-down in whole or in part upon the occurrence of a Non-Viability Event

If a Non-Viability Event occurs at any time, the principal amount of the Bonds then outstanding will be written-down in whole or, in part on a *pro rata* basis pursuant to Condition 5 (*Write-down at the Point of Non-Viability*). See "*The circumstances triggering a Write-down are unpredictable*". Pursuant to a Write-down, the Bonds will be cancelled (in the case of a Write-down in whole) or written-down in part on a *pro rata* basis (in the case of a Write-down in part) and all rights of any Bondholder for payment of any amounts under or in respect of the Bonds (including, without limitation, any amounts arising as a result of, or due and payable upon the occurrence of, an Event of Default) shall, as the case may be, be cancelled or written-down *pro rata* among the Bondholders and, in each case, not restored under any circumstances, irrespective of whether such amounts have become due and payable prior to the date of the Non-Viability Notice or the Non-Viability Event Write-down Date and even if the Non-Viability Event has ceased. Further, whilst it is intended that the ordinary shares of the Issuer should absorb losses prior to the Bonds, a Write-down in full or in part of the Bonds could occur prior to the ordinary shares of the Issuer absorbing losses in full or even in part. A Write-down shall not constitute an Event of Default. As a result, in the case of a Write-down, Bondholders may lose the entire amount or, as the case may be, a material amount, of their investment in the Bonds. Investors should also be aware that the application of a non-viability loss absorption feature similar to Condition 5 (*Write-down at the Point of Non-Viability*) has not been tested in Kuwait and therefore some degree of uncertainty may exist in its application.

In cases in which a Write-down in part is required pursuant to Condition 5 (*Write-down at the Point of Non-Viability*), a Write-down may occur on one or more occasions.

Furthermore, upon the occurrence of any Write-down in part pursuant to Condition 5 (*Write-down at the Point of Non-Viability*), Interest Payment Amounts will accrue on the reduced principal amount of the Bonds and their payment is subject

to no Non-Payment Event (including, without limitation, the Issuer having insufficient Distributable Funds or breach of Applicable Regulatory Capital Requirements (including any applicable capital buffers imposed on the Issuer by the Financial Regulator)) or Non-Payment Election having occurred. See "*Payments of Interest Payment Amounts are discretionary and conditional upon certain events and may be cancelled and are non-cumulative*". Also, any amounts arising as a result of, or due and payable upon the occurrence of, an Event of Default or any redemption at the option of the Issuer pursuant to Condition 4 (*Redemption, Variation and Purchase*) will be by reference to such reduced principal amount of the Bonds.

The Issuer's current and future Junior Obligations or Parity Obligations might not include write-down or similar features comparable to those of the Bonds. As a result, it is possible that the Bonds will be subject to a Write-down, while certain Junior Obligations and/or Parity Obligations remain outstanding and continue to receive payments and, as such, Bondholders may be subject to losses ahead of holders of certain Junior Obligations and/or Parity Obligations.

The circumstances triggering a Write-down are unpredictable

The occurrence of a Non-Viability Event is inherently unpredictable and depends on a number of factors, many of which are outside the Issuer's control.

The occurrence of a Non-Viability Event is subject to, *inter alia*, a subjective determination by the Financial Regulator in its complete discretion regarding, among other things, the viability of the Issuer in circumstances that may be beyond the control of the Issuer and with which the Issuer or the Bondholders may not agree.

Due to the inherent uncertainty regarding the determination as to whether a Non-Viability Event has occurred, it will be difficult to predict when, if at all, a Write-down will occur. Accordingly, the trading behaviour of the Bonds is not necessarily expected to follow the trading behaviour of other types of subordinated securities. Any indication that the financial condition of the Issuer is heading towards a condition that could result in the occurrence of a Non-Viability Event can be expected to have an adverse effect on the market price of the Bonds.

The financial viability of the Issuer will also depend in part on decisions made by the Issuer in relation to its business and operations, including the management of its capital position. In making such decisions, the Issuer will not necessarily have regard to the interests of Bondholders and, in particular, the consequences for Bondholders of any such decisions and there can be no assurance in any such circumstances that the interests of the Issuer, its shareholders and the Financial Regulator will be aligned with those of the Bondholders.

Variation or redemption upon the occurrence of a Capital Event or for taxation reasons

Upon the occurrence and continuation of a Capital Event or for taxation reasons, the Issuer may, subject as provided in Condition 4(b) (*Redemption or variation for taxation reasons*) or Condition 4(c) (*Redemption or variation for regulatory capital treatment reasons*) (as the case may be) at any time and without the need for any consent of the Bondholders, either redeem (subject to the Redemption Conditions) or vary the terms of the Bonds such that they become or remain (as appropriate) Additional Tier 1 Capital of the Issuer.

A Capital Event is deemed to have occurred if the Issuer is notified in writing by the Financial Regulator to the effect that the outstanding principal amount of the Bonds cease to be eligible to qualify as Additional Tier 1 Capital of the Issuer for the purposes of the Capital Regulations (save where such non-qualification is only as a result of any applicable limitation on the amount of such capital as applicable to the Issuer).

A redemption for tax reasons can occur if the Issuer will be required to pay additional amounts in accordance with Condition 7 (*Taxation*) (and such requirement cannot be avoided by the Bank taking reasonable measures available to it).

The Capital Regulations, as in force from time to time, may oblige the Bank to demonstrate to the satisfaction of the Financial Regulator that (among other things) the Capital Event or a redemption of tax purposes was not reasonably foreseeable at the Issue Date.

The Bonds may be subject to early redemption; redemptions conditional

Subject to the Redemption Conditions, the Issuer may also, at its discretion, redeem in accordance with Condition 4(d) (*Call Option*) all, but not some only, of the Bonds on any Interest Payment Date falling on or after five (5) years from the Issue Date.

Any redemption of the Bonds are subject to the Redemption Conditions, including i) obtaining the prior approval of the Financial Regulator and ii) that at the time notice is given to redeem and at the time of redemption, the Issuer is in compliance with the Applicable Regulatory Capital Requirements (and in the case of i) and ii), only to the extent the Financial Regulator still requires).

Further, the Issuer cannot exercise the Call Option unless, among other things, the Issuer replaces the Bonds so redeemed with capital of the same or better quality or the Issue can demonstrate to the Financial Regulator that its capital is well above the Applicable Regulatory Capital Requirements after the Call Option is exercised.

There is no assurance that the holders of the Bonds will be able to reinvest the amount received upon redemption at a rate that will provide the same rate of return as their investment in the Bonds. During any period when the Issuer may redeem, or is perceived to be able to redeem, the Bonds, the market value of the Bonds generally will not rise substantially above the outstanding principal amount of the Bonds payable. Potential investors should consider the re-investment risk in light of other investments available at that time.

Modification

The Conditions provide that the Conditions may be amended or modified without the consent of the Bondholders where such amendment or modification: (i) is of a formal, minor or technical nature or is made to correct a manifest error or is to comply with mandatory provisions of the law; or (ii) is not materially prejudicial to the interests of the Bondholders.

Investors in the Bonds must rely on Kuwait Clearing Company procedures

The Bonds will be represented by Global Bonds. Except in the limited circumstances described in each Global Bond, investors will not be entitled to receive Bonds in definitive form. Kuwait Clearing Company will maintain records of the beneficial interests in the Global Bonds held through it. While the Bonds are represented by the Global Bonds, investors will be able to trade their beneficial interests only through Kuwait Clearing Company and the Issuer will discharge its payment obligations under the Bonds by making payments through Kuwait Clearing Company. A holder of a beneficial interest in a Global Bond must rely on the procedures of Kuwait Clearing Company in relation to payments under the Bonds. The Issuer shall have no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Bonds.

Risks related to the market generally

Set out below is a brief description of the principal market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk:

The value of the Bonds may be adversely affected by movements in market interest rates

The interest rate on the Fixed Rate Bonds is fixed until the Reset Date (with a reset of the initial interest rate on the Reset Date as set out in the Conditions). The interest rate on the Floating Rate Bonds is fixed on a quarterly basis. The current investment return rate in the capital markets (the **market return rate**) typically changes on a daily basis. As the market return rate changes, the market value of the Bonds may also change, but in the opposite direction. If the market return rate increases, the market value of the Bonds would typically decrease. If the market return rate falls, the market value of the Bonds would typically increase. Holders of the Bonds should be aware that movements in these market return rates can adversely affect the market value of the Bonds and can lead to losses for the holders of the Bonds if they sell the Bonds.

An active secondary market in respect of the Bonds may never be established or may be illiquid and this would adversely affect the value at which an investor could sell his Bonds

There is no assurance that a secondary market for the Bonds will develop or, if it does develop, that it will provide the holders of the Bonds with liquidity of investment or that it will continue for the life of the Bonds. The Bonds generally may have a more limited secondary market liquidity and may be subject to greater price volatility than conventional debt

securities, including (without limitation) given their perpetual nature, subordination and the risk that they become subject to permanent writedown, in whole or in part, upon the occurrence of a Non-Viability Event.

Illiquidity may have an adverse effect on the market value of the Bonds. Accordingly, a holder of the Bonds may not be able to find a buyer to buy its Bonds readily or at prices that will enable the holder of the Bonds to realise a desired yield. The market value of the Bonds may fluctuate and a lack of liquidity, in particular, can have a material adverse effect on the market value of the Bonds. Accordingly, the purchase of Bonds is suitable only for investors who can bear the risks associated with a lack of liquidity in the Bonds and the financial and other risks associated with an investment in the Bonds.

If an investor holds Bonds which are not denominated in the investor's home currency, such investor will be exposed to movements in exchange rates adversely affecting the value of its holding. In addition, the imposition of exchange controls in relation to any Bond could result in an investor not receiving payments on those Bonds

The Issuer will pay principal and interest on the Bonds in KWD. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the **Investor's Currency**) other than KWD. These include the risk that exchange rates may significantly change (including changes due to devaluation of KWD or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to KWD would decrease: (a) the Investor's Currency-equivalent yield on the Bonds; (b) the Investor's Currency-equivalent value of the principal payable on the Bonds; and (c) the Investor's Currency-equivalent market value of the Bonds.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate or the ability of the Issuer to make payments in respect of the Bonds. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Credit ratings may not reflect all risks associated with an investment in the Bonds

In addition to the rating of BBB- assigned by Capital Intelligence, one or more independent credit rating agencies may assign credit ratings to the Bonds on an unsolicited basis. Any ratings of either the Issuer or the Bonds may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Bonds. There is no assurance that the ratings will remain in effect for any given period of time or that the ratings will not be lowered or withdrawn entirely if circumstances in the future so warrant. Nevertheless, real or anticipated changes in the Issuer's credit ratings or the ratings of the Bonds generally will affect the market value of the Bonds. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by its assigning rating agency at any time.

Taxation risks on payments

Payments made by the Issuer in respect of the Bonds could become subject to taxation. Condition 7 (*Taxation*) requires the Issuer to pay additional amounts in certain circumstances in the event that any withholding, deduction, or retention for, or on account of, any present or future taxes, levies, imports, fees, duties, assessments or governmental charges of whatever nature is imposed, levied, collected, withheld or assessed by or on behalf of the State of Kuwait or any political subdivision or any authority therein or thereof having power to tax, unless such withholding, retention, or deduction is required by law, in respect of payments under the Bonds, as the case may be, such that net amounts received by the holders of the Bonds after such withholding, deduction, or retention shall equal the respective amounts of principal and distributions which would otherwise have been receivable in respect of the Bonds in the absence of such withholding, deduction, or retention.

The circumstances described above may entitle the Issuer to redeem all (but not some only) of the Bonds.

The application and enforcement of the Kuwaiti income tax regime is uncertain, and holders of the Bonds which are "non-GCC corporate entities" may become subject to the Kuwaiti income tax regime in certain limited circumstances

Article 150 (bis) of Law No. 7 of 2010 Concerning the Establishment of the Capital Markets Authority and the Regulating of Securities Activities, which was introduced pursuant to Law No. 22 of 2015 (**Article 150 (bis)**), provides that, without prejudice to the exemptions prescribed on capital gains tax arising from the disposal of securities issued by companies listed on Bourse Kuwait, the returns from bonds and other similar securities, regardless of the nature of the issuer, are exempt from Kuwait tax.

However, the Ministry of Finance's Department of Income Tax (**DIT**) has to date not always adopted consistent rulings on Kuwaiti tax matters more generally. Accordingly, to the extent that the exemption afforded by Article 150 (bis) is held not to apply to the Bonds, or to a particular Bondholder, such Bondholder or the Bondholders which are non-GCC corporate entities may become subject to income tax in Kuwait (see "*Taxation*" for further details).

In addition, neither Article 150 (bis) nor Ministry of Finance Administrative Order No. 2028 of 2015 endorsing the provisions thereof addressed the issue of whether or not there remains an obligation (as described under "*Taxation*") to deduct 5 per cent. of the amount of any payments made by the Issuer to the Bondholders. Accordingly, there is a possibility that the deduction of the 5 per cent. obligation may be applied in certain circumstances, pending resolution of their tax position. The deducted 5 per cent. would be released by the Issuer upon presentation to it by the Bondholders of a tax clearance certificate from the DIT. In any event, any deducted amounts would be required to be grossed up by the Issuer pursuant to the provisions of the Conditions (See Condition 7 (*Taxation*)) and accordingly, in practice, a Bondholder would not need to present such a tax clearance certificate.

To date there has been no official statement made publicly by the DIT regarding its interpretation of Article 150 (bis) and/or its application. Similarly, the Kuwaiti Courts (who will be the final arbiters on the matter) have not been required to interpret such provision to date. Therefore, it is not possible to state definitively how the DIT and/or the Kuwaiti Courts may implement or enforce the Taxation Laws (as defined in "*Taxation*") including Article 150(bis) in practice.

Prospective purchasers of the Bonds are advised to consult their tax advisers as to the consequences under Kuwaiti and other applicable tax laws of acquiring, holding and disposing of the Bonds and receiving payments under the Bonds.

Value Added Tax

As at the date of this Prospectus, Kuwait does not impose value added tax (**VAT**) on the sale of goods and services. However, investors should be aware that the GCC states, including Kuwait, have agreed to the implementation of the GCC-wide VAT framework, to be introduced at a rate of 5 per cent. (the **VAT Framework**). The national legislation of Kuwait implementing the VAT Framework has yet to be promulgated and no Kuwait-specific details of the regime have been released as at the date of this Prospectus. Therefore, it is impossible to state with any accuracy if, and when, VAT will be introduced in Kuwait. Further, due to the wide discretion conferred to each GCC member state under the VAT Framework, the terms and conditions of the VAT regime, if introduced, are not known as at the date of this Prospectus. If the Issuer becomes subject to VAT in Kuwait, its profitability may be adversely affected which may then impact its ability to fulfil its obligations under the Bonds.

Enforcement under Kuwaiti Law

The insolvency regime in Kuwait is relatively untested with limited guidance as to how the legislative framework will be applied in practice by the courts in Kuwait

In the event of the Issuer's insolvency, Kuwaiti insolvency law will apply and such law may adversely affect the Issuer's ability to perform its obligations under the Bonds. Further, obtaining a final bankruptcy judgment in Kuwait may take several years. There is little precedent to predict how any claims on behalf of holders of the Bonds against the Issuer would be resolved in the event of the Issuer's insolvency and therefore there can be no assurance that holders of the Bonds will receive payment of their claims in full or at all in these circumstances.

Change in law

The Bonds are governed by Kuwait law in effect as at the date of this Prospectus. No assurance can be given as to the impact of any possible change to Kuwaiti law after the date of this Prospectus, nor can any assurance be given as to whether any such change could adversely affect the ability of the Issuer to make payments under the Bonds.

TAXATION

The following is a summary description of certain Kuwaiti tax considerations relating to the Bonds and is based upon the Bank's understanding of the historical and current interpretations and practices of the Kuwait Directorate of the Income Tax regarding the tax laws of Kuwait. It does not purport to be a complete analysis of all tax considerations relating to the Bonds. Prospective purchasers of Bonds should consult their tax advisers as to the consequences under the tax laws of the country in which they are residents for tax purposes and the tax laws of Kuwait of acquiring, holding and disposing of Bonds and receiving payments of interest, principal and/or other amounts under the Bonds. This summary is based upon the law as in effect on the date of this Prospectus and is subject to any change in law (and in the interpretations and practices of the Kuwaiti Directorate of Income and Tax regarding the same) that may take effect after such date.

Income Tax

This summary of taxation in Kuwait is based on the Kuwait Income Tax Decree No. 3 of 1955 (the “**Decree**”), as amended by Law No. 2 of 2008 “Amending Certain Provisions of Kuwait Income Tax Decree No. 3 of 1955” (the “**Amendment**”), the Executive Bylaws of the Amendment (the “**Regulations**”), and various ministerial resolutions and circulars relating thereto issued by the Ministry of Finance (the “**MOF**”) (together, the “**Taxation Laws**”) as interpreted and implemented by the MOF’s Department of Income Tax (“**DIT**”) as at the date of this Prospectus. Any subsequent changes in either the Taxation Laws or the interpretation or implementation of the same by the DIT would alter and affect this summary.

Under the Taxation Laws, income tax (at a flat rate of 15 per cent.) is levied on, *inter alia*, the net income and capital gains realized by any corporate entity (interpreted by the DIT to mean any form of company or partnership), wherever incorporated, that conducts business in Kuwait. However, the DIT to date has granted a concession to such corporate entities incorporated in Kuwait or in any other GCC country (being referred to in this Prospectus as “**GCC corporate entities**”) and has only imposed income tax on corporate entities which are not GCC corporate entities (being referred to in this Prospectus as “**non-GCC corporate entities**”) which, for the avoidance of doubt, includes shareholders of GCC corporate entities which are themselves non-GCC corporate entities, in each case, conducting business in Kuwait. The following paragraphs in this section are therefore applicable only to non-GCC corporate entities.

Pursuant to the Regulations, income generated from the lending of funds inside Kuwait is considered to be income realized from the conducting of business in Kuwait and, is therefore, subject to income tax.

Since the implementation of the Regulations in 2008, there has been no official statement made publicly by the DIT regarding its interpretation of, and/or application of, the requirement described in the previous paragraph in the context of a transaction such as the issue of the Bonds, and the Kuwaiti courts (who will be the final arbiters on the matter) have not been required to interpret such requirement to date.

The DIT has not enforced the imposition of income tax referred to above (or the retention of payments referred to under “*Retention*” below) on non-GCC corporate entity “lenders” in the context of transactions to date which are similar to the issue of the Bonds.

Notwithstanding the foregoing, the application and enforcement of the Kuwaiti income tax regime remains uncertain. Especially as a result of the lack of precedent from the DIT and/or Kuwaiti courts and as a result of the fact that the DIT has to date not always adopted consistent rulings on Kuwaiti tax matters more generally. Accordingly, prospective investors in the Bonds are advised that there remains a possibility that any holder of Bonds which is a non-GCC corporate entity may become subject to the Kuwaiti income tax regime in the future (which would include an obligation to file an income tax return in Kuwait), should the DIT and/or the Kuwaiti courts determine that the income received by it in respect of any Bonds held by it represents the “lending of funds inside Kuwait” (and hence constitutes the conducting of business in Kuwait for the purposes of the income tax regime described above), even if the holder of Bonds is not incorporated or otherwise located in Kuwait.

Given the lack of precedent of the DIT enforcing the imposition of income tax on non-GCC corporate entity lenders in the circumstances described above, it is not possible to state definitively how the DIT and/or the Kuwaiti courts may implement or enforce the Taxation Laws in practice.

Individuals are not subject to any Kuwaiti income tax on their income or capital gains as at the date of this Prospectus.

Retention

Under the Regulations, a Kuwaiti-based party making a payment (being referred to in this section as the payer) to any other party (being referred to in this section as the payee), wherever incorporated, is obliged to deduct five per cent. of the amount of each such payment. The payer is not required to transfer the deducted amount to the DIT immediately, but instead retains such amount and releases it either, i) to the payee upon presentation to the payer by such payee of a tax clearance certificate from the DIT confirming that the payee is not subject to or is exempt from income tax, or has realized a loss, or has paid or guaranteed the payment of its income tax, or ii) in the absence of such a tax clearance certificate, to the DIT, on demand.

According to a literal interpretation of the Regulations, payments which are subject to a deduction as described above would include principal and interest payments. Accordingly, the Issuer would be required to deduct five per cent. from every payment made by it to the holders of Bonds, which amount would be released by the Issuer upon presentation to it by the relevant holder of Bonds of a tax clearance certificate from the DIT.

However, the holders of Bonds shall be able to rely on the provisions in the Conditions which require the Issuer to gross-up each payment by an amount equal to any deduction, irrespective of whether a tax clearance certificate is presented or not.

Tax Exemptions on Returns

Pursuant to the provisions of Article 150(bis) of Law No. 7 of 2010 Concerning the Establishment of the CMA and the Regulating of Securities Activities, as amended by Law No. 22 of 2015 (“**Article 150(bis)**”), without prejudice to the exemptions prescribed on capital gain tax arising from the disposal of securities issued by companies listed on Boursa Kuwait, income arising from securities such as, amongst others, bonds, regardless of the nature of the issuer, shall be exempt from Kuwaiti tax.

The application of Article 150(bis) has been confirmed pursuant to Administrative Order No. 2028 of 2015 issued by the MOF, which amended certain provisions of the Executive Rules of the Amendment, effective from the fiscal year ended 31 December 2015. Accordingly, pursuant to Article 150(bis), income generated from the holding of the Bonds should be exempt from Kuwait income tax.

However, given the novel nature of Article 150(bis) as well as the lack of any official guidance from the DIT and Kuwait court precedent regarding its interpretation and the method of application, it cannot be definitively confirmed what the position of the DIT will be as a matter of practice and/or that of the Kuwaiti courts with respect to the implementation of Article 150(bis), including whether or not a Kuwaiti-based party (such as the Issuer) making a payment to any other party (e.g., any holder of Bonds), wherever incorporated, will be exempt from any retention of payment obligations as referenced under "Retention" above, as at the date of this Prospectus.

Other taxes

As described above, all payments in respect of the Bonds may be made without withholding, deduction or retention for, or on account of, present taxes, duties, assessments or governmental charges of whatsoever nature imposed or levied by or on behalf of Kuwait.

No stamp, registration or similar duties or taxes will be payable in Kuwait by holders of Bonds in connection with the issue or any transfer of the Bonds.

MATERIAL CONTRACTS

The Bank has not entered into any material contracts outside of its area of activities.

GENERAL INFORMATION

Capital Markets Authority

The Capital Markets Authority in Kuwait is the regulating authority in charge of, as per the Capital Market Law No. 7 of 2010 and its Executive Regulations as amended by virtue of decision No. 72 of 2015, regarding regulating the issuance of securities (including the Bonds) in the State of Kuwait, by issuing the required licenses and approvals for the issuance of bonds.

Regulatory Authorities

The Capital Markets Authority in Kuwait (in addition to the CBK in respect of banks and financial institutions regulated by the CBK), are the regulating authorities in charge of issuing the required licenses and approvals for the issuance of bonds in Kuwait.

Change in Financial Position

Save as disclosed in this Prospectus, there has been no material adverse change in the financial position of the Bank since 31 December 2023, the date of its latest audited financial statements, and there have been no negative material changes in the future expectations of the Issuer since 31 December 2023.

Auditors

The current auditors of the Bank are KPMG (KPMG Al-Qenae & Partners) whose business address is Al Hamra Tower, 25th Floor, Abdulaziz Al Saqr Street, P.O. Box 24, Safat 13001, Kuwait. and RSM (RSM Albazie & Co.) whose business address is Arraya Tower 2, Floors 41 & 42, Abdulaziz Hamad Alsaqar Street, Sharq, P.O. Box 2115, Safat 13022, Kuwait. Each of KPMG and RSM is regulated in Kuwait by the Kuwait Ministry of Commerce and Industry and the CMA and each of whom is a registered auditor licensed to act as an auditor in Kuwait by the Kuwait Association of Accountants and Auditors.

The previous auditors of the Bank were Ernst & Young (Al-Aiban, Al-Osaimi and Partners) whose business address is P.O. Box 74, 18th Floor, Baitak Tower, Ahmed Al Jaber Street, Safat Square 13001, Kuwait. Ernst & Young is regulated in Kuwait by the Kuwait Ministry of Commerce and Industry and the CMA and is a registered auditor licensed to act as an auditor in Kuwait by the Kuwait Association of Accountants and Auditors.

The consolidated financial statements of the Group as at and for the years ended 31 December 2023 and 31 December 2022 have been jointly audited by KPMG with licence no. 130 and RSM with licence no. 33-A in accordance with International Standard on Auditing as stated in their report incorporated by reference herein.

Litigation

Neither the Bank nor any member of the Group has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Bank is aware) during the 12 months preceding the date of this Prospectus which may have or has had in the recent past significant effects on the financial position or profitability of the Bank or the Group.

Resolution of the General Assembly and Board of Directors

The issue of the Bonds was authorized by resolutions of the General Shareholders Assembly of the Bank passed on 1 April 2023 and the Board of Directors of the Bank passed on 9 October 2023.

Official Consent

Preliminary approval has been granted for the Bank to issue the Bonds by the CBK on 12 November 2023 and final approval was granted on 18 April 2024. Approval has also been granted by the Kuwait Capital Markets Authority on 10 January 2024 for the Bank to issue the Bonds and has granted approval of the Prospectus in respect to the Bonds on 1 April 2024.

Clearance

The Bonds have been accepted for clearance through Kuwait Clearing Company K.S.C. with the following ISIN:

KWD Fixed Rate Bonds ISIN: KW0DI0190606
KWD Floating Rate Bonds ISIN: KW0DI0190614

Rating

The rating is noted elsewhere in the Prospectus. A credit rating or security rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organization.

Control/Supervision of the Bank

The Issuer is a bank incorporated in the State of Kuwait pursuant to the Companies Law No. 1 of 2016, as amended and its Executive Regulations. The Bank is licensed under Law No. 32 of 1968 in the matter of currency, the CBK, and the organization of the banking profession, and therefore is subject to the control/supervision of the CBK, in addition to the CMA and Ministry of Commerce and Industry in Kuwait.

INFORMATION ON THE ISSUING BANK AND ITS MANAGEMENT

The legal form of the issuing Bank and the legislation that governs its establishment and operations.

The Bank was incorporated on 27 December 1975 in the State of Kuwait by an Amiri Decree, and is registered with the Ministry of Commerce and Industry under Commercial Registration No. 24067 and is listed on the Boursa Kuwait. The Bank is a Kuwaiti Public Shareholding Company and is subject to Law No. 1 of 2016, as amended, Law No. 7 of 2010, as amended, and Law No 32 of 1968, as amended.

The Bank is registered in the register of banks maintained by the CBK. The Bank's registered office is Burgan Tower, Abdullah Al-Ahmad Street, Al Sharq, Kuwait, Tel: +965 2298 8000.

Summary of the provisions provided for by the Articles of Association of the issuing Bank:

Objective of the Bank

The objects for which the Bank was established are to transact for the account of the Bank or for the account of others, all banking, exchange and commercial business, including the following:

1. The acceptance of cash deposits and the payment of cheques or drafts on the Bank by depositors in the amounts deposited in their accounts.
2. The raising of funds by issuing loan bonds.
3. The purchase and sale of gold bullion and foreign currency and the issue of loans thereon and the sale or purchase of transfers thereof.
4. Discounting draft orders, promissory notes, loan bonds, coupons and the other commercial and industrial documents and their purchase and discounting and the investment of capital.
5. Granting of loans, advances, credits and all other banking facilities.
6. Advancing on Bills of Lading, shipping documents, and delivery orders inside and outside the State of Kuwait.
7. The issuance of guarantees with or without security.
8. The collection of Drafts, Promissory Notes, Cheques, Bills of Lading, and all other instruments.
9. The purchase and sale of shares and debentures for the account of others.
10. Operating savings accounts and family trust accounts.
11. Keeping all kinds of currencies and precious metals and other properties, bonds, deeds, packages, parcels, and renting of private safes.
12. Operating as trustee or agent and to accept agencies and to appoint agents for or without a fee (provided that the Bank's conduct of these activities does not lead to the practice of an activity licensed by the CMA).
13. Accepting subscriptions towards the establishment of shareholder companies.
14. Custodian.
15. Investment advisor.
16. Investment portfolio manager.
17. Securities broker not registered in the securities exchange.

In general, the Bank may carry out all banking and commercial operations and services permissible under the law, regulations and statutes adopted in commercial banks. The Bank may acquire interest in, or in any manner associate itself with bodies carrying out activities similar to its own, and which may assist the Bank to realize its objectives in the State of Kuwait or abroad, or it may acquire total equity in or annex such bodies.

Management of the Bank

Management of the Bank is entrusted to the Board of Directors. The Board consists of eleven directors. The Bank's articles of association provide that each director is elected at an ordinary general meeting of shareholders for a three-year term and is eligible for re-election upon expiration of such term. The Board has the power to appoint and remove the GCEO at any time provided there is a quorum of six directors.

The Board holds at least 6 meetings annually, with at least one meeting every quarter called by the Chairman. The Board may also hold meetings if called by at least 3 directors. To be valid, a Board meeting must be attended by at least half the members of the Board and attendance may not be by proxy.

Share Capital of the Bank

As at 31 December 2023, the Bank had an authorised share capital of 4,000,000,000 shares of 100 fils each, comprising 3,452,203,125 issued and fully paid up shares of 100 fils each.

FINANCIAL STATEMENTS

In the following pages are the financial information and statements set out below:

Page

- Consolidated financial statements for year ended 31 December 2023 FS - 1
- Consolidated financial statements for year ended 31 December 2022 FS - 2
- Consolidated financial statements for year ended 31 December 2021 FS - 3



BURGAN BANK GROUP

**CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2023**



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Independent auditors' report to the Shareholders of Burgan Bank K.P.S.C.

Opinion

We have audited the consolidated financial statements of Burgan Bank K.P.S.C. (the "Bank") and its subsidiaries (together, the "Group"), which comprise the consolidated statement of financial position as at 31 December 2023, the consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the year then ended, and notes, comprising material accounting policies and other explanatory 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 as issued by the International Accounting Standards Board ("IFRS") and as adopted by the Central Bank of Kuwait (the "CBK") for use by the State of Kuwait ("IFRS as adopted by the CBK for use by the State of Kuwait").

Basis for Opinion

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

Key Audit Matters

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

Credit losses on loans and advances to customers

See Note 5 to the consolidated financial statements.

The key audit matter

The recognition of credit losses on loans and advances to customers (“credit facilities”) is the higher of Expected Credit Loss (“ECL”) on credit facilities computed under IFRS 9 in accordance with the CBK guidelines or the provisions as required by the CBK instructions along with its consequent impact on related disclosures (the “CBK rules”).

Recognition of ECL under IFRS 9, determined in accordance with the CBK guidelines, requires considerable judgement in its implementation. ECL is dependent on management’s judgement in assessing the level of credit risk on initial recognition and significant increase in credit risk subsequently on the reporting date relative to its initial recognition and classification into the three stages of IFRS 9, developing models for assessing probability of default of customers and estimating cash flows from recovery procedures or realization of collateral.

As a result, ECL has a higher than usual degree of estimation uncertainty and the inputs used are inherently subject to change, which may materially impact the estimate in future periods.

Recognition of specific provision on impaired credit facilities under the CBK rules is based on the instructions prescribed by the CBK on the minimum provisions to be recognised.

Due to the significance of credit facilities, the related estimation uncertainty and judgement in the calculation of ECL, this was considered as a key audit matter.

How the matter was addressed in our audit

- Our audit procedures included assessing the design and implementation of controls over the inputs and assumptions used by the Group in developing the models, its governance and review controls performed by management in determining the adequacy of ECL.
- With respect to ECL, we have selected samples of credit facilities outstanding and checked the appropriateness of the Group’s determination of significant increase in credit risk and the resultant basis for classification of the credit facilities into various stages. For a sample of credit facilities, we have checked the appropriateness of the Group’s staging criteria, Exposure at Default (“EAD”), Probability of Default (“PD”) and Loss Given Default (“LGD”), including the eligibility and value of collateral considered in the ECL model used by the Group and the overlays considered by management, in order to determine ECL taking into consideration the CBK guidelines. We have also checked the consistency of various inputs and assumptions used by the Group’s management to determine ECL.
- We involved our specialists to review the ECL model in terms of key data, methods and assumptions used to ensure they are in line with the requirements of IFRS 9, determined in accordance with the CBK guidelines.
- Further, with respect to the CBK rules relating to the provisioning requirements, we have assessed the criteria for determining whether there is a requirement to calculate any credit losses in accordance with the related regulations (considering the days past due, account conduct and collateral) and, if required, it has been computed accordingly. For the samples selected, we have verified whether all impairment events have been identified by the Group’s management. For the selected samples which also included impaired credit facilities, we have assessed the valuation of collateral and checked the resultant provision computations.
- Evaluated the adequacy of the Group’s disclosure in relation to use of significant estimates and judgement and credit quality of loans and advances to customers.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Group's Annual Report, but does not include the consolidated financial statements and our auditors' report thereon. Prior to the date of this auditors' 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 and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

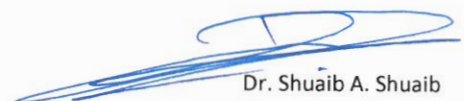
Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion, proper books of account have been kept by the Bank and the consolidated financial statements, together with the contents of the Board of Directors' report relating to these consolidated financial statements are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Capital Adequacy Regulations and Financial Leverage Ratio Regulations issued by the CBK as stipulated in the CBK Circular Nos. 2/RB, RBA/336/2014 dated 24 June 2014 and its amendments, and 2/BS/342/2014 dated 21 October 2014 and its amendments, respectively, the Companies Law No. 1 of 2016, as amended, and its Executive Regulations, as amended, and by the Bank's Memorandum of Incorporation and Articles of Association, as amended, that an inventory was carried out, and that, to the best of our knowledge and belief, no violations of the Capital Adequacy Regulations and Financial Leverage Ratio Regulations issued by the CBK as stipulated in the CBK Circular Nos. 2/RB, RBA/336/2014 dated 24 June 2014 and its amendments, and 2/BS/342/2014 dated 21 October 2014 and its amendments, respectively, the Companies Law No. 1 of 2016, as amended, and its Executive Regulations, as amended, or of the Bank's Memorandum of Incorporation and Articles of Association, as amended, have occurred during the year ended 31 December 2023 that might have had a material effect on the business of the Bank or on its consolidated financial position.

We further report that, during the course of our audit, we have not become aware of any violations of the provisions of Law No. 32 of 1968, as amended, concerning currency, the CBK and the organisation of banking business, and its related regulations during the year ended 31 December 2023 that might have had a material effect on the business of the Bank or on its consolidated financial position.



Dr. Rasheed M. Al-Qenae
License No. 130
of KPMG Al-Qenae & Partners
Member firm of KPMG International



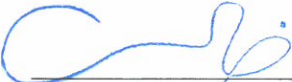
Dr. Shuaib A. Shuaib
License No. 33-A
RSM Albazie & Co.

Kuwait


18 February 2024

BURGAN BANK GROUP
Consolidated Statement of Financial Position
As at 31 December 2023


	Notes	2023 KD 000's	2022 KD 000's
ASSETS			
Cash and cash equivalents	3	870,332	659,384
Treasury bills and bonds with CBK and others		364,286	301,554
Due from banks and other financial institutions	4	656,532	482,101
Loans and advances to customers	5	4,236,942	4,227,737
Investment securities	6	732,205	714,149
Other assets	7	372,114	258,048
Property and equipment		176,982	163,071
Intangible assets	8	16,738	17,530
		7,426,131	6,823,574
Disposal group held for sale		-	342,386
TOTAL ASSETS		7,426,131	7,165,960
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks		701,942	278,146
Due to other financial institutions		437,236	699,421
Deposits from customers		4,463,243	3,932,491
Other borrowed funds	9	549,961	783,392
Other liabilities	10	272,845	243,891
		6,425,227	5,937,341
Liabilities directly associated with the disposal group held for sale		-	281,204
TOTAL LIABILITIES		6,425,227	6,218,545
EQUITY			
Share capital	11	345,220	328,781
Share premium	11	282,802	282,802
Treasury shares	11	(1,742)	(1,742)
Statutory reserve	11	117,903	113,234
Voluntary reserve	11	118,281	113,612
Other reserves	11	(185,941)	(269,121)
Retained earnings		185,694	178,500
		862,217	746,066
Total equity attributable to the equity holders of the Bank		862,217	746,066
Perpetual Tier 1 capital securities	11	153,375	153,150
Non-controlling interests		(14,688)	48,199
TOTAL EQUITY		1,000,904	947,415
TOTAL LIABILITIES AND EQUITY		7,426,131	7,165,960



Khalid Al Zouman
Chief Financial Officer



Antoine Jean Daher
Group Chief Executive Officer



Abdullah Nasser Sabah Al-Ahmad Al-Sabah
Chairman of the Board

The attached notes 1 to 23 form an integral part of these consolidated financial statements.

BURGAN BANK GROUP
Consolidated Statement of Income
For the year ended 31 December 2023

	<i>Notes</i>	<i>2023</i> <i>KD 000's</i>	<i>2022</i> <i>KD 000's</i>
Interest income	12	448,309	323,478
Interest expense	13	(313,446)	(176,014)
Net interest income		134,863	147,464
Fee and commission income		46,125	48,225
Fee and commission expense		(8,441)	(7,276)
Net fee and commission income		37,684	40,949
Net gain from foreign currencies		20,370	15,275
Net investment income	14	7,750	7,002
Dividend income		1,483	2,002
Other income		19,588	15,208
Net operating income		221,738	227,900
Staff expenses		(59,580)	(53,178)
Other expenses		(56,652)	(53,898)
Operating profit		105,506	120,824
Provision for credit losses	5	(47,818)	(25,287)
Recoveries from written-off debt		43,015	4,150
Provision (charge) release for other financial assets		(877)	10
Net monetary loss	2.7	(32,094)	(24,597)
Profit for the year before taxation and Board of Directors' remuneration		67,732	75,100
Taxation	15	(22,527)	(16,440)
Board of directors' remuneration		(110)	(110)
Profit for the year		45,095	58,550
Attributable to:			
Equity holders of the Bank		43,547	52,130
Non-controlling interests		1,548	6,420
		45,095	58,550
Basic and diluted earnings per share attributable to the equity holders of the Bank (fils)	16	10.0	12.0

The attached notes 1 to 23 form an integral part of these consolidated financial statements.

BURGAN BANK GROUP
Consolidated Statement of Comprehensive Income
For the year ended 31 December 2023

	2023	2022
	<i>KD 000's</i>	<i>KD 000's</i>
Profit for the year	45,095	58,550
Other comprehensive loss:		
<i>Items that will not be reclassified to consolidated statement of income in subsequent periods:</i>		
Net change in fair value of equity instruments at fair value through other comprehensive income	(10,530)	(20,964)
	(10,530)	(20,964)
<i>Items that are or may be reclassified to consolidated statement of income in subsequent periods:</i>		
Debt instruments at fair value through other comprehensive income:		
Net change in fair value	7,463	(23,647)
Net transfer to consolidated statement of income	(1,212)	(729)
Foreign currency translation adjustment	(34,413)	(18,844)
Changes in fair value of cash flow hedges	4,139	11,786
Net gain on hedge of a net investment	14,522	2,449
Reversal of disposal group held for sale:		
Net transfer to consolidated statement of income on sale of disposal group held for sale	6,153	-
Other comprehensive loss for the year	(13,878)	(49,949)
Total comprehensive income for the year	31,217	8,601
Attributable to:		
Equity holders of the Bank	30,425	1,360
Non-controlling interests	792	7,241
	31,217	8,601

The attached notes 1 to 23 form an integral part of these consolidated financial statements.

BURGAN BANK GROUP
**Consolidated Statement of Changes in Shareholders' Equity
For the year ended 31 December 2023**

	<i>Attributable to the equity holders of the Bank</i>							<i>Total</i> KD 000's	<i>Perpetual Tier 1 capital securities</i> KD 000's	<i>Non- controlling interests</i> KD 000's	<i>Total equity</i> KD 000's
	<i>Share capital</i> KD 000's	<i>Share premium</i> KD 000's	<i>Treasury shares</i> KD 000's	<i>Statutory reserve</i> KD 000's	<i>Voluntary reserve</i> KD 000's	<i>Other reserves*</i> KD 000's	<i>Retained earnings</i> KD 000's				
Balance as at 1 January 2023	328,781	282,802	(1,742)	113,234	113,612	(269,121)	178,500	746,066	153,150	48,199	947,415
Profit for the year	-	-	-	-	-	-	43,547	43,547	-	1,548	45,095
Other comprehensive loss for the year	-	-	-	-	-	(13,122)	-	(13,122)	-	(756)	(13,878)
Total comprehensive (loss) income for the year	-	-	-	-	-	(13,122)	43,547	30,425	-	792	31,217
Transfer to reserves	-	-	-	4,669	4,669	-	(9,338)	-	-	-	-
Bonus shares issued (Note 11)	16,439	-	-	-	-	-	(16,439)	-	-	-	-
Cash dividend (Note 11)	-	-	-	-	-	-	(26,262)	(26,262)	-	-	(26,262)
Dividend paid to non-controlling interests	-	-	-	-	-	-	-	-	-	(820)	(820)
Foreign currency translation adjustment	-	-	-	-	-	-	(225)	(225)	225	-	-
Net transfer to retained earnings for derecognition of equity investments at FVOCI	-	-	-	-	-	735	(735)	-	-	-	-
Transfer to retained earnings	-	-	-	-	-	1,478	(1,478)	-	-	-	-
Sale of disposal group held for sale	-	-	-	-	-	-	-	-	-	(29,948)	(29,948)
Change in ownership interest in a subsidiary	-	-	-	-	-	94,089	(3,260)	90,829	-	(32,999)	57,830
Interest payment on Tier 1 capital securities	-	-	-	-	-	-	(8,835)	(8,835)	-	-	(8,835)
Impact of application of IAS 29 (Note 2.7)	-	-	-	-	-	-	30,219	30,219	-	88	30,307
Balance as at 31 December 2023	345,220	282,802	(1,742)	117,903	118,281	(185,941)	185,694	862,217	153,375	(14,688)	1,000,904

*Refer to note 11 for further details.

BURGAN BANK GROUP
Consolidated Statement of Changes in Shareholders' Equity (continued)
For the year ended 31 December 2023

	<i>Attributable to the equity holders of the Bank</i>										
	<i>Share capital</i>	<i>Share premium</i>	<i>Treasury shares</i>	<i>Statutory reserve</i>	<i>Voluntary reserve</i>	<i>Other reserves*</i>	<i>Retained earnings</i>	<i>Total</i>	<i>Perpetual Tier 1 capital securities</i>	<i>Non-controlling interests</i>	<i>Total equity</i>
	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>
Balance as at 1 January 2022	313,125	282,802	(1,742)	107,755	108,133	(223,218)	151,028	737,883	151,250	42,792	931,925
Profit for the year	-	-	-	-	-	-	52,130	52,130	-	6,420	58,550
Other comprehensive (loss) income for the year	-	-	-	-	-	(50,770)	-	(50,770)	-	821	(49,949)
Total comprehensive (loss) income for the year	-	-	-	-	-	(50,770)	52,130	1,360	-	7,241	8,601
Transfer to reserves	-	-	-	5,479	5,479	-	(10,958)	-	-	-	-
Bonus shares issued (Note 11)	15,656	-	-	-	-	-	(15,656)	-	-	-	-
Cash dividend (Note 11)	-	-	-	-	-	-	(15,632)	(15,632)	-	-	(15,632)
Dividend paid to non-controlling interests	-	-	-	-	-	-	-	-	-	(1,932)	(1,932)
Foreign currency translation adjustment	-	-	-	-	-	-	(1,900)	(1,900)	1,900	-	-
Net transfer to retained earnings for derecognition of equity investments at FVOCI	-	-	-	-	-	4,867	(4,867)	-	-	-	-
Interest payment on Tier 1 capital securities	-	-	-	-	-	-	(8,815)	(8,815)	-	-	(8,815)
Impact of application of IAS 29 (Note 2.7)	-	-	-	-	-	-	33,170	33,170	-	98	33,268
Balance as at 31 December 2022	328,781	282,802	(1,742)	113,234	113,612	(269,121)	178,500	746,066	153,150	48,199	947,415

*Refer to note 11 for further details.

BURGAN BANK GROUP
Consolidated Statement of Cash Flows
Year ended 31 December 2023

	Notes	2023 KD 000's	2022 KD 000's
Operating activities			
Profit for the year before taxation and Board of directors' remuneration		67,732	75,100
Adjustments:			
Net investment income	14	(7,750)	(7,002)
Provision for credit losses	5	47,818	25,287
Provision charge (release) for other financial assets		877	(10)
Dividend income		(1,483)	(2,002)
Depreciation and amortisation		15,803	14,053
Net monetary loss	2.7	32,094	24,597
Operating profit before changes in operating assets and liabilities		155,091	130,023
Changes in operating assets and liabilities:			
Treasury bills and bonds with CBK and others		(62,732)	(106,960)
Due from banks and other financial institutions		(172,396)	(141,610)
Loans and advances to customers		(58,905)	35,802
Other assets		(112,248)	22,686
Due to banks		422,667	(243,487)
Due to other financial institutions		(262,185)	334,592
Deposits from customers		530,752	(200,613)
Other liabilities		(30,945)	(5,876)
Taxation paid		(9,699)	(12,646)
Net cash flows from (used in) from operating activities		399,400	(188,089)
Investing activities			
Purchase of investment securities		(554,404)	(497,159)
Proceeds from sale of investment securities		557,790	409,297
Purchase of property and equipment		(19,980)	(24,715)
Net movement in non-controlling interests		-	26
Dividend income received		1,483	2,002
Net cash outflow on sale of disposal group held for sale		(109,692)	-
Proceeds from partial sale of subsidiary	18	57,830	-
Net cash flows used in investing activities		(66,973)	(110,549)
Financing activities			
Other borrowed funds		(233,431)	160,695
Cash dividend paid to equity holders of the Bank	11	(26,262)	(15,632)
Cash dividend paid to non-controlling interests		(820)	(1,932)
Interest payment on Tier 1 capital securities		(8,835)	(8,815)
Net cash flows (used in) from financing activities		(269,348)	134,316
Net increase / (decrease) in cash and cash equivalents		63,079	(164,322)
Cash and cash equivalents at 1 January		807,253	971,575
Cash and cash equivalents at 31 December	3	870,332	807,253
Additional cash flow information:			
Interest received		398,216	337,137
Interest paid		283,321	167,883

The attached notes 1 to 23 form an integral part of these consolidated financial statements.

BURGAN BANK GROUP

Notes to the Consolidated Financial Statements **At 31 December 2023**

1. INCORPORATION AND PRINCIPAL ACTIVITIES

Burgan Bank K.P.S.C. (the “Bank”) is a public shareholding company incorporated in the State of Kuwait by Amiri Decree dated 27 December 1975 listed on Boursa Kuwait and is registered as a bank with the Central Bank of Kuwait (the “CBK”). The Bank’s registered address is P.O. Box 5389, Safat 12170, State of Kuwait.

The consolidated financial statements of the Bank and its subsidiaries (collectively the “Group”) for the year ended 31 December 2023 were authorised for issue in accordance with a resolution of the Board of Directors on 15 January 2024 and are issued subject to the approval of the Annual General Assembly of the shareholders of the Bank. The Annual General Assembly of the shareholders has the power to amend these consolidated financial statements after issuance.

The principal activities of the Group are explained in note 17.

The Bank is a subsidiary of Kuwait Projects Company Holding K.S.C.P. (the “Parent Company”), whose shares are listed on Boursa Kuwait.

2.1 BASIS OF PREPARATION

a) Statement of compliance

The consolidated financial statements of the Group has been prepared in accordance with International Financial Reporting Standards (“IFRS”), except as noted below.

The consolidated financial statements have been prepared in accordance with the regulations for financial services institutions as issued by the CBK in the State of Kuwait. These regulations, require banks and other financial institutions regulated by the CBK to adopt the IFRS, as issued by International Accounting Standards Board (“IASB”), except for expected credit loss (“ECL”) to be measured at the higher of ECL provision on credit facilities computed under IFRS 9 in accordance with the CBK guidelines or the provisions as required by the CBK instructions along with its consequent impact on related disclosures.

The above framework is hereinafter referred to as ‘IFRS as adopted by the CBK for use by the State of Kuwait’.

The consolidated financial statements of the Group have been prepared using the accounting policies consistent to those applied for the year ended 31 December 2022 except as noted below in note 2.2. Certain prior year amounts have been regrouped in order to conform to the current year presentation. Such regroupings do not affect previously reported assets, liabilities, equity and profit for the year.

b) Functional and presentation currency

The consolidated financial statements are presented in the order of liquidity in Kuwaiti Dinars (“KD”), which is the Bank’s functional currency, rounded to the nearest thousand except when otherwise stated.

c) Basis of measurement

The consolidated financial statements are prepared under the historical cost convention, except for financial assets classified as fair value through profit or loss (“FVTPL”), fair value through other comprehensive income (“FVOCI”) and derivative financial instruments that are measured at fair value. Disposal group held for sale and assets pending sale are measured at lower of carrying amount or fair value less costs to sell.

BURGAN BANK GROUP

Notes to the Consolidated Financial Statements **At 31 December 2023**

2.2 CHANGES IN MATERIAL ACCOUNTING POLICIES

New and amended standards and interpretations

The Group applied the following amendments effective from 1 January 2023.

International Tax Reform—Pillar Two Model Rules – Amendments to IAS 12

The Group has adopted International Tax Reform – Pillar Two Module Rules (Amendments to IAS 12) upon their release on 23 May 2023. The amendments provide a temporary mandatory exception from deferred tax accounting for the top-up tax, which is effective immediately, and require new disclosures about the Pillar Two exposure (see Note 15).

The mandatory exemptions applies retrospectively. However, because no new legislation to implement the top-up tax was enacted or substantially enacted at 31 December 2022 in any jurisdiction in which the Group operates and no related deferred tax was recognised at that date, the retrospective application has no impact on the Group’s consolidated financial statements.

Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12

The Group has adopted Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12) from 1 January 2023. The amendments narrow the scope of the initial recognition exemption to exclude transactions that give rise to equal and offsetting temporary differences – e.g. leases. For leases, an entity is required to recognise the associated deferred tax assets and liabilities from the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to retained earnings or other components of equity at that date. For all other transactions, an entity applies the amendments to transactions that occur on or after the beginning of the earliest period presented.

The amendment has no impact on the Group’s consolidated financial statements.

IFRS 17 Insurance Contracts

IFRS 17 Insurance Contracts is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. IFRS 17 replaces IFRS 4 *Insurance Contracts*. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them as well as to certain guarantees and financial instruments with discretionary participation features; a few scope exceptions will apply. The overall objective of IFRS 17 is to provide a comprehensive accounting model for insurance contracts that is more useful and consistent for insurers, covering all relevant accounting aspects. IFRS 17 is based on a general model, supplemented by:

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

The new standard had no impact on the Group’s consolidated financial statements.

Definition of Accounting Estimates - Amendments to IAS 8

The amendments to IAS 8 clarify the distinction between changes in accounting estimates, changes in accounting policies and the correction of errors. They also clarify how entities use measurement techniques and inputs to develop accounting estimates.

The amendments has no impact on the Group’s consolidated financial statements.

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

The Group also adopted Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2) from 1 January 2023. The amendments require the disclosure of ‘material’ rather than ‘significant’, accounting policies. The amendments also provide guidance on the application of materiality to disclosure of accounting policies, assisting entities to provide useful, entity-specific accounting policy information for users to understand other information in the financial statements.

The amendments had no material impact on the Group’s consolidated financial statements.

BURGAN BANK GROUP

Notes to the Consolidated Financial Statements

At 31 December 2023

2.3 BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries (investees which are controlled by the Bank). The reporting date of the subsidiaries is a date not earlier than one month from the Bank's reporting date. The impact of this is not material to the consolidated financial statements of the Group.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

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

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

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

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

Profit or loss and each component of other comprehensive income ("OCI") are attributed to the equity holders of the Parent Company of the Bank and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

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

BURGAN BANK GROUP

Notes to the Consolidated Financial Statements At 31 December 2023

2.3 BASIS OF CONSOLIDATION (continued)

The principal operating subsidiaries of the Group are as follows:

<i>Name of company</i>	<i>Principal activities</i>	<i>Country of incorporation</i>	<i>Effective interest as at 31 December 2023</i>	<i>Effective interest as at 31 December 2022</i>
Algeria Gulf Bank S.P.A. (“AGB”)	Banking	Algeria	86.01%	86.01%
Bank of Baghdad P.J.S.C. (“BoB”)*	Banking	Iraq	-	51.79%
Tunis International Bank S.A (“TIB”)	Banking	Tunisia	86.70%	86.70%
Burgan Bank A.S. (“BBT”)**	Banking	Turkey	47.55%	99.71%
Burgan Bank Financial Services Limited (“BBFS”)	Financial Advisory Services	UAE	100.00%	100.00%
Held through BBT				
Burgan Finansal Kiralama A.S	Leasing	Turkey	47.55%	99.71%
Burgan Yatirim Menkul Degerler A.S.	Brokerage	Turkey	47.55%	99.71%
Special purpose vehicle (“SPV”) treated as a subsidiary				
Burgan Senior SPC Limited	Special purpose entity	UAE	100.00%	100.00%

*During the year the Group has obtained required regulatory approvals and have completed the legal requirements for the sale of BoB to Jordan Kuwait Bank (“JKB”) and accordingly the sale transaction has been completed.

** On 11 September 2023, the Group entered into a Share Holders Agreement (“SHA”) to sell 52% of its stake in BBT to Al Rawabi United Holding K.S.C.C. (“Al Rawabi”), which is a subsidiary of the Parent Company with an effective sale date of 30 November 2023. Post the sale transaction, the Group’s ownership interest in BBT is 47.55%, which is less than 50% of the equity of BBT. However, management of the Bank determined that the Group continues to exercise control over BBT because the Group continues to hold majority of the voting rights and Board of Directors representation. Accordingly, the Group continues to consolidate BBT in the consolidated financial statements of the Group for the year ended 31 December 2023. The transaction resulted in a loss on partial sale amounting to KD 3,260 thousand (Note 18) recorded in consolidated statement of changes in shareholders’ equity.

Material non-controlling interests

The management of the Bank has concluded that BBT is the only subsidiary which has non-controlling interests that is material to the Group as of 31 December 2023 (2022:BoB). The information relating to non-controlling interests is as follows:

	<i>BBT 2023</i>	<i>BBT 2022</i>	<i>BoB 2023</i>	<i>BoB 2022</i>
	<i>KD 000’s</i>	<i>KD 000’s</i>	<i>KD 000’s</i>	<i>KD 000’s</i>
Accumulated balances of non-controlling interests	(34,110)	-	-	29,949
(Loss) profit attributable	(177)	-	-	4,430

Summarised financial information of BBT is as follows:

	<i>BBT 2023</i>	<i>BBT 2022</i>	<i>BoB 2023</i>	<i>BoB 2022</i>
	<i>KD 000’s</i>	<i>KD 000’s</i>	<i>KD 000’s</i>	<i>KD 000’s</i>
Summarised financial information				
Assets	913,887	-	-	342,386
Liabilities	799,490	-	-	281,204
Profit for the year	18,527	-	-	9,190
Total comprehensive income for the year	19,731	-	-	7,618
Summarised cash flow information				
Operating cash flow	93,432	-	-	3,904
Investing cash flow	(64,095)	-	-	(3,282)
Financing cash flow	-	-	-	(4,893)

BURGAN BANK GROUP

Notes to the Consolidated Financial Statements **At 31 December 2023**

2.4 SUMMARY OF MATERIAL ACCOUNTING POLICIES

Financial instruments

Recognition

A financial asset or a financial liability is recognised when the Group becomes a party to the contractual provisions of the instrument using settlement date accounting.

Classification and measurement

Initial classification and measurement of financial instruments

The classification of financial instruments at initial recognition depends on the business model for managing the instruments and on their contractual cash flow characteristics. Financial instruments are initially measured at their fair value. Transaction costs are added to, or subtracted from this amount, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss. When the fair value of financial instruments at initial recognition differs from the transaction price, the Group accounts for the Day 1 profit or loss.

Business model assessment

The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objectives. The Group's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- ▶ How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;
- ▶ The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed;
- ▶ The expected frequency, value and timing of sales are also important aspects of the Group's assessment.

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

Contractual cashflow characteristics

The Group also assesses the characteristics of the contractual cashflow of the financial asset to identify whether the contractual cashflow is Solely for purpose of Payment of Principal and Interest ('SPPI test').

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset. The most significant elements of 'interest' within a lending arrangement are typically the consideration for the time value of money and credit risk. The Group also considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set during its assessment of the SPPI test.

If the contractual terms introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement, the financial asset is required to be measured at fair value through profit or loss as the contractual terms do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding.

The Group reclassifies when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change.

Subsequent classification and measurement categories of financial assets

The Group classifies all of its financial assets as either:

- Financial asset carried at amortised cost;
- Financial asset at fair value through other comprehensive income ("FVOCI");
- Financial asset at fair value through profit or loss ("FVTPL").

BURGAN BANK GROUP

Notes to the Consolidated Financial Statements **At 31 December 2023**

2.4 SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial asset carried at amortised cost

A financial asset is carried at amortised cost if it meets both of the following conditions:

- It is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- Its contractual terms give rise on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets carried at amortised cost are subsequently measured at amortised cost using the effective interest rate method. Interest income, foreign exchange gains and losses, impairment and gain or loss on derecognition is recognised in the consolidated statement of income.

Cash and cash equivalents, treasury bills and bonds with CBK and others, due from banks and other financial institutions, loans and advances to customers, certain investment securities and certain other assets are classified as financial asset carried at amortised cost.

Financial asset at fair value through other comprehensive income

a) Debt instruments carried at FVOCI:

A debt instrument is carried at FVOCI if it meets both of the following conditions:

- It is held within a business model whose objectives are both to hold asset to collect contractual cash flows and selling financial assets; and
- Its contractual terms give rise on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments carried at FVOCI are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Interest income and foreign exchange gains and losses and gain or loss on derecognition is recognised in consolidated statement of income.

Certain investment securities comprising quoted and unquoted bonds are classified as debt instruments carried at FVOCI.

b) Equity instruments carried at FVOCI

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

Equity instruments carried at FVOCI are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI and is not recycled to consolidated statement of income on derecognition. Dividend income on equity instruments carried at FVOCI is recognised in consolidated statement of income, when the right to receive the payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI.

Certain investment securities comprising quoted and unquoted equity shares are classified as equity instruments at FVOCI.

Financial assets carried at FVTPL

The financial assets classified under this category are either designated by management upon initial recognition or are mandatorily required to be measured at fair value under IFRS 9. Management designates an instrument as financial asset carried at FVTPL where even though it meets the classification criteria of financial asset carried at amortised cost or financial asset carried at FVOCI, only if this designation eliminates, or significantly reduces, the inconsistent accounting treatment that would otherwise arise. Such designation is determined on an instrument-by-instrument basis.

BURGAN BANK GROUP

Notes to the Consolidated Financial Statements

At 31 December 2023

2.4 SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets carried at FVTPL are subsequently measured at fair value. The changes in fair value are recorded in the consolidated statement of income. Interest earned or incurred is accrued in interest income using the effective interest rate method, taking into account any discount/ premium and qualifying transaction costs being an integral part of instrument. Interest earned on assets mandatorily required to be measured at FVTPL is recorded using contractual interest rate. Dividend income from equity instruments measured at FVTPL is recorded in the consolidated statement of income as operating income when the right to receive the payment has been established.

Certain debt securities, equities and derivatives that are not designated as hedging instruments are classified as financial assets carried at FVTPL.

Subsequent classification and measurement categories of financial liabilities

Financial liabilities, other than financial guarantees and loan commitments, are measured at amortised cost or at FVTPL when they are held for trading and as derivative financial instruments or the fair value designation is applied.

Due to banks, due to other financial institutions, deposits from customers, other borrowed funds and certain other liabilities are classified as financial liabilities carried at amortised cost.

Financial guarantees and loan commitments

In the ordinary course of business, the Group issues financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised at fair value being the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the consolidated statement of income, and ECL as per ECL requirements.

Undrawn loan commitments are commitments under which, over the duration of the commitment, the Group is required to provide a loan with pre-specified terms to the customer. Similar to financial guarantee contracts, these contracts are in the scope of the ECL requirements.

De-recognition

De-recognition of financial assets and financial liabilities other than substantial modification of terms and conditions

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

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

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

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the consolidated statement of income.

BURGAN BANK GROUP

Notes to the Consolidated Financial Statements **At 31 December 2023**

2.4 SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)

Financial instruments (continued)

De-recognition of financial assets due to substantial modification of terms and conditions

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

De-recognition of financial assets due to substantial modification of terms and conditions

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

- Change in currency of the loan;
- Introduction of an equity feature;
- Change in counterparty; or
- If the modification is such that the instrument would no longer meet the SPPI criterion.

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

Interest rate benchmark reform

If the basis for determining the contractual cash flows of a financial asset or financial liability measured at amortised cost changes as a result of interest rate benchmark reform, then the Group updates the effective interest rate of the financial asset or financial liability to reflect the change that is required by the reform. A change in the basis for determining the contractual cash flows is required by interest rate benchmark reform if the following conditions are met:

- the change is necessary as a direct consequence of the reform; and
- the new basis for determining the contractual cash flows is economically equivalent to the previous basis – i.e. the basis immediately before the change.

If changes are made to a financial asset or financial liability in addition to changes to the basis for determining the contractual cash flows required by interest rate benchmark reform, then the Group first updates the effective interest rate of the financial asset or financial liability to reflect the change that is required by interest rate benchmark reform. After that, the Group applies the policies on accounting for modifications set out above to the additional changes

Offsetting of financial assets and financial liabilities

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

Impairment of financial assets

The Group records impairment of financial assets as follows:

Impairment of financial assets classified as credit facilities

Impairment of financial assets classified as credit facilities is recorded as the higher of ECL on credit facilities computed under IFRS 9 in accordance with the CBK guidelines or the provisions as required by the CBK instructions. Credit facilities consists of loans and advances to customers, non-cash credit facilities in the form of bank guarantees, letters of guarantee, documentary letters of credit, bank acceptances, undrawn cash and non-cash credit facilities (revocable and irrevocable).

Impairment of financial assets other than credit facilities

Impairment of financial assets other than credit facilities is computed under IFRS 9 in accordance with CBK guidelines. These financial assets comprise investments in debt securities measured at amortised cost or FVOCI and on balances and deposits with banks. Equity investments are not subject to ECL.

BURGAN BANK GROUP

Notes to the Consolidated Financial Statements

At 31 December 2023

2.4 SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Impairment of financial assets (continued)

Expected credit losses under IFRS 9 as per the CBK guidelines

The Group has established a policy to perform an assessment at the end of each reporting period of whether there has been a significant increase in credit risk since initial recognition by considering the change in the risk of default occurring over the remaining life of the financial instrument. ECL are estimated based on the present value of all cash shortfalls over the remaining expected life of the financial asset, i.e., the difference between:

- The contractual cash flows that are due to the Group under the contract; and
- The cash flows that the Group expects to receive, discounted at the effective interest rate of the credit facility.

The Group applies a three-stage approach to classify and measure the ECL on the financial assets classified as credit facilities, as described below:

Stage 1: 12-month ECL

For financial assets classified as credit facilities where there has not been any significant increase in credit risk since their initial recognition or those credit facilities which are determined to have a low credit risk at the reporting date, the Group classifies these facilities under Stage 1 and measures the loss allowance which is a result of defaults that are expected to arise over the next 12 months (“12-month ECL”) on these financial assets.

Stage 2: Lifetime ECL – not credit impaired

For financial assets classified as credit facilities where there has been a significant increase in credit risk since initial recognition but are not credit impaired, the Group classifies these facilities under Stage 2 and measures loss allowance which is a result of defaults that are expected to arise over the lifetime (“Lifetime ECL”) on these financial assets.

Stage 3: Lifetime ECL – credit impaired

For financial assets classified as credit facilities which are in default and credit impaired, the Group classifies these facilities under Stage 3 and measures loss allowance at an amount equal to 100% of net exposure i.e. exposure after deduction of eligible collateral.

Staging of credit facilities

The Group continuously monitors all financial assets classified as credit facilities and applies a series of absolute thresholds and other criteria to determine the staging. All financial assets classified as credit facilities that are more than 30 days past due are deemed to have significant increase in credit risk since initial recognition and are classified under Stage 2. All rescheduled credit facilities are classified under Stage 2, unless it qualifies for Stage 3.

Except for consumer and instalment credit facilities, transfer of credit facility from Stage 2 to Stage 1 is made after a curing period of 12 months from the satisfaction of all conditions that triggered classification of the credit facility to Stage 2. In addition, the Group also complies with the CBK guidelines with respect to transfer.

Expected credit losses under IFRS 9 as per the CBK guidelines

Definition of default

The Group considers a financial asset to be in default and therefore, Stage 3 (credit impaired) when:

- The borrower is past due for more than 90 days on its credit obligation to the Group;
- The borrower is facing significant financial difficulty;
- The borrower is assessed as credit impaired based on internal qualitative and quantitative assessment; or
- Other indicators such as breach of covenants, customer being deceased etc.

The Group assesses whether objective evidence of impairment exists on an individual basis for each individually significant asset and collectively for others not deemed individually significant.

BURGAN BANK GROUP

Notes to the Consolidated Financial Statements **At 31 December 2023**

2.4 SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Impairment of financial assets (continued)

Measurement of ECL

ECL are probability weighted estimates of credit losses and are measured as the present value of all cash shortfalls discounted at the effective interest rate of the financial instrument. Cash shortfall represent the difference between cashflows due to the Group in accordance with the contract and the cashflows that the Group expects to receive. The key elements in the measurement of ECL includes exposure at default (“EAD”), probability of default (“PD”) and loss given default (“LGD”).

EAD is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including expected drawdowns on committed facilities, repayments of principal and interest, whether scheduled by contract or otherwise. In addition, the Group also complies with the CBK guidelines with respect to application of credit conversion factors.

PD is an estimate of the likelihood of default over a given time horizon. For credit facilities other than retail, Through-The-Cycle PD (“TTC PD”) are generated from the rating tool based on internal / external credit ratings. The Group converts the TTC PD to Point In Time (“PIT”) PD term structure using appropriate models and techniques. The Group assesses the PD for it’s retail portfolio through behavioural scorecards using logistic regression techniques. In addition, the Group also complies with the CBK guidelines with respect to minimum PD.

LGD is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD. In addition, the Group also complies with the CBK guidelines with respect to eligible collateral and minimum hair-cuts.

The maximum period for which the credit losses are determined is the contractual life of a financial asset, including credit cards and other revolving facilities unless the Group has the legal right to call it earlier except for financial assets in Stage 2 where the maturity is determined in accordance to the CBK guidelines.

Incorporation of forward looking information

The Group incorporates forward-looking economic inputs that are relevant to the region in which the Group is located, for both its assessment of significant increase in credit risk and its measurement of ECL. Qualitative overlays are made as and when necessary to correctly reflect the impact of the movement in the relevant economy on the Group. Incorporating forward-looking information increases the degree of judgement required. The methodologies and assumptions including any forecasts of future economic conditions are reviewed regularly.

Renegotiated credit facilities

In the event of a default, the Group seeks to restructure credit facilities with customers rather than take possession of the collaterals. This may involve extending the payment arrangements and the agreement of new financing conditions. When the credit facilities with customers have been renegotiated or modified but not derecognised, any impairment is measured using the original effective interest rate method as calculated before the modification of terms. Management continually reviews renegotiated credit facilities to ensure that all criteria are met and that future payments are likely to occur.

Write-offs

Financial assets are written off either partially or in their entirety only when there is no realistic prospect of recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount.

BURGAN BANK GROUP

Notes to the Consolidated Financial Statements At 31 December 2023

2.4 SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Impairment of financial assets (continued)

Provisions for credit losses in accordance with the CBK instructions

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

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

Derivative financial instruments

The Group makes use of derivative instruments to manage exposures to interest rate, foreign currency and credit risks.

Where derivative contracts are entered into by specifically designating such contracts as a fair value hedge or a cash flow hedge of a recognised asset or liability, the Group accounts for them using hedge accounting principles, provided certain criteria are met. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

For derivative contracts that do not qualify for hedge accounting, any gains or losses arising from changes in fair value of the derivative contract are taken directly to the consolidated statement of income.

Hedge accounting

For the purposes of hedge accounting, hedges are classified into two categories: (a) fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment; and (b) cash flow hedges, when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or a foreign currency risk in an unrecognised firm commitment.

When a financial instrument is designated as a hedge, the Group formally documents the relationship between the hedging instrument and hedged item, as well as, its risk management objectives and its strategy for undertaking the various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows attributable to the hedge risk.

The Group discontinues hedge accounting when the following criteria are met:

- it is determined that the hedging instrument is not, or has ceased to be, highly effective as a hedge;
- the hedging instrument expires, or is sold, terminated, or exercised;
- the hedged item matures or is sold or repaid; or
- a forecast transaction is no longer deemed highly probable.

BURGAN BANK GROUP

Notes to the Consolidated Financial Statements

At 31 December 2023

2.4 SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)

Derivative financial instruments (continued)

Hedge accounting (continued)

Fair value hedges

The changes in fair value of the hedging instrument that qualify and is designated as fair value hedge is recorded in the consolidated statement of income, together with changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

If the hedge accounting is discontinued, the fair value adjustment to the hedged item is amortised to the consolidated statement of income over the period to maturity of the previously designated hedge relationship using the effective interest rate.

If the hedged item is derecognised, the unamortised fair value is recognised immediately in the consolidated statement of income.

When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in the consolidated statement of income.

Cash flow hedges

For qualifying cash flow hedges, the fair value gain or loss associated with the effective portion of the cash flow hedge is recognised initially in OCI and transferred to the consolidated statement of income in the periods when the hedged transaction affects consolidated statement of income. Any ineffective portion of the gain or loss on the hedging instrument is recognised immediately in the consolidated statement of income.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in other comprehensive income at that time remains in other comprehensive income and is recognised when the hedged forecast transaction is ultimately recognised in the consolidated statement of income. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was recognised in other comprehensive income is immediately transferred to the consolidated statement of income.

Hedge of net investment in a foreign operation

Hedges of net investments in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a way similar to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised in other comprehensive income while any gains or losses relating to the ineffective portion are recognised in the consolidated statement of income. On disposal of the foreign operation, the cumulative value of any such gains or losses recognised in other comprehensive income is transferred to the consolidated statement of income.

Fair value measurement

The Group measures financial instruments, such as, derivatives, investment securities etc., at each reporting date. 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 the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

BURGAN BANK GROUP

Notes to the Consolidated Financial Statements

At 31 December 2023

2.4 SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)

Fair value measurement (continued)

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For financial instruments quoted in an active market, fair value is determined by reference to quoted market prices. Bid prices are used for assets and offer prices are used for liabilities. The fair value of investments in mutual funds, unit trusts or similar investment vehicles are based on the last published net assets value.

For unquoted financial instruments fair value is determined by reference to the market value of a similar investment, discounted cash flows, other appropriate valuation models or brokers' quotes.

For financial instruments carried at amortised cost, the fair value is estimated by discounting future cash flows at the current market rate of return for similar financial instruments.

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 of 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.

For the purpose of fair value disclosure, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Assets pending sale

The Group occasionally acquires non-monetary assets in settlement of certain loans and advances. Such assets are stated at the lower of the carrying value of the related loans and advances and the current fair value of such assets. Gains or losses on disposal, and revaluation losses, are recognised in the consolidated statement of income.

Investment in associates

The Group's investment in its associates is accounted for using the equity method. An associate is an entity in which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but not control or joint control over those policies.

Under the equity method, the investment in associates is carried in the consolidated statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The consolidated statement of income reflects the share of the results of operations of the associate. Where there has been a change recognised directly in the other comprehensive income of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the statement of changes in shareholders' equity. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The Group's share of profit of an associate is shown on the face of the consolidated statement of income. This is the profit attributable to equity holders of the associate and therefore, is profit after tax and non-controlling interests in the subsidiaries of the associate.

BURGAN BANK GROUP

Notes to the Consolidated Financial Statements

At 31 December 2023

2.4 SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)

Investment in associates (continued)

The financial statements of the associate are prepared for the same reporting period as the Group. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its associate. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the consolidated statement of income.

Upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retaining investment and proceeds from disposal is recognised in consolidated statement of income.

Disposal group held for sale

The Group classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the disposal of an asset (disposal group), excluding finance costs and income tax expense.

The criteria for held for sale classification is regarded as met, only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. Management must be committed to the plan to sell the asset and the sale expected to be completed within one year from the date of the classification.

Assets and liabilities classified as held for sale are presented separately as current items in the consolidated statement of financial position.

A disposal group qualifies as discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale, and:

- Represents a separate major line of business or geographical area of operations;
- Is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- Is a subsidiary acquired exclusively with a view to resale.

Property and equipment

Property and equipment are stated at cost less accumulated depreciation and impairment losses. Depreciation is provided on all property and equipment, other than freehold land, at rates calculated to write off the cost of each asset on a straight line basis to their residual values over its estimated useful life. Freehold land is stated at cost less impairment losses.

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

Buildings	20 to 35 years
Furniture and equipment	4 to 11 years
Motor vehicles	3 to 7 years
Computers	5 years

When assets are sold or retired, their cost and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is recognised in the consolidated statement of income.

BURGAN BANK GROUP

Notes to the Consolidated Financial Statements

At 31 December 2023

2.4 SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)

Property and equipment (continued)

The carrying amounts of property and equipment are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the assets are written down to their recoverable amounts and the impairment loss is recognised in the consolidated statement of income.

Expenditure incurred to replace a component of an item of property and equipment that is accounted for separately is capitalised and the carrying amount of the component that is replaced is written off. Other subsequent expenditure is capitalised only when it increases future economic benefits of the related item of property and equipment. All other expenditure is recognised in the consolidated statement of income as the expense is incurred.

Intangible assets

Intangible assets represent separately identifiable non-monetary assets without physical substance. Intangible assets are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed as finite.

Intangible assets with finite lives are amortised over the useful economic life, as mentioned below, and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful economic life is reviewed at least at each reporting date. Changes in the expected useful economic life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the consolidated statement of income under “other expenses” consistent with the function of the intangible asset.

Amortisation is calculated using the straight-line method to write down the cost of intangible assets over their estimated useful economic lives as follows:

Banking license	10 to 30 years
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Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated statement of income when the asset is derecognised. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset’s recoverable amount since the last impairment loss was recognised.

Leases

At inception of a contract, the Group assesses whether the contract is a lease. A contract is a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for a consideration. If the contract is identified as a lease, the Group recognises a right-of-use asset and a lease liability at the lease commencement date. The Group elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and lease contracts for which the underlying asset is of low value.

Right-of-use assets

The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred. The right-of-use asset is subsequently depreciated using the straight-line method over the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any. The Group presents right-of-use assets in ‘property and equipment’ in the consolidated statement of financial position.

BURGAN BANK GROUP

Notes to the Consolidated Financial Statements

At 31 December 2023

2.4 SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)

Leases (continued)

Lease liabilities

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the Group's incremental borrowing rate. The lease liability is subsequently measured at amortised cost using the effective interest rate method. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, or a change in the lease payments. The Group presents lease liabilities in 'other liabilities' in the consolidated statement of financial position.

Business combinations and goodwill

A business combination is the bringing together of separate entities or businesses into one reporting entity as a result of one entity, the acquirer, obtaining control of one or more other businesses. The acquisition method of accounting is used to account for business combinations. Under this method, the acquirer recognises, separately from goodwill, identifiable assets acquired, liabilities assumed and any non-controlling interests in the acquiree at the acquisition date.

The identifiable assets acquired and the liabilities assumed at the acquisition date are measured at fair values. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed in the period in which they are incurred.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through the consolidated statement of income. It is then considered in the determination of goodwill.

Goodwill arising in a business combination is recognised as of the acquisition date as the excess of :

- a) the aggregate of the consideration transferred, the amount of any non-controlling interests in the acquiree measured at fair value or at the non-controlling interest's proportionate share of the acquiree's;
- b) identifiable net assets and the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree; over
- c) the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed measured at their fair values.

If the aggregate consideration transferred is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in the consolidated statement of income.

Goodwill is allocated to each of the Group's cash-generating units or for groups of cash-generating units and is tested annually for impairment and is assessed regularly whether there is any indication of impairment. Goodwill impairment is determined by assessing the recoverable amount of cash-generating unit to which goodwill relates.

The recoverable value is the higher of the fair value less costs to sell and its value in use of the cash-generating unit, which is the net present value of estimated future cash flows expected from such cash-generating unit. If the recoverable amount of cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit prorated on the basis of the carrying amount of each asset in the unit. Any impairment loss recognised for goodwill is not reversed in the subsequent period.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operations within that unit is disposed off, the goodwill associated with the operation disposed off is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation.

End of service benefits

Provision is made under the Kuwait Labour Law, employee contracts and respective applicable laws in the countries where the subsidiaries operate. This liability, which is unfunded, represents the amount payable to each employee and is a reliable approximation of the obligation as at the reporting date. The Group also makes contributions to state plans and the obligation is limited to the contributions made.

BURGAN BANK GROUP

Notes to the Consolidated Financial Statements

At 31 December 2023

2.4 SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)

Treasury shares

The Bank's holding in its own shares is stated at acquisition cost and is recognised in shareholders' equity. Treasury shares are accounted for using the cost method. Under this method, the weighted average cost of the shares reacquired is charged to a contra account in the equity. When the treasury shares are reissued, gains are credited to a separate account in equity, "treasury shares reserve", which is not distributable.

Any realised losses are recognised in the same account to the extent of the credit balance on that account. Any excess losses are recognised in retained earnings then to the voluntary reserve and statutory reserve. Gains realised subsequently on the sale of treasury shares are first used to offset any previously recorded losses in the order of reserves, retained earnings and the treasury shares reserve account. These shares are not entitled to any cash dividend that the Bank may propose. The issue of bonus shares increases the number of shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

Other reserve

Other reserve is used to record the effect of changes in ownership interest in subsidiaries, without loss of control, changes in fair value of cash flow hedges, hedge of net investments in foreign operations and other comprehensive income from disposal group held for sale.

Revenue recognition

Interest and similar income and expense

Interest income and expense are recognised in the consolidated statement of income for all financial instruments measured at amortised cost, interest bearing assets classified as FVOCI and financial instruments designated at FVTPL using effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future cash flows through the expected life of the financial instrument or, a shorter period, when appropriate, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, all fees and charges paid or received between parties to the contract, transaction costs and all other premiums or discounts are considered, but not future credit losses.

Once a financial instrument is impaired, interest is thereafter recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

When the Group enters into an interest rate swap to change interest from fixed to floating (or vice versa) the amount of interest income or expense is adjusted by the net interest on the effective portion of the swap. All fees paid or received are treated as an integral part of the effective interest rate of financial instruments and are recognised over the contractual period, except when the underlying risk is sold to a third party, at which time it is recognised immediately.

Fee and commission income

Fee and commission earned for providing services over a period of time are accrued over that period. These fee include credit related fee and other management fees. Loan commitment fee and originating fee that are an integral part of the effective interest rate of a loan are recognised (together with any incremental cost) as an adjustment to the effective interest rate on loan. Fee and commission income where the Group provides specific services are recognised at a point in time upon providing the service.

Dividend income

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

BURGAN BANK GROUP

Notes to the Consolidated Financial Statements

At 31 December 2023

2.4 SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)

Foreign currency

Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transaction and balances

Transactions in foreign currencies are initially recorded at the spot rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the spot rate of exchange ruling at the reporting date. Any resultant gains or losses are recognised in the consolidated statement of income.

Non-monetary assets and liabilities in foreign currencies that are stated at fair value are translated to respective entity's functional currency at the foreign exchange rates ruling on the dates that the values were determined. In case of non-monetary assets whose change in fair values are recognised directly in OCI, foreign exchange differences are recognised directly in OCI and for non-monetary assets whose change in fair value are recognised directly in the consolidated statement of income, foreign exchange differences are recognised in the consolidated statement of income.

Group companies upon consolidation

As at the reporting date, the assets and liabilities of subsidiaries are translated into the Bank's presentation currency (i.e. "KD") at the rate of exchange ruling on the reporting date, and their statements of income are translated at the average exchange rates for the year. Exchange differences arising on translation are taken directly to OCI. On disposal of a foreign subsidiary, the deferred cumulative amount recognised in OCI relating to that particular subsidiary is recognised in the consolidated statement of income.

Any goodwill or fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the respective subsidiaries and translated at the rate of exchange ruling on the reporting date.

Taxation

National Labour Support Tax (NLST)

The Bank calculates the NLST in accordance with Law No. 19 of 2000 and the Ministry of Finance Resolution No. 24 of 2006 at 2.5% of taxable profit for the year. As per the law, cash dividends from listed companies which are subjected to NLST have been deducted from the profit for the year.

Contribution to Kuwait Foundation for the Advancement of Sciences (KFAS)

The Bank calculates the contribution to KFAS at 1% of the profit in accordance with the calculation based on the Foundation's Board of Directors' resolution.

Zakat

Contribution to Zakat is calculated at 1% of the profit of the Bank in accordance with Law No. 46 of 2006 and the Ministry of Finance resolution No. 58/2007 effective from 10 December 2007.

Taxation on overseas subsidiaries

Taxation on overseas subsidiaries is calculated on the basis of the tax rates applicable and prescribed according to the prevailing laws, regulations and instructions of the countries where these subsidiaries operate. Income tax payable on taxable profit ('current tax') is recognised as an expense in the period in which the profits arise in accordance with the fiscal regulations of the respective countries in which the Group operates.

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except when the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

BURGAN BANK GROUP

Notes to the Consolidated Financial Statements

At 31 December 2023

2.4 SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)

Taxation (continued)

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Deferred tax assets and liabilities are measured using tax rates and applicable legislation at the reporting date.

Hyperinflation

The financial information of subsidiary companies whose functional currency is the currency of a hyperinflationary economy are adjusted for inflation prior to their translation to Kuwaiti Dinars. Once restated, all items of the financial statements are converted to Kuwaiti Dinars using the closing exchange rate. Amounts shown for prior years for comparative purposes are not restated at consolidation level as the presentation currency of the Group is not of a hyperinflationary economy. On consolidation, the effect of price changes in the prior periods on the financial information of the subsidiary has been recognised directly in the consolidated statement of changes in equity.

The financial information of subsidiaries whose functional currency is the currency of a hyperinflationary economy are adjusted to reflect the changes in purchasing power of the local currency, such that all items in the consolidated statement of financial position not expressed in current terms (non-monetary items) are restated by applying a general price index at the reporting date and all income and expenses are restated by applying appropriate conversion factors.

Segment information

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

Contingencies

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

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

Fiduciary assets

Assets and related deposits held in trust or in a fiduciary capacity are not treated as assets or liabilities of the Group and accordingly, are not included in the consolidated statement of financial position.

2.5 STANDARDS ISSUED BUT NOT YET EFFECTIVE

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Bank's consolidated financial statements are disclosed below. The Bank intends to adopt these standards, if applicable, when they become effective. These are assessed not to have a material impact on the Groups Consolidated Financial Statements.

- Classification of Liabilities as Current or Non-current Liabilities (Amendments to IAS 1);
- Disclosure Relating To Supplier Finance Arrangements (Amendments to IAS 7 and IFRS 7);
- Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)
- Lack of exchangeability (Amendments to IAS 21);
- Sale or contribution of Assets between an Investor and its Associate or Joint venture (Amendments to IFRS 10 and IAS 28).

BURGAN BANK GROUP

Notes to the Consolidated Financial Statements **At 31 December 2023**

2.6 SIGNIFICANT MATERIAL JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures, as well as, the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Judgments

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the consolidated financial statements:

Classification of financial assets

The Group determines the classification of financial assets based on the assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding.

Deferred tax assets

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that future taxable profits will be available against which the losses can be utilised. Judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax planning strategies.

Significant judgement in determining the lease term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The following are the critical judgments in the application of IFRS 16, apart from those involving estimations, that management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements:

- identifying whether a contract (or part of a contract) includes a lease;
- determining whether it is reasonably certain that an extension or termination option will be exercised; and
- classification of lease arrangements (when the entity is a lessor).

Hedge of net investment in foreign operations

Management exercises judgement to determine the amount of net assets of the subsidiary to be hedged (also called as hedge ratio) based on the future expected changes in the functional currency exchange rate movements of the subsidiary, hedge cost and forward exchange rate and its impact on the Group's net assets.

Estimation uncertainty and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use or fair value less cost to sell of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

Fair value of assets and liabilities including intangible assets

Considerable judgement by management is required in the estimation of the fair value of the assets including intangible assets with finite useful life, liabilities and contingent liabilities acquired.

BURGAN BANK GROUP

Notes to the Consolidated Financial Statements

At 31 December 2023

2.6 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Impairment losses on loans and advances

Considerable judgement by management is required in the estimation of the amount and timing of future cash flows, collateral values, significant increase in credit risk, rating models, ECL models, macro economic variables when determining the level of provisions required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty, and actual results may differ resulting in future changes to such provisions.

Fair value measurement of financial instruments

When the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the discounted cash flows model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Any changes in these estimates and assumptions, as well as, the use of different, but equally reasonable estimates and assumptions may have an impact on carrying amounts of loans and receivables and investments at FVOCI.

2.7 HYPERINFLATION

The Bank, through its subsidiary Burgan Bank A.S. (“BBT”), has banking operations in Turkey. The Turkish economy has been assessed as a hyperinflationary economy based on the cumulative inflation rates over the previous three years, effective for reporting period on or after 30 April 2022. Accordingly, these consolidated financial statements include the effects of hyperinflation in accordance with IAS 29 “*Financial Reporting in Hyperinflationary Economies*” stemming from its Turkish operations. IAS 29 has been applied from 1 January 2022 i.e. the beginning of the reporting period in which the Group identified hyperinflation.

The Group has determined the Consumer Price Index (“CPI”) as the appropriate general price index to be used in the inflation accounting and it was measured at 1859.38 as at 31 December 2023 (31 December 2022: 1,128.45). The inflation accounting was applied to the books of BBT from the date of acquisition i.e. December 2012.

2.8 INTEREST RATE BENCHMARK REFORM – PHASE 2

Financial assets and liabilities

A significant majority of the Group’s exposure to IBOR linked financial assets and liabilities, mainly through USD LIBOR, have been transitioned to new “Risk-Free Rates” (RFRs). Some of the remaining contracts, are in the process of discussion and negotiation with counterparties/customers to complete transition before their next repricing date while others continue using ‘synthetic’ Libor benchmark rates published by ICE Benchmark Administration.

Derivatives held for hedging purposes

The Group has completed the transition of all USD and non-USD linked derivatives as per ISDA Fallbacks Protocol.

BURGAN BANK GROUP

Notes to the Consolidated Financial Statements At 31 December 2023

3. CASH AND CASH EQUIVALENTS

	2023 <i>KD 000's</i>	2022 <i>KD 000's</i>
Cash on hand and in current account with banks and OFIs	295,566	301,402
Balances with the CBK	252,243	168,734
Due from banks and OFIs with original maturity within thirty days	322,559	189,253
	<u>870,368</u>	<u>659,389</u>
Expected credit losses	(36)	(5)
Cash and cash equivalents as per consolidated statement of financial position	870,332	659,384
Cash and cash equivalents attributable to disposal group held for sale	-	147,869
	<u>870,332</u>	<u>807,253</u>

4. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	2023 <i>KD 000's</i>	2022 <i>KD 000's</i>
Loans and advances		
- Banks	44,342	38,218
- Other financial institutions (OFIs)	208,121	219,602
	<u>252,463</u>	<u>257,820</u>
Deposits with banks	427,651	249,704
Gross due from banks and OFIs	680,114	507,524
Provision (Note 5)	(23,531)	(25,413)
Expected credit losses	(51)	(10)
	<u>656,532</u>	<u>482,101</u>

5. LOANS AND ADVANCES TO CUSTOMERS

a) Balances

	2023 <i>KD 000's</i>	2022 <i>KD 000's</i>
Corporate	3,896,134	3,928,638
Retail	523,534	454,904
Gross loans and advances to customers	4,419,668	4,383,542
Provision	(182,726)	(155,805)
	<u>4,236,942</u>	<u>4,227,737</u>

b) Provisions

	<i>Banks and OFIs KD 000's</i>	<i>Corporate KD 000's</i>	<i>Retail KD 000's</i>	<i>Total KD 000's</i>
At 1 January 2023	25,902	163,798	15,857	205,557
Exchange adjustment	-	4,196	(8)	4,188
Amounts written off	(12,756)	(10,725)	(2,487)	(25,968)
Charged to consolidated statement of income	10,842	35,547	1,429	47,818
At 31 December 2023	<u>23,988</u>	<u>192,816</u>	<u>14,791</u>	<u>231,595</u>

BURGAN BANK GROUP

Notes to the Consolidated Financial Statements At 31 December 2023

5. LOANS AND ADVANCES TO CUSTOMERS (continued)

	<i>Banks and OFIs KD 000's</i>	<i>Corporate KD 000's</i>	<i>Retail KD 000's</i>	<i>Total KD 000's</i>
At 1 January 2022	25,393	161,877	14,362	201,632
Exchange adjustment	12	312	36	360
Amounts written off	-	(13,747)	(2,946)	(16,693)
Charged to consolidated statement of income	497	19,150	5,640	25,287
Transferred to disposal group held for sale	-	(3,794)	(1,235)	(5,029)
At 31 December 2022	<u>25,902</u>	<u>163,798</u>	<u>15,857</u>	<u>205,557</u>

The provision includes KD 25,338 thousand (2022: KD 24,339 thousand), being provision for non-cash facilities reported under other liabilities (Note 10), of which KD 457 thousand (2022: KD 489 thousand) relates to due from Banks and OFIs.

The impairment provision for credit facilities complies in all material respects with the specific provision requirements of the CBK and IFRS as adopted by the CBK for use by the State of Kuwait. In March 2007, the CBK issued a circular amending the basis of making minimum general provisions on facilities changing the rate from 2% to 1% for cash facilities and 0.5% for non-cash facilities. The revised rates are applied effective from 1 January 2007 on the net increase in facilities, net of certain restricted categories of collateral during the reporting period. The general provision as of 31 December 2006 in excess of the present 1% for cash facilities and 0.5% for non-cash facilities amounts to KD 16,154 thousand and is retained as a general provision until further directive from the CBK. Interest income on impaired loans and advances is immaterial.

The breakup of specific and general provision is as follows:

	<i>2023 KD 000's</i>	<i>2022 KD 000's</i>
General provision	206,857	185,903
Specific provision	24,738	19,654
	<u>231,595</u>	<u>205,557</u>

An analysis of the gross carrying amounts of credit facilities, commitments and contingent liabilities, and the corresponding ECL based on the staging criteria under IFRS 9 in accordance with the CBK guidelines is as follows:

<i>31 December 2023</i>	<i>Stage 1 KD 000's</i>	<i>Stage 2 KD 000's</i>	<i>Stage 3 KD 000's</i>	<i>Total KD 000's</i>
High	901,078	22,544	-	923,622
Standard	2,971,018	456,803	-	3,427,821
Past due or impaired	32,719	187,211	100,758	320,688
Loans and advances to banks, OFIs and customers	<u>3,904,815</u>	<u>666,558</u>	<u>100,758</u>	<u>4,672,131</u>
Contingent liabilities*	<u>2,368,084</u>	<u>181,354</u>	<u>15,295</u>	<u>2,564,733</u>
ECL allowance for credit facilities	<u>24,174</u>	<u>43,286</u>	<u>51,799</u>	<u>119,259</u>

BURGAN BANK GROUP
Notes to the Consolidated Financial Statements
At 31 December 2023
5. LOANS AND ADVANCES TO CUSTOMERS (continued)

<i>31 December 2022</i>	<i>Stage 1</i> <i>KD 000's</i>	<i>Stage 2</i> <i>KD 000's</i>	<i>Stage 3</i> <i>KD 000's</i>	<i>Total</i> <i>KD 000's</i>
High	653,903	10,555	-	664,458
Standard	3,192,344	522,310	-	3,714,654
Past due or impaired	11,299	155,335	95,616	262,250
Loans and advances to banks, OFIs and customers	3,857,546	688,200	95,616	4,641,362
Contingent liabilities*	2,384,309	183,247	16,269	2,583,825
ECL allowance for credit facilities	25,176	58,054	54,159	137,389

*includes commitments to extend non-cash facilities.

The weightings assigned to each macro-economic scenario are based on the credit cycle index, and as at 31 December 2023, were 40% to the Base Case, 30% to Downside and 30% to the Upside Case (2022: 40% to the Base Case, 30% to Downside and 30% to the Upside Case).

An analysis of the changes in the ECL allowance for credit facilities (cash and non-cash facilities) computed under IFRS 9 in accordance with the CBK guidelines is as follows:

	<i>31 December 2023</i>			
	<i>Stage 1</i> <i>KD 000's</i>	<i>Stage 2</i> <i>KD 000's</i>	<i>Stage 3</i> <i>KD 000's</i>	<i>Total</i> <i>KD 000's</i>
ECL allowance as at 1 January 2023	25,176	58,054	54,159	137,389
ECL movement for the year	(594)	(8,786)	27,609	18,229
Amounts written off	-	-	(25,968)	(25,968)
Foreign exchange adjustments	(408)	(5,982)	(4,001)	(10,391)
Balance at 31 December 2023	24,174	43,286	51,799	119,259

	<i>31 December 2022</i>			
	<i>Stage 1</i> <i>KD 000's</i>	<i>Stage 2</i> <i>KD 000's</i>	<i>Stage 3</i> <i>KD 000's</i>	<i>Total</i> <i>KD 000's</i>
ECL allowance as at 1 January 2022	27,873	55,672	47,920	131,465
ECL movement for the year	(2,280)	8,175	28,957	34,852
Amounts written off	-	-	(16,693)	(16,693)
Foreign exchange adjustments	(417)	(5,793)	(6,025)	(12,235)
Balance at 31 December 2022	25,176	58,054	54,159	137,389

BURGAN BANK GROUP
Notes to the Consolidated Financial Statements
At 31 December 2023
6. INVESTMENT SECURITIES
As at 31 December 2023

	<i>FVOCI</i> <i>KD 000's</i>	<i>FVTPL</i> <i>KD 000's</i>	<i>Amortised</i> <i>cost</i> <i>KD 000's</i>	<i>Associate</i> <i>KD 000's</i>	<i>Total</i> <i>KD 000's</i>
Debt securities	312,543	8,977	202,204	-	523,724
Equity securities	126,313	2,844	-	4,722	133,879
Managed funds	-	75,888	-	-	75,888
Less: Expected credit losses	-	-	(1,286)	-	(1,286)
	<u>438,856</u>	<u>87,709</u>	<u>200,918</u>	<u>4,722</u>	<u>732,205</u>

As at 31 December 2022

	<i>FVOCI</i> <i>KD 000's</i>	<i>FVTPL</i> <i>KD 000's</i>	<i>Amortised</i> <i>cost</i> <i>KD 000's</i>	<i>Associate</i> <i>KD 000's</i>	<i>Total</i> <i>KD 000's</i>
Debt securities	300,000	7,880	184,056	-	491,936
Equity securities	137,076	2,918	-	4,557	144,551
Managed funds	-	78,323	-	-	78,323
Less: Expected credit losses	-	-	(661)	-	(661)
	<u>437,076</u>	<u>89,121</u>	<u>183,395</u>	<u>4,557</u>	<u>714,149</u>

ECL allowance for investment in debt securities carried at fair value through other comprehensive income as at 31 December 2023 amounted to KD 101 thousand (31 December 2022: KD 9 thousand).

7. OTHER ASSETS

	<i>2023</i> <i>KD 000's</i>	<i>2022</i> <i>KD 000's</i>
Accrued interest receivable	147,427	97,334
Prepaid expenses	3,453	3,677
Assets pending sale *	153,061	85,480
Deferred tax assets	4,470	8,362
Taxation paid in advance	3,999	3,784
Sundry debtors	8,884	10,580
Other balances	51,011	48,984
Less: Expected credit losses	(191)	(153)
	<u>372,114</u>	<u>258,048</u>

*The fair value of real estate assets included in assets pending for sale are based on valuations performed by accredited independent valuers by using market comparable method. However, the impact on the consolidated statement of income would be immaterial if the relevant risk variables used to fair value were altered by 5%.

BURGAN BANK GROUP
Notes to the Consolidated Financial Statements
At 31 December 2023
8. INTANGIBLE ASSETS

	<i>Goodwill</i> <i>KD 000's</i>	<i>Other intangible</i> <i>assets</i> <i>KD 000's</i>	<i>Total</i> <i>KD 000's</i>
Cost			
At 1 January 2023	8,170	41,482	49,652
Exchange adjustment	87	489	576
At 31 December 2023	8,257	41,971	50,228
Amortisation			
At 1 January 2023	-	32,122	32,122
Charge for the year	-	1,368	1,368
At 31 December 2023	-	33,490	33,490
Net book value			
At 31 December 2023	8,257	8,481	16,738
At 31 December 2022	8,170	9,360	17,530

The carrying amounts of goodwill and other intangible assets allocated to each CGU are as follows:

	<i>Goodwill</i> <i>KD 000's</i>	<i>Other intangible assets</i> <i>Banking license</i> <i>KD 000's</i>	<i>Total</i> <i>KD 000's</i>
AGB	2,982	4,605	7,587
TIB	5,275	3,876	9,151
At 31 December 2023	8,257	8,481	16,738

	<i>Goodwill</i> <i>KD 000's</i>	<i>Other intangible assets</i> <i>Banking license</i> <i>KD 000's</i>	<i>Total</i> <i>KD 000's</i>
AGB	2,903	4,925	7,828
TIB	5,267	4,435	9,702
At 31 December 2022	8,170	9,360	17,530

BURGAN BANK GROUP

Notes to the Consolidated Financial Statements At 31 December 2023

8. INTANGIBLE ASSETS (continued)

Impairment testing of goodwill

The carrying value of goodwill is tested for impairment on an annual basis (or more frequently if evidence exists that goodwill might be impaired) by estimating the recoverable amount of the cash-generating unit ("CGU") to which these items are allocated using value-in-use calculations unless fair value based on active market price is higher than the carrying value of the CGU. The value in use calculations use pre-tax cash flow projections based on financial projections approved by management over a five years period and a relevant terminal growth rate of 5% (2022: 5%). These cash flows were then discounted using a pre-tax discount rate of 23% to 35% (2022: 25% to 30%) to derive a net present value which is compared to the carrying value. The discount rate used is pre-tax and reflects specific risks relating to the relevant CGU. The recoverable amounts are either higher or approximates the carrying value of goodwill. The Group has also performed a sensitivity analysis by varying these input factors by a reasonable possible margin. Based on such analysis, there are no indications that goodwill is impaired considering the level of judgments and estimations used.

9. OTHER BORROWED FUNDS

	<i>Effective interest rate</i>	<i>2023 KD 000's</i>	<i>2022 KD 000's</i>
Murabaha facility – unsecured 2024	3M Libor + (1.00% - 1.18%)	-	152,818
Subordinated bonds – 2031*	2.750%	152,919	152,542
Medium term borrowing – unsecured (2024 to 2026)	3M Libor + (1.00% - 1.40%)	-	325,741
Medium term borrowing -unsecured (2025 - 2026)	SOFR + (1.00% - 1.05%)	397,042	152,291
		549,961	783,392

*In 2020, the Bank issued USD 500 million Subordinated Tier 2 Notes due in 2031 (the "Notes") at the principal amount. The Notes meet the requirements to be treated as Tier 2 Capital under Basel III Regulations as adopted by the CBK. The Notes are callable in whole but not in part at the option of the issuer after 6 years from the date of their issuance, or on any interest payment date there after, subject to certain conditions being satisfied and the prior approval of the CBK.

Movement in other borrowed funds included in the consolidated statements of cash flows under financing activities includes KD 982 thousand (2022: KD 7,035 thousand) arising from foreign currency translation.

10. OTHER LIABILITIES

	<i>2023 KD 000's</i>	<i>2022 KD 000's</i>
Accrued interest payable	69,772	39,647
Staff benefits	20,456	20,513
Provision for non-cash credit facilities (note 5)	25,338	24,339
Clearing cheques and balances	33,362	29,605
Income received in advance	16,432	14,011
Other payable and accruals	50,949	49,680
Deferred tax liabilities	11,073	6,595
Taxation payable*	21,316	16,944
Other balances	24,147	42,557
	272,845	243,891

*Taxation payable includes an amount of KD 420 thousand (2022: KD 489 thousand) relating to KFAS payable.

BURGAN BANK GROUP

Notes to the Consolidated Financial Statements At 31 December 2023

11. EQUITY AND RESERVES

- a) Authorised, issued and fully paid up capital of the Bank

	2023	2022
Authorised share capital (shares of 100 fils each)	<u>4,000,000,000</u>	<u>4,000,000,000</u>
Issued and fully paid up capital (shares of 100 fils each)	<u>3,452,203,125</u>	<u>3,287,812,500</u>

- b) On 1 April 2023, the Annual General Assembly approved the distribution of cash dividend of 8 fils per share (2021: 5 fils) and bonus shares of 5% (2021: 5%) for the year ended 31 December 2022.

- c) The share premium and treasury shares reserve are not available for distribution. The Companies Law and the Bank's Articles of Association require that 10% of the profit for the year attributable to equity holders of the Bank before Board of Directors remuneration, NLST, KFAS and Zakat be transferred annually to statutory reserve. The Bank may resolve to discontinue such annual transfers when the reserve equals 50% of paid up share capital. Distribution of statutory reserve is limited to the amount required to enable the payment of dividend of 5% of share capital in years when accumulated profits are not sufficient for the payment of a dividend of that amount.

- d) The Articles of Association of the Bank requires an amount of not less than 10% of the profit for the year attributable to equity holders of the Bank before Board of Directors remuneration, NLST, KFAS and Zakat be transferred annually to the voluntary reserve. There is no restriction on distribution of this reserve, except as noted in note 11 (e).

- e) Treasury shares

	2023	2022
Number of shares held	<u>5,316,343</u>	<u>5,057,911</u>
Percentage of shares held	<u>0.15%</u>	<u>0.15%</u>
Cost KD 000's	<u>1,742</u>	<u>1,742</u>
Market value KD 000's	<u>893</u>	<u>1,103</u>
Weighted average market value per share (fils)	<u>197</u>	<u>260</u>

The balance in the treasury share reserve account is not available for distribution. An amount equal to the cost of treasury shares is not available for distribution from share premium, statutory reserve, voluntary reserve and retained earnings throughout the holding period of these treasury shares.

BURGAN BANK GROUP
Notes to the Consolidated Financial Statements
At 31 December 2023
11. EQUITY AND RESERVES (continued)

f) Other reserves attributable to the equity holders of the Bank:

	<i>31 December 2023</i>							
	<i>Treasury shares reserve</i>	<i>Fair value reserve</i>	<i>Foreign currency translation reserve</i>	<i>Hedge of net investment in foreign operations</i>	<i>Cash flow hedge reserve</i>	<i>Change in ownership in subsidiaries</i>	<i>Reserve of disposal group held for sale</i>	<i>Total</i>
	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>
Balance at 1 January 2023	43,135	(105,846)	(242,624)	24,956	18,889	(1,478)	(6,153)	(269,121)
Other comprehensive (loss) income for the period	-	(4,333)	(33,591)	14,522	4,127	-	6,153	(13,122)
Total comprehensive (loss) income	-	(4,333)	(33,591)	14,522	4,127	-	6,153	(13,122)
Net transfer to retained earnings for derecognition of equity investments at FVOCI	-	735	-	-	-	-	-	735
Transfer to retained earnings	-	-	-	-	-	1,478	-	1,478
Change in ownership interest in a subsidiary	-	2,084	124,850	(20,767)	(12,078)	-	-	94,089
Balance at 31 December 2023	43,135	(107,360)	(151,365)	18,711	10,938	-	-	(185,941)

	<i>31 December 2022</i>							
	<i>Treasury shares reserve</i>	<i>Fair value reserve</i>	<i>Foreign currency translation reserve</i>	<i>Hedge of net investment in foreign operations</i>	<i>Cash flow hedge reserve</i>	<i>Change in ownership in subsidiaries</i>	<i>Reserve of disposal group held for sale</i>	<i>Total</i>
	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>
Balance at 1 January 2022	43,135	(65,398)	(222,514)	22,507	7,137	(1,478)	(6,607)	(223,218)
Other comprehensive (loss) income for the period	-	(45,333)	(19,638)	2,449	11,752	-	-	(50,770)
Total comprehensive (loss) income	-	(45,333)	(19,638)	2,449	11,752	-	-	(50,770)
Transfer related to disposal group held for sale	-	18	(472)	-	-	-	454	-
Net transfer to retained earnings for derecognition of equity investments at FVOCI	-	4,867	-	-	-	-	-	4,867
Balance at 31 December 2022	43,135	(105,846)	(242,624)	24,956	18,889	(1,478)	(6,153)	(269,121)

BURGAN BANK GROUP

Notes to the Consolidated Financial Statements At 31 December 2023

11. EQUITY AND RESERVES (CONTINUED)

g) Proposed dividend

The Board of Directors has recommended distributing cash dividend of 6 fils per share (2022: 8 fils) and bonus shares of 5% (2022: 5%) for the financial year ended 31 December 2023. Subject to approval at the annual general meeting ("AGM") of the shareholders, the cash dividend and bonus shares shall be payable to shareholders registered in the Bank's records as of the AGM date.

h) Perpetual Tier 1 capital securities

On 2 July 2019, the Bank issued Perpetual Tier 1 capital securities (the "Tier 1 securities"), amounting to USD 500,000 thousand.

The Tier 1 securities constitute direct, unconditional, subordinated and unsecured obligations of the Bank and are classified as equity in accordance with IAS 32, *Financial Instruments – Classification*. The Tier 1 securities do not have a maturity date. They are redeemable by the Bank at its discretion after 9 July 2024 (the "First Call Date") or on any interest payment date thereafter subject to the prior consent of the regulatory authority.

The Tier 1 securities bear interest on their nominal amount from the issue date to the First Call Date at a fixed annual rate of 5.7492%. Thereafter, the interest rate will be reset at five-year intervals. Interest will be payable semi-annually in arrears and treated as a deduction from equity.

The Bank, at its sole discretion, may elect not to distribute interest and this is not considered an event of default. If the Bank does not pay interest on the Tier 1 securities, on a scheduled interest payment date (for whatever reason), then the Bank must not make any other distribution or payment on or with respect to its other shares that rank equally with or junior to the Tier 1 securities (other than pro-rata distributions or payments on shares that rank equally with Tier 1 securities) unless and until it has paid two consecutive interest payments in full on the Tier 1 securities.

12. INTEREST INCOME

	2023 KD 000's	2022 KD 000's
Loans and advances to customers	288,628	249,813
Due from banks and other financial institutions	101,993	49,711
Treasury bills and bonds	14,703	6,298
Investment securities	42,985	17,656
	<u>448,309</u>	<u>323,478</u>

13. INTEREST EXPENSE

	2023 KD 000's	2022 KD 000's
Deposits from customers	207,358	109,687
Due to banks	55,424	40,506
Due to other financial institutions	10,226	4,242
Other borrowed funds	40,438	21,579
	<u>313,446</u>	<u>176,014</u>

BURGAN BANK GROUP

Notes to the Consolidated Financial Statements At 31 December 2023

14. NET INVESTMENT INCOME

	2023 KD 000's	2022 KD 000's
Net gain on financial assets at FVTPL	4,593	6,736
Net gain from financial assets at FVOCI	2,992	138
Share of result from associates	165	128
	<u>7,750</u>	<u>7,002</u>

15. TAXATION

	2023 KD 000's	2022 KD 000's
NLST	1,428	1,094
KFAS	420	493
Zakat	746	519
Taxation on overseas subsidiaries	19,933	14,334
	<u>22,527</u>	<u>16,440</u>

Components of taxation arising from overseas subsidiaries are as follows:

	2023 KD 000's	2022 KD 000's
Current tax	12,123	17,462
Deferred tax	7,810	(3,128)
	<u>19,933</u>	<u>14,334</u>

The tax rate applicable to the taxable subsidiary companies is in the range of 26% to 35% (2022: 15% to 35%) whereas the effective income tax rate for the year ended 31 December 2023 is in the range of 27 % to 43% (2022: 15% to 34%). For the purpose of determining the taxable results for the year, the accounting profit of the overseas subsidiary companies were adjusted for tax purposes. Adjustments for tax purposes include items relating to both income and expense. The adjustments are based on the current understanding of the existing laws, regulations and practices of each overseas subsidiary companies jurisdiction.

Base erosion and profit shifting “BEPS” Pillar Two

Pillar Two legislation has been enacted or substantively enacted in certain jurisdictions the Group operates. The Group is in scope of the enacted or substantively enacted legislation. The Group has reviewed its corporate structure in light of the introduction of Pillar Two Model Rules in the various jurisdictions in which it operates. The Group has determined that it will not be subject to Pillar Two taxes once the legislation becomes effective since its effective tax rate is above 15% in all the jurisdictions in which it operates. Therefore, as the related Pillar Two disclosures are not required, the amendments will have no impact on the Group’s Consolidated Financial Statements at 31 December 2023.

BURGAN BANK GROUP

Notes to the Consolidated Financial Statements

At 31 December 2023

16. EARNINGS PER SHARE

Basic and diluted earnings per share is computed by dividing the profit for the year attributable to equity holders of the Bank after interest payment and other movements on Tier 1 capital securities by the weighted average number of shares outstanding during the year less treasury shares.

The computation of basic and diluted earnings per share is as follows:

	<i>2023</i> <i>KD 000's</i>	<i>2022</i> <i>KD 000's</i>
Profit for the year attributable to equity holders of the Bank	43,547	52,130
Less: Interest payment and other movements on Tier 1 capital securities	(9,060)	(10,715)
	<hr/>	<hr/>
Profit for the year attributable to equity holders of the Bank after interest and other movements on Tier 1 capital securities	34,487	41,415
	<hr/> <hr/>	<hr/> <hr/>
	<i>Shares</i>	<i>Shares</i>
Weighted average number of outstanding shares, net of treasury shares	3,446,886,782	3,446,886,782
	<hr/> <hr/>	<hr/> <hr/>
Basic and diluted earnings per share (fils)	10.0	12.0

17. SEGMENT INFORMATION

For management purposes, the Group organises its operations by geographic territory in the first instance, primarily Domestic and International. All operations outside Kuwait are classified as International. Within its domestic operations, the Group is organised into the following business segments:

- ▶ **Corporate and Consumer banking:** provides comprehensive product and services to financial institutions, corporate and individual customers, including lending, deposits, trade services, foreign exchange, advisory services, credit and debit cards, and others.
- ▶ **Treasury and Investment banking:** includes treasury activities, investment services and management. It also provides products and services to banks including money markets, lending, deposits, foreign exchange and others.
- ▶ **Central office:** includes liquidity and funding management, any residual in respect of transfer pricing and other unallocated activities.

Executive Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on segment result after provisions which in certain respects are measured differently from operating profit or loss in the consolidated financial statements.

BURGAN BANK GROUP

Notes to the Consolidated Financial Statements

At 31 December 2023

17. SEGMENT INFORMATION (continued)

The table below presents income and results and certain assets and liabilities information regarding the Group's operating segments.

	<i>Kuwait Operations</i>				<i>International Operations</i>	<i>Unallocated / Intragroup Transactions</i>	<i>Group</i>
	<i>Corporate and consumer banking KD 000's</i>	<i>Treasury and investment banking KD 000's</i>	<i>Central office KD 000's</i>	<i>Total KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>Total KD 000's</i>
31 December 2023							
Net interest income	101,702	(11,684)	3,075	93,093	58,325	(16,555)	134,863
Segment operating results	118,853	(10,427)	3,251	111,677	122,814	(12,753)	221,738
Profit (loss) for the year	43,646	(15,266)	7,869	36,249	26,803	(17,957)	45,095
Total assets	3,972,179	1,205,527	657,910	5,835,616	1,839,928	(249,413)	7,426,131
Total liabilities	3,261,634	631,845	1,199,805	5,093,284	1,572,099	(240,156)	6,425,227
	<i>Kuwait Operations</i>				<i>International Operations*</i>	<i>Unallocated / Intragroup Transactions</i>	<i>Group</i>
	<i>Corporate and consumer banking KD 000's</i>	<i>Treasury and investment banking KD 000's</i>	<i>Central office KD 000's</i>	<i>Total KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>Total KD 000's</i>
31 December 2022							
Net interest income	96,462	(6,491)	3,382	93,353	69,737	(15,626)	147,464
Segment operating results	114,607	60	2,863	117,530	122,152	(11,782)	227,900
Profit (loss) for the year	54,463	(4,541)	(2,612)	47,310	25,094	(13,854)	58,550
Total assets	3,731,241	839,337	554,106	5,124,684	2,222,710	(181,434)	7,165,960
Total liabilities	2,590,302	298,754	1,584,718	4,473,774	1,905,326	(160,555)	6,218,545

*International operations include operational results of BoB which is classified as disposal group held for sale as at 31 December 2022. During the year, sale of disposal group held for sale has been completed.

BURGAN BANK GROUP

Notes to the Consolidated Financial Statements At 31 December 2023

18. TRANSACTIONS WITH RELATED PARTIES

The Group has entered into transactions with certain related parties (Parent Company, directors and key management personnel of the Group and their close family members and entities controlled, jointly controlled or significantly influenced by such parties) who were customers of the Group during the year. The "Others" column in the table below mainly represent transactions with other related parties that are either controlled or significantly influenced by the Parent Company. The terms of these transactions are substantially on the same commercial basis as those with unrelated parties, including collateral. Lending to Board Members and their related parties is secured by tangible collateral in accordance with regulations of Central Bank of Kuwait. The outstanding balances and transactions are as follows:

	<i>Parent Company KD 000's</i>	<i>Others KD 000's</i>	<i>2023 KD 000's</i>	<i>2022 KD 000's</i>
Consolidated Statement of Financial Position				
Due from banks and OFIs*	-	178,364	178,364	190,190
Loans and advances to customers*	-	1,022,043	1,022,043	963,745
Investment securities	13,020	80,760	93,780	105,965
Investment securities managed by a related party	-	75,619	75,619	78,062
Other assets	-	6,788	6,788	6,244
Due to banks	-	8,614	8,614	5,367
Due to other financial institutions	-	2,507	2,507	30,822
Deposits from customers	97,973	86,239	184,212	186,544
Commitments and contingent liabilities				
Letters of credit	-	13,238	13,238	10,245
Letters of guarantee	-	44,872	44,872	106,365
Undrawn lines of credit	-	29,293	29,293	115,829
Other commitments	-	12,933	12,933	14,867
Transactions				
Interest income	40	63,356	63,396	42,295
Interest expense	(1,471)	(3,723)	(5,194)	(846)
Fee and commission income	3	909	912	1,234
Fee and commission expenses	-	(584)	(584)	(731)
Dividend income	-	131	131	808
Other expense	-	(9,515)	(9,515)	(4,683)
Other transactions during the year				
Purchase of property and equipment	-	11	11	20
Sale of investment securities	-	-	-	3,155
Loss on sale of investment securities	-	-	-	(3,830)
Partial sale of a subsidiary	-	57,830	57,830	-
Loss on partial sale of a subsidiary (note 2.3)	-	(3,260)	(3,260)	-

* As of 31 December 2023, the fair value of the total eligible collateral to the extent of the outstanding balances amounted to KD 556,740 thousand (2022: KD 512,533 thousand).

	<i>No. of Board members or executive staff</i>	<i>2023 KD 000's</i>	<i>2022 KD 000's</i>
Board members			
Loans and advances to customers	4	1,208	5,777
Deposits from customers	6	3,190	2,127
Executive staff			
Loans and advances to customers	17	1,610	850
Deposits from customers	42	2,027	3,148
Letters of guarantee	-	-	16

BURGAN BANK GROUP

Notes to the Consolidated Financial Statements At 31 December 2023

18. TRANSACTIONS WITH RELATED PARTIES (continued)

Key management compensation

Remuneration paid or payable in relation to “key management” (deemed for this purpose to comprise Directors in relation to their committee service, the Chief Executive Officer and other Senior Officers), was as follows:

	2023 KD 000's	2022 KD 000's
Short term employee benefits – including salary and bonus	4,889	5,440
Accrual for end of service indemnity	1,511	1,521
Accrual for cost of long term incentive rights	436	859
Accrual for committee services	440	440
	<u>7,276</u>	<u>8,260</u>

19. COMMITMENTS AND CONTINGENT LIABILITIES

	2023 KD 000's	2022 KD 000's
Acceptances	47,007	27,777
Letters of credit	273,904	282,925
Letters of guarantee	930,096	884,771
	<u>1,251,007</u>	<u>1,195,473</u>

Irrecoverable commitments to extend credit amount to KD 547,394 thousand (2022: KD 600,921 thousand). This includes commitments to extend credit which are irrecoverable over the life of the facility or are revocable only in response to a material adverse change.

The primary purpose of these instruments is to ensure that funds are available to customers as required. Acceptances, standby letters of credit and guarantees, which represent irrevocable assurances that the Group will make payments in the event that the customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are undertaken by the Group on behalf of the customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing.

Undrawn lines of credit represent unused portions of authorisations to extend cash credit. With respect to credit risk on undrawn lines of credit, the Group is potentially exposed to loss in an amount equal to the total unused lines. However, the likely amount of loss is less than the total unused lines since most of these lines will expire or terminate without being funded.

The Group makes available to its customers guarantees which may require that the Group makes payments on their behalf and enters into commitments to extend credit lines to secure their liquidity needs. Such payments are collected from customers based on the terms of the letter of credit. They expose the Group to similar risks to loans and these are mitigated by the same control processes and policies.

The Group has commitments in respect of capital expenditure amounting to KD 12,933 thousand (2022: KD 14,867 thousand).

BURGAN BANK GROUP

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At 31 December 2023

20. DERIVATIVE FINANCIAL INSTRUMENTS

In the ordinary course of business, the Group enters into various types of transactions that involve derivative financial instruments. The Group offers its clients derivatives products that are traded in the financial markets in order to service their risk management needs to hedge currency and interest rate exposures. The Group also uses derivatives for economic hedging purpose to manage its own assets and liabilities as well as to hedge certain risk exposures such as variation in future cash flows attributable to a recognised asset or liability (cash flow hedge), or hedges of net investment in foreign operation. For those derivative contracts that are designated as a hedging instrument, hedge accounting is used provided certain criteria are met.

Derivatives are initially recognised and are subsequently measured at fair value. Fair values are obtained from quoted market prices in active markets, and valuation techniques (such as discounted cash flow models and option pricing models), as appropriate. All derivatives are carried as assets when their fair value is positive and as liabilities when fair values are negative.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged.

At the inception of the transactions the Group documents the relationship between the hedging instruments and the hedged items, its risk management objective, together with the methods selected to assess hedge effectiveness. The Group also documents its assessment both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of the hedged items.

Derivative instruments that are used by the Group as part of its risk management strategies, but which do not qualify for hedge accounting under the Group's hedge accounting policies, are presented as derivatives held for trading (non-qualifying hedges).

Derivatives held for hedging

Hedge of net investment in foreign operations

The Bank entered into forward foreign exchange contracts between TRY and USD, which has been designated as a hedge of the Bank's net investment in its Turkish subsidiary. This transaction has created a net long position in USD. Gains or losses on the retranslation of the aforesaid contracts are recorded in equity to offset any gains or losses on translation of the net investments in the Turkish subsidiary. Hedge ineffectiveness only arises to the extent the hedging instruments exceeds in nominal terms, the risk exposure from the foreign operations. No ineffectiveness from hedges of net investments in foreign operations was recognised in the consolidated statement of income during the year (2022: Nil).

Cash flow hedges

One of the subsidiary of the Group applies cash flow hedge accounting using interest rate swaps to hedge its foreign currency deposits with an average maturity upto 3 months against interest rate fluctuations. The subsidiary implements effectiveness tests at the reporting dates for hedge accounting; the effective portions are accounted as part of changes in fair value of derivatives under other reserves, whereas the ineffective portion is recognised in the consolidated statement of income.

No ineffectiveness from hedges was recognised in the consolidated statement of income during the year (2022: Nil).

Derivatives held for trading

Derivative contracts that are entered into for the purpose of servicing customers in their risk management needs as well as derivatives used by the Group for economic hedging purpose but which do not meet the qualifying criteria for hedge accounting are classified as 'Derivatives held for trading'. The risk exposures on account of derivative contracts for customers are covered by entering into positions with an opposite risk profile with other counter parties or by other risk mitigating transactions.

BURGAN BANK GROUP

Notes to the Consolidated Financial Statements At 31 December 2023

20. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Types of derivative contracts

Forward foreign exchange contracts

Forward foreign exchange contracts are contractual agreements to either buy or sell a specified currency, at a specific price and date in the future, and are customised contracts transacted in the over-the-counter market.

Swaps

Swaps are contractual agreements between two parties to exchange streams of payments over time based on specified notional amounts, in relation to movements in a specified underlying index such as an interest rate, foreign currency rate or equity index.

Interest rate swaps relate to contracts taken out by the Bank with OFIs in which the Group either receives or pays a floating rate of interest, respectively, in return for paying or receiving a fixed rate of interest. The payment flows are usually netted against each other, with the difference being paid by one party to the other. In a currency swap, the Group pays a specified amount in one currency and receives a specified amount in another currency. Currency swaps are mostly gross settled.

Options

Options are contractual agreements that convey the right, but not the obligation, for the purchaser either to buy or sell a specified amount of a financial instrument at a fixed price, either at a fixed future date or at any time within a specified period.

The Group purchases and sells options through regulated exchanges and in the over-the-counter markets. Options purchased by the Group provide the Group with the opportunity to purchase (call options) or sell (put options) the underlying asset at an agreed-upon value either on or before the expiration of the option. The Group is exposed to credit risk on purchased options only to the extent of their carrying amount, which is their fair value.

Options written by the Group provide the purchaser the opportunity to purchase from or sell to the Group the underlying asset at an agreed-upon value either on or before the expiration of the option.

The table below shows the fair value of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts analysed by the terms of maturity. The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are indicative of neither the market risk nor the credit risk. Credit risk in respect of derivative financial instruments is limited to the positive fair value of instruments. The credit risk exposure is managed as part of the overall borrowers lending limits, together with potential exposures from market movements.

31 December 2023	Positive fair value KD 000's	Negative fair value KD 000's	Notional amount		
			Within 1 year KD 000's	Over 1 year KD 000's	Total KD 000's
Derivatives held for trading: (non-qualifying hedges)					
Forward swaps / foreign exchange contracts	13,901	(11,057)	1,085,672	89,579	1,175,251
Interest rate swaps	1,446	(1,303)	24,630	2,731	27,361
Options	96	(83)	15,769	-	15,769
	<u>15,443</u>	<u>(12,443)</u>	<u>1,126,071</u>	<u>92,310</u>	<u>1,218,381</u>
Derivatives held for hedging: Hedge of net investment in foreign operations:					
Forward swaps / foreign exchange contracts	145	(40)	34,407	-	34,407
Cash flow hedges:					
Interest rate swaps	28,570	(2,477)	40,824	164,806	205,630
	<u>28,715</u>	<u>(2,517)</u>	<u>75,231</u>	<u>164,806</u>	<u>240,037</u>

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At 31 December 2023
20. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

31 December 2022	<i>Positive fair value KD 000's</i>	<i>Negative fair value KD 000's</i>	<i>Notional amount</i>		
			<i>Within 1 year KD 000's</i>	<i>Over 1 year KD 000's</i>	<i>Total KD 000's</i>
<i>Derivatives held for trading: (non-qualifying hedges)</i>					
Forward swaps / foreign exchange contracts	3,003	(7,311)	1,353,895	258,564	1,612,459
Interest rate swaps	2,652	(581)	19,537	576	20,113
Options	1,570	(3,188)	186,004	-	186,004
	<u>7,225</u>	<u>(11,080)</u>	<u>1,559,436</u>	<u>259,140</u>	<u>1,818,576</u>
<i>Derivatives held for hedging:</i>					
<i>Hedge of net investment in foreign operations:</i>					
Forward swaps / foreign exchange contracts	347	(19)	28,650	-	28,650
<i>Cash flow hedges:</i>					
Interest rate swaps	34,740	(2,992)	29,044	203,153	232,197
	<u>35,087</u>	<u>(3,011)</u>	<u>57,694</u>	<u>203,153</u>	<u>260,847</u>

Hedging instruments are used to hedge net investment in a foreign operation and interest rate risk pertaining to hedged items. Hedged item for net investment in foreign operation pertain to the Bank's net investment in BBT and the foreign exchange translation loss recorded in OCI amounted to KD 19,833 thousand (2022: KD 17,476 thousand) for the hedged portion. Hedged item for interest rate risk include a portion of customer deposits and long term borrowings denominated in foreign currency in a subsidiary having a carrying value of KD 205,632 thousand (2022: KD 232,197 thousand). All the hedges were determined to be effective as at the year end.

BURGAN BANK GROUP

Notes to the Consolidated Financial Statements

At 31 December 2023

21. FAIR VALUE MEASUREMENT

Fair value of all financial instruments is not materially different from their carrying values. For financial assets and financial liabilities that are liquid or having a short-term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits, savings accounts without a specific maturity.

The fair value of investment securities is categorised as per the policy on fair value measurement in Note 2. Movement in level 3 is mainly on account of purchase, sale and change in fair value and on account of investment security acquired against recovery of debt previously written off, and change in fair value and reclassification under IFRS 9. During the year, a decrease of KD 9,137 thousand (2022: decrease of KD 10,600 thousand) was recorded in the other comprehensive income representing change in fair value. There were no material transfers between the levels during the year. The impact on the consolidated statement of financial position or the consolidated statement of shareholders' equity would be immaterial if the relevant risk variables used to fair value the unquoted securities were altered by 5%.

Debt securities included under level 3 consists of unquoted corporate bonds. The fair values of these bonds are estimated using discounted cash flow method. Equities and other securities included in this category mainly include strategic equity investments and managed funds which are not traded in an active market. The fair values of these investments are estimated by using valuation techniques that are appropriate in the circumstances. Valuation techniques include discounted cash flow models, observable market information of comparable companies, recent transaction information and net asset values.

Significant unobservable inputs used in valuation techniques mainly include discount rate, terminal growth rate, revenue, profit estimates and market multiples such as price to book and price to earnings. Given the diverse nature of these investments, it is not practical to disclose a range of significant unobservable inputs.

Other financial assets and liabilities are carried at amortised cost and their carrying values are not materially different from their fair values. Fair values of remaining financial assets and liabilities carried at amortised cost are estimated using valuation techniques incorporating certain assumptions such as future cashflows and credit spreads that are appropriate in the circumstances.

The impact on the consolidated statement of financial position or the consolidated statement of income or the consolidated statement of shareholders' equity would be immaterial if the relevant risk variables used for fair value estimations to fair value the unquoted securities were altered by 5%.

BURGAN BANK GROUP
Notes to the Consolidated Financial Statements
At 31 December 2023
21. FAIR VALUE MEASUREMENT (continued)

Fair value measurement hierarchy for financial assets and financial liabilities that are carried at fair value is as follows:

	<i>31 December 2023</i>				<i>31 December 2022</i>			
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
	<i>KD '000</i>	<i>KD '000</i>	<i>KD '000</i>	<i>KD '000</i>	<i>KD '000</i>	<i>KD '000</i>	<i>KD '000</i>	<i>KD '000</i>
Financial assets:								
Equity securities	63,847	-	65,310	129,157	65,459	-	74,535	139,994
Debt securities	321,520	-	-	321,520	307,880	-	-	307,880
Managed funds	-	-	75,888	75,888	-	-	78,323	78,323
Derivative financial instruments	-	44,158	-	44,158	-	42,312	-	42,312
Financial liabilities:								
Derivative financial instruments	-	14,960	-	14,960	-	14,091	-	14,091

Investment securities classified as FVOCI and amortised cost (Note 6) and other debt instruments carried at amortised cost (excluding credit facilities) are subject to expected credit losses. These financial assets are largely categorised under Stage 1 (2022: Stage 1). Central Bank of Kuwait bonds and Kuwait Government treasury bonds are not subject to expected credit losses.

BURGAN BANK GROUP

Notes to the Consolidated Financial Statements **At 31 December 2023**

22. RISK MANAGEMENT

INTRODUCTION

Monitoring and controlling risks is primarily performed based on limits established by the Group. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Group is willing to accept, with additional emphasis on selected geographic and industrial sectors. In addition, the Group monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

The operations of certain subsidiaries are also subject to regulatory requirements within the jurisdictions where it operates. Such regulations not only prescribe approval and monitoring of activities, but also impose certain restrictive provisions (e.g. capital adequacy) to minimise the risk of default and insolvency on the part of the banking and insurance companies to meet unforeseen liabilities as these arise.

As part of its overall risk management, the Group uses derivatives and other instruments to manage exposures resulting from changes in interest rates and foreign currency transactions.

The risk profile is assessed before entering into hedge transactions, which are authorised by the appropriate level of seniority within the Group.

The Group classifies the risks faced as part of its day to day activities into certain categories of risks and accordingly specific responsibilities have been given to various officers for the identification, measurement, control and reporting of these identified families of risks. The categories of risks are:

Risks arising from financial instruments:

- i. Credit risk which includes default risk of clients and counterparties;
- ii. Market risk which includes interest rate, foreign exchange and equity price risks; and
- iii. Liquidity risk.

Other risks

- i. Operational risk which includes risks due to operational failures.

A. CREDIT RISK

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or group of borrowers, and to geographical and industry segments. Such risks are monitored on a regular basis and are subject to regular review. Limits on the level of credit risk by product, industry sector and by country are approved by the Board or each subsidiary.

The exposure to any one borrower, including Banks and OFIs is further restricted by sub limits covering items on the consolidated statement of financial position and commitments and contingent liabilities exposures and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily. The Group has a well-documented credit policy that complies with the CBK regulations and defines the appetite of the Group for assumption of risks in its various business groups.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

Credit risk arising from derivative financial instruments is limited to those with positive fair values, recorded in the consolidated statement of financial position.

Internal rating and PD estimation process

In managing its portfolio, the Group utilises ratings and other measures and techniques which seek to take account of all aspects of perceived risk. The Group uses industry standard rating tools for assessing ratings/scores that are leveraged for PD estimation process. The tool provides the ability to analyse a business and produce risk ratings at both the obligor and facility level. The analysis supports the usage of financial factors as well as non-financial subjective factors. The Group also uses external ratings by recognised rating agencies for externally rated portfolios.

BURGAN BANK GROUP

Notes to the Consolidated Financial Statements At 31 December 2023

22. RISK MANAGEMENT (continued)

A. CREDIT RISK (continued)

Maximum exposure to credit risk:

The table below shows the maximum exposure to credit risk across financial assets before taking into consideration the effect of any collateral and other credit enhancements i.e. credit risk mitigation.

	2023 <i>KD 000's</i>	2022 <i>KD 000's</i>
Cash and cash equivalents	795,860	587,143
Treasury bills and bonds with CBK and others	364,286	301,554
Due from banks and other financial institutions	656,532	482,101
Loans and advances to customers	4,236,942	4,227,737
Investments securities – debt securities	522,438	491,275
Other assets*	207,131	156,745
Total	6,783,189	6,246,555
Commitments and contingent liabilities (note 19)	1,811,334	1,811,261
Maximum credit risk exposure before consideration of credit risk mitigation	<u>8,594,523</u>	<u>8,057,816</u>

* Other assets include accrued interest receivable, sundry debtors and other debt balances, net of ECL as shown in note 7.

The exposures set above, are based on net carrying amounts as reported in the consolidated statement of financial position, except for commitments and contingent liabilities.

Collateral and credit risk mitigation techniques

The amount, type and valuation of collateral are based on guidelines specified in the risk management framework. The main types of collaterals accepted include real estate and marketable securities. The revaluation and custody of collaterals are performed independent of the business units.

The main credit risk mitigation techniques applied by the Group are based on eligible collaterals. The Group's management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of the collateral at regular intervals in line with regulatory guidelines.

For further details regarding the Group's use of credit risk mitigation techniques, and collateral policy, refer to Basel III – Pillar 3 Disclosures under the risk management section of the Annual Report.

Credit risk concentration

The top 10 largest exposures outstanding as a percentage of gross loans and advances to customers at 31 December 2023 is 27% (2022: 26%).

BURGAN BANK GROUP

Notes to the Consolidated Financial Statements At 31 December 2023

22. RISK MANAGEMENT (continued)

A. CREDIT RISK (continued)

The concentration across classes within loans and advances to customers, which form part of the significant portion of assets subject to credit risk, is given in Note 5.

The Group's financial assets and commitments and contingent liabilities, before taking into account any collateral held or credit enhancements can be analysed by the following geographic regions:

	2023			2022		
	<i>Financial assets</i>	<i>Commitments and contingent liabilities</i>	<i>Total</i>	<i>Financial assets</i>	<i>Commitments and contingent liabilities</i>	<i>Total</i>
	<i>KD 000s</i>	<i>KD 000s</i>	<i>KD 000s</i>	<i>KD 000s</i>	<i>KD 000s</i>	<i>KD 000s</i>
Kuwait	4,183,157	1,391,787	5,574,944	3,819,402	1,434,928	5,254,330
Jordan	13,569	13,043	26,612	18,102	11,448	29,550
Algeria	665,675	181,401	847,076	598,102	130,015	728,117
Iraq	-	1,225	1,225	-	779	779
Tunisia	33,124	465	33,589	16,198	563	16,761
Turkey	821,403	168,478	989,881	959,388	166,194	1,125,582
Other Middle East	693,784	26,927	720,711	551,762	26,216	577,978
Europe	167,173	11,587	178,760	101,283	21,720	123,003
Rest of the world	205,304	16,421	221,725	182,318	19,398	201,716
	6,783,189	1,811,334	8,594,523	6,246,555	1,811,261	8,057,816

The Group's financial assets and commitments and contingent liabilities, before taking into account any collateral held or credit enhancements can be analysed by the following industry sectors:

	2023	2022
	<i>KD 000's</i>	<i>KD 000's</i>
Industry sector		
Sovereign	1,287,709	1,048,934
Banking	955,245	693,037
Investment	296,781	369,462
Trade and commerce	684,474	662,634
Real estate	1,118,601	1,191,225
Personal	1,926,606	1,712,861
Manufacturing	703,550	687,922
Construction	665,194	722,700
Other services	956,363	969,041
	8,594,523	8,057,816

Credit quality per class of financial assets

The Bank has a comprehensive credit policy encompassing evaluation of the customer's credit request, assessment of the purpose of request, business of the client, market, management, financials, ratings, conduct of the account and such other means to establish the credit worthiness of the counterparty and accordingly the credit exposures are classified as "High" or "Standard" based on inherent credit quality of the counterparties. Credit exposures classified as "High" quality are those where the ultimate risk of finance loss from the obligor's failure to discharge its obligation is assessed to be low. These include facilities to counterparties with financial condition, risk indicators and capacity to repay which are considered excellent. Credit exposures classified as "Standard" quality comprise all other facilities whose payment performance is compliant with the contractual conditions. The credit quality per class of financial assets for comparative period has been reclassified to conform the presentation of current year classification.

BURGAN BANK GROUP

Notes to the Consolidated Financial Statements At 31 December 2023

22. RISK MANAGEMENT (continued)

A. CREDIT RISK (continued)

The table also shows the credit risk exposure by credit quality of financial assets by class, grade and status:

	2023				
	<i>Rated</i>		<i>Past due but not impaired*</i>	<i>Impaired financial assets*</i>	<i>Total</i>
	<i>High</i>	<i>Standard</i>			
	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>
Sovereigns	779,746	6,766	-	-	786,512
Banks and OFIs	587,370	423,302	9,331	10,163	1,030,166
Corporates	840,171	2,631,679	194,614	64,651	3,731,115
Retail	10,115	472,483	15,985	7,244	505,827
Other credit exposures	329,337	400,232	-	-	729,569
	<u>2,546,739</u>	<u>3,934,462</u>	<u>219,930</u>	<u>82,058</u>	<u>6,783,189</u>
	2022				
	<i>Rated</i>		<i>Past due but not impaired*</i>	<i>Impaired financial assets*</i>	<i>Total</i>
	<i>High</i>	<i>Standard</i>			
	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>
Sovereigns	633,030	-	-	-	633,030
Banks and OFIs	319,549	418,219	-	-	737,768
Corporates	621,007	2,934,404	155,607	76,035	3,787,053
Retail	10,079	414,055	11,027	5,523	440,684
Other credit exposures	346,224	301,796	-	-	648,020
	<u>1,929,889</u>	<u>4,068,474</u>	<u>166,634</u>	<u>81,558</u>	<u>6,246,555</u>

*Fair value of collateral to the extent of the outstanding exposure against the above mentioned past due but not impaired financial assets and impaired financial assets amounted to KD 111,746 thousand (2022: KD 45,686 thousand) and KD 76,001 thousand (2022: KD 77,188 thousand) respectively.

B. MARKET RISK

Market risk is the risk that the value of an asset will fluctuate as a result of changes in market variables such as interest rates, foreign exchange rates, and equity prices, whether those changes are caused by factors specific to the individual investment or its issuer or factors affecting all financial assets traded in the market.

Market risk is managed on the basis of pre-determined asset allocations across various asset categories, diversification of assets in terms of geographical distribution and industry concentration, a continuous appraisal of market conditions and trends and management's estimate of long and short term changes in fair value.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the fair value or cash flows of the financial instruments. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. This arises 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 manages this risk by matching the repricing of assets and liabilities through risk management strategies.

The Group is exposed to interest rate risk on its interest bearing assets and liabilities (treasury bills and bonds with CBK and others, due from banks and OFIs, loans and advances to customers, due to banks, due to OFIs, deposits from customers and other borrowed funds).

BURGAN BANK GROUP

Notes to the Consolidated Financial Statements At 31 December 2023

22. RISK MANAGEMENT (continued)

B. MARKET RISK (continued)

The table below summarises the effect on net interest income as a result of the changes in interest rate:

	2023 KD 000's	2022 KD 000's
Increase in interest rate "Basis Points"		
50	7,274	6,092
100	14,549	12,184
Decrease in interest rate "Basis Points"		
50	(7,274)	(6,092)
100	(14,549)	(12,184)

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group takes on exposure to effects of fluctuations in the prevailing currency exchange rates on its financial position and cash flows. The Board of Directors sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily.

The table below analyses the effect on profit and equity of an assumed 5% strengthening in value of the currency rate against the Kuwaiti Dinar from levels applicable at the year end, with all other variables held constant. A negative amount in the table reflects a potential net reduction in profit or equity, where as a positive amount reflects a net potential increase.

Currency	% Change in currency rate	2023		2022	
		Effect on profit KD 000's	Effect on equity KD 000's	Effect on profit KD 000's	Effect on equity KD 000's
Algerian Dinar	+5	511	4,724	497	4,322
Iraqi Dinar	+5	-	-	385	3,309
Turkish Lira	+5	926	4,794	464	3,305
US Dollar	+5	264	3,041	394	2,976
Others	+5	540	-	673	-

Equity price risk

Equity price risk is the risk that the fair values of equities will fluctuate as a result of changes in the level of equity indices or the value of individual share prices. Equity price risk arises from the change in fair values of equity investments. The Group manages this risk through diversification of investments in terms of geographical distribution and industry concentration. The majority of the Group's quoted investments are listed on the regional stock exchanges.

The Group conducts sensitivity analysis on regular intervals in order to assess the potential impact of any major changes in fair value of equity instruments. Based on the results of the analysis conducted there are no material implication over the Group's profit or other comprehensive income for a 5% fluctuation in major stock exchanges.

Prepayment risk

Prepayment risk is the risk that the Group will incur a financial loss because its customers and counterparties repay or request repayment earlier than expected, such as fixed rate mortgages when interest rate fall. The fixed rate assets of the Group are not significant compared to the total assets. Moreover, other market conditions causing prepayment is not significant in the markets in which the Group operates. Therefore, the Group considers the effect of prepayment on net interest income is not material after taking in to account the effect of any prepayment penalties.

BURGAN BANK GROUP

Notes to the Consolidated Financial Statements At 31 December 2023

22. RISK MANAGEMENT (continued)

C. LIQUIDITY RISK

Liquidity risk is the risk that the Group will be unable to meet its liabilities when they fall due. The Group is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs and guarantees. To limit this risk, the Group manages assets with liquidity in mind and monitors liquidity on a daily basis.

The table below shows an analysis of financial liabilities and contingent liabilities and commitments based on the remaining undiscounted contractual maturities:

	<i>Up to 3 months KD 000's</i>	<i>3 to 6 months KD 000's</i>	<i>6 to 12 months KD 000's</i>	<i>More than 12 months KD 000's</i>	<i>Total KD 000's</i>
31 December 2023					
Financial liabilities					
Due to banks	659,517	41,130	3,452	-	704,099
Due to other financial institutions	318,774	41,353	81,498	-	441,625
Deposits from customers	3,235,371	578,179	620,324	83,150	4,517,024
Other borrowed funds	6,011	5,945	12,021	623,282	647,259
Other liabilities	189,630	18,892	8,721	55,602	272,845
	<u>4,409,303</u>	<u>685,499</u>	<u>726,016</u>	<u>762,034</u>	<u>6,582,852</u>
Contingent liabilities and commitments	<u>705,428</u>	<u>284,120</u>	<u>320,774</u>	<u>501,012</u>	<u>1,811,334</u>
	<i>Up to 3 months KD 000's</i>	<i>3 to 6 months KD 000's</i>	<i>6 to 12 months KD 000's</i>	<i>More than 12 months KD 000's</i>	<i>Total KD 000's</i>
31 December 2022					
Financial liabilities					
Due to banks	244,852	29,265	4,894	592	279,603
Due to other financial institutions	658,951	10,886	34,682	-	704,519
Deposits from customers	3,339,229	254,918	229,255	142,486	3,965,888
Other borrowed funds	9,938	9,938	139,513	717,748	877,137
Other liabilities	171,612	520	7,024	64,735	243,891
	<u>4,424,582</u>	<u>305,527</u>	<u>415,368</u>	<u>925,561</u>	<u>6,071,038</u>
Contingent liabilities and commitments	<u>655,829</u>	<u>231,892</u>	<u>480,866</u>	<u>442,674</u>	<u>1,811,261</u>

The table below summarises the maturity profile of the Group's assets and liabilities. The maturities of assets and liabilities have been determined according to when they are expected to be recovered or settled. The maturity profile for financial assets at FVTPL and FVOCI is determined based on management's estimate of liquidation of those financial assets. The actual maturities may differ from the maturities shown below since borrowers may have the right to prepay obligations with or without prepayment penalties.

BURGAN BANK GROUP
Notes to the Consolidated Financial Statements
At 31 December 2023
22. RISK MANAGEMENT (continued)
C. LIQUIDITY RISK (continued)

	<i>Up to 3 months KD 000s</i>	<i>3 to 6 months KD 000s</i>	<i>6 to 12 months KD 000s</i>	<i>More than 12 months KD 000s</i>	<i>Total KD 000s</i>
31 December 2023					
ASSETS					
Cash and cash equivalents	870,332	-	-	-	870,332
Treasury bills and bonds with CBK and others	152,021	125,063	35,402	51,800	364,286
Due from banks and other financial institutions	527,593	8,782	103,680	16,477	656,532
Loans and advances to customers	1,415,363	633,861	617,604	1,570,114	4,236,942
Investment securities	26,315	12,996	21,270	671,624	732,205
Other assets	116,660	6,055	6,836	242,563	372,114
Property and equipment	-	-	-	176,982	176,982
Intangible assets	-	-	-	16,738	16,738
Total assets	3,108,284	786,757	784,792	2,746,298	7,426,131
LIABILITIES AND EQUITY					
Due to banks	657,997	40,495	3,450	-	701,942
Due to other financial institutions	317,913	40,583	78,740	-	437,236
Deposits from customers	3,223,255	564,503	597,142	78,343	4,463,243
Other borrowed funds	-	-	-	549,961	549,961
Other liabilities	189,630	18,892	8,721	55,602	272,845
Equity	-	-	-	1,000,904	1,000,904
Total liabilities and equity	4,388,795	664,473	688,053	1,684,810	7,426,131

BURGAN BANK GROUP
Notes to the Consolidated Financial Statements
At 31 December 2023
22. RISK MANAGEMENT (continued)
C. LIQUIDITY RISK (continued)

	<i>Up to 3 months KD 000s</i>	<i>3 to 6 months KD 000s</i>	<i>6 to 12 months KD 000s</i>	<i>More than 12 months KD 000s</i>	<i>Total KD 000s</i>
31 December 2022					
ASSETS					
Cash and cash equivalents	659,384	-	-	-	659,384
Treasury bills and bonds with CBK and others	132,564	133,292	20,543	15,155	301,554
Due from banks and other financial institutions	417,766	26,785	20,464	17,086	482,101
Loans and advances to customers	1,889,020	481,520	492,154	1,365,043	4,227,737
Investment securities	24,113	14,466	46,422	629,148	714,149
Other assets	96,211	1,158	3,363	157,316	258,048
Property and equipment	-	-	-	163,071	163,071
Intangible assets	-	-	-	17,530	17,530
Disposal group held for sale	342,386	-	-	-	342,386
Total assets	3,561,444	657,221	582,946	2,364,349	7,165,960
LIABILITIES AND EQUITY					
Due to banks	244,340	28,532	4,683	591	278,146
Due to other financial institutions	654,893	10,805	33,723	-	699,421
Deposits from customers	3,331,802	246,498	220,725	133,466	3,932,491
Other borrowed funds	-	-	119,457	663,935	783,392
Other liabilities	171,612	520	7,024	64,735	243,891
Liability directly associated with disposal group held for sale	281,204	-	-	-	281,204
Equity	-	-	-	947,415	947,415
Total liabilities and equity	4,683,851	286,355	385,612	1,810,142	7,165,960

BURGAN BANK GROUP

Notes to the Consolidated Financial Statements At 31 December 2023

D. OPERATIONAL RISK

Operational risk is the risk of loss arising from the failures in operational process, people and system that supports operational processes. The Group has a set of policies and procedures, which are approved by the Board of Directors and are applied to identify, assess and supervise operational risk in addition to other types of risks relating to the banking and financial activities of the Group. Operational risk is managed by Risk management. Risk management ensures compliance with policies and procedures to identify, assess, supervise and monitor operational risk as part of overall Global risk management.

23. CAPITAL MANAGEMENT

The primary objectives of the Group's capital management policy are to ensure that the Group complies with regulatory capital requirements and that the Group maintains strong credit ratings and healthy capital ratios in order to support its business and maximise shareholder value.

Capital adequacy, financial leverage and the use of various levels of regulatory capital are monitored regularly by the Group's management and are governed by guidelines of Basel Committee on Banking Supervision as adopted by the CBK.

The disclosures relating to the capital adequacy regulations issued by CBK as stipulated in CBK Circular number 2/RB, RBA/A336/2014 dated 24 June 2014 (Basel III) and the Leverage regulations as stipulated in CBK Circular number 2/BS/ 342/2014 dated 21 October 2014 under the Basel Committee framework are included under the 'Basel III qualitative and quantitative disclosures' section of the Annual Report.

The Group's risk weighted assets (after regulatory phase out of real estate collaterals), regulatory capital and capital adequacy ratios (Basel III), are shown below:

	<i>2023</i> <i>KD 000s</i>	<i>2022</i> <i>KD 000s</i>
Risk weighted assets	6,358,901	6,433,584
Total capital required	890,246	804,198
Common Equity Tier 1 (CET1) capital	861,475	697,290
Additional Tier 1 (AT1) capital	162,335	154,897
Tier 2 capital	247,954	231,846
Total eligible capital	1,271,764	1,084,033
CET1 capital adequacy ratio	13.5%	10.8%
Tier 1 capital adequacy ratio	16.1%	13.2%
Total capital adequacy ratio	20.0%	16.8%

The Group's financial leverage ratio, calculated in accordance with CBK circular number 2/BS/ 342/2014 dated 21 October 2014, is shown below:

	<i>2023</i> <i>KD 000s</i>	<i>2022</i> <i>KD 000s</i>
Tier 1 capital	1,023,810	852,187
Total exposure	8,114,372	7,807,156
Leverage ratio	12.6%	10.9%



BURGAN BANK GROUP

**CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2022**



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Independent auditors' report to the Shareholders of Burgan Bank K.P.S.C.

Opinion

We have audited the consolidated financial statements of Burgan Bank K.P.S.C. (the "Bank") and its subsidiaries (together, the "Group"), which comprise the consolidated statement of financial position as at 31 December 2022, the consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory 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 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS"), as adopted by the Central Bank of Kuwait (the "CBK") for use by the State of Kuwait.

Basis for Opinion

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

Key Audit Matters

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

Credit losses on loans and advances to customers

See Note 5 to the consolidated financial statements.

The key audit matter

The recognition of credit losses on loans and advances to customers ("credit facilities") is the higher of Expected Credit Loss ("ECL") on credit facilities computed under IFRS 9 in accordance with the CBK rules or the provisions as required by the CBK instructions along with its consequent impact on related disclosures (the "CBK rules").

Recognition of ECL under IFRS 9, computed in accordance with the CBK guidelines, requires considerable judgement in its implementation. ECL is dependent on management's judgement in assessing the level of credit risk on initial recognition and significant increase in credit risk subsequently on the reporting date relative to its initial recognition and classification into the three stages of IFRS 9; developing models for assessing probability of default of customers; and estimating cash flows from recovery procedures or realization of collateral.

As a result, the ECL has a higher than usual degree of estimation uncertainty and the inputs used are inherently subject to change, which may materially impact the estimate in future periods.

Recognition of specific provision on impaired credit facilities under the CBK rules is based on the instructions prescribed by the CBK on the minimum provisions to be recognised.

Due to the significance of credit facilities and the related estimation uncertainty and judgement in the calculation of ECL, this was considered as a key audit matter.

How the matter was addressed in our audit

- Our audit procedures included assessing the design and implementation of controls over the inputs and assumptions used by the Group in developing the models, its governance and review controls performed by management in determining the adequacy of ECL.
- With respect to ECL, we have selected samples of credit facilities outstanding and checked the appropriateness of the Group's determination of significant increase in credit risk and the resultant basis for classification of the credit facilities into various stages. For a sample of credit facilities, we have checked the appropriateness of the Group's staging criteria, Exposure at Default ("EAD"), Probability of Default ("PD") and Loss Given Default ("LGD"), including the eligibility and value of collateral considered in the ECL models used by the Group and the overlays considered by management, in order to determine ECL taking into consideration the CBK guidelines. We have also checked the consistency of various inputs and assumptions used by the Group's management to determine ECL.
- We involved our specialists to review the ECL model in terms of key data, methods and assumptions used to ensure they are in line with the requirements of IFRS 9, determined in accordance with the CBK guidelines.
- Further, with respect to the CBK rules relating to the provisioning requirements, we have assessed the criteria for determining whether there is a requirement to calculate any credit losses in accordance with the related regulations (considering the days past due, account conduct and collateral) and, if required, it has been computed accordingly. For the samples selected, we have verified whether all impairment events have been identified by the Group's management. For the selected samples which also included impaired credit facilities, we have assessed the valuation of collateral and checked the resultant provision computations.
- Evaluated the adequacy of the Group's disclosure in relation to use of significant estimates and judgement and credit quality of loans and advances to customers.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Group's Annual Report, but does not include the consolidated financial statements and our auditors' report thereon. Prior to the date of this auditors' 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 and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

As part of an audit in accordance with ISA, 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 management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion, proper books of account have been kept by the Bank and the consolidated financial statements, together with the contents of the **Board of Directors' report** relating to these consolidated financial statements are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Capital Adequacy Regulations and Financial Leverage Ratio Regulations issued by the CBK as stipulated in the CBK Circular Nos. 2/RB, RBA/336/2014 dated 24 June 2014 and its amendments, and 2/BS/342/2014 dated 21 October 2014 and its amendments, respectively, the Companies Law No. 1 of 2016, as amended, and its Executive Regulations, as amended, and by the Bank's Memorandum of Incorporation and Articles of Association, as amended, that an inventory was carried out, and that, to the best of our knowledge and belief, no violations of the Capital Adequacy Regulations and Financial Leverage Ratio Regulations issued by the CBK as stipulated in the CBK Circular Nos. 2/RB, RBA/336/2014 dated 24 June 2014 and its amendments, and 2/BS/342/2014 dated 21 October 2014 and its amendments, respectively, the Companies Law No. 1 of 2016, as amended, and its Executive Regulations, as amended, or of the Bank's Memorandum of Incorporation and Articles of Association, as amended, have occurred during the year ended 31 December 2022 that might have had a material effect on the business of the Bank or on its consolidated financial position.

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



Dr. Rasheed M. Al-Qenae
License No. 130
of KPMG Al-Qenae & Partners
Member Firm of KPMG International

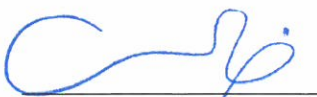


Nayef M. Al-Bazie
License No. 91-A
RSM Albazie & Co.


Kuwait: 8 February 2023

BURGAN BANK GROUP
Consolidated Statement of Financial Position
As at 31 December 2022

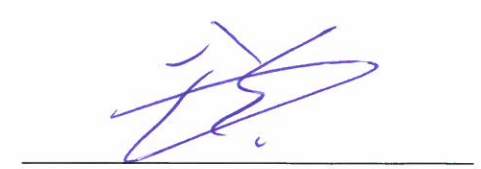
	Notes	2022 KD 000's	2021 KD 000's
ASSETS			
Cash and cash equivalents	3	659,384	821,608
Treasury bills and bonds with CBK and others		301,554	247,393
Due from banks and other financial institutions	4	482,101	331,324
Loans and advances to customers	5	4,227,737	4,278,709
Investment securities	6	714,149	649,266
Other assets	7	258,048	277,562
Property and equipment		163,071	150,153
Intangible assets	8	17,530	18,412
		<u>6,823,574</u>	<u>6,774,427</u>
Disposal group held for sale	9	342,386	300,488
TOTAL ASSETS		<u>7,165,960</u>	<u>7,074,915</u>
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks		278,146	518,756
Due to other financial institutions		699,421	364,829
Deposits from customers		3,932,491	4,161,731
Other borrowed funds	10	783,392	622,483
Other liabilities	11	243,891	225,768
		<u>5,937,341</u>	<u>5,893,567</u>
Liabilities directly associated with the disposal group held for sale	9	281,204	249,423
TOTAL LIABILITIES		<u>6,218,545</u>	<u>6,142,990</u>
EQUITY			
Share capital	12	328,781	313,125
Share premium	12	282,802	282,802
Treasury shares	12	(1,742)	(1,742)
Statutory reserve	12	113,234	107,755
Voluntary reserve	12	113,612	108,133
Other reserves	12	(243,163)	(223,218)
Retained earnings		152,542	151,028
		<u>746,066</u>	<u>737,883</u>
Total equity attributable to the equity holders of the Bank		746,066	737,883
Perpetual Tier 1 capital securities	12	153,150	151,250
Non-controlling interests		48,199	42,792
TOTAL EQUITY		<u>947,415</u>	<u>931,925</u>
TOTAL LIABILITIES AND EQUITY		<u>7,165,960</u>	<u>7,074,915</u>



Khalid Al Zouman
Group Chief Financial Officer



Masoud M.J. Hayat
Vice Chairman &
Group Chief Executive Officer



Abdullah Nasser Sabah Al-Ahmad Al-Sabah
Chairman of the Board

The attached notes 1 to 24 form an integral part of these consolidated financial statements.

BURGAN BANK GROUP
Consolidated Statement of Income
For the year ended 31 December 2022

	<i>Notes</i>	<i>2022</i> <i>KD 000's</i>	<i>2021</i> <i>KD 000's</i>
Interest income	13	323,478	254,121
Interest expense	14	(176,014)	(125,947)
Net interest income		147,464	128,174
Fee and commission income		48,225	40,841
Fee and commission expense		(7,276)	(5,498)
Net fee and commission income		40,949	35,343
Net gain from foreign currencies		15,275	17,161
Net investment income	15	7,002	29,581
Dividend income		2,002	1,291
Other income		19,358	23,180
Net operating income		232,050	234,730
Staff expenses		(53,178)	(46,289)
Other expenses		(53,898)	(48,520)
Operating profit		124,974	139,921
Provision for credit losses	5	(25,287)	(84,636)
Provision release for other financial assets		10	12
Net monetary loss	2.7	(24,597)	-
Profit for the year before taxation and Board of directors' remuneration		75,100	55,297
Taxation	16	(16,440)	(6,708)
Board of directors' remuneration		(110)	-
Profit for the year		58,550	48,589
Attributable to:			
Equity holders of the Bank		52,130	45,389
Non-controlling interests		6,420	3,200
		58,550	48,589
Basic and diluted earnings per share attributable to the equity holders of the Bank (Fils)	17	12.6	12.5

The attached notes 1 to 24 form an integral part of these consolidated financial statements.

BURGAN BANK GROUP
Consolidated Statement of Comprehensive Income
For the year ended 31 December 2022

	2022	2021
	<i>KD 000's</i>	<i>KD 000's</i>
Profit for the year	58,550	48,589
Other comprehensive loss:		
<i>Items that will not be reclassified to consolidated statement of income in subsequent periods:</i>		
Net change in fair value of equity instruments at fair value through other comprehensive income	(20,964)	(9,046)
	(20,964)	(9,046)
<i>Items that are or may be reclassified to consolidated statement of income in subsequent periods:</i>		
Debt instruments at fair value through other comprehensive income:		
Net change in fair value	(23,647)	(6,977)
Net transfer to consolidated statement of income	(729)	(385)
Foreign currency translation adjustment	(18,844)	(43,147)
Changes in fair value of cash flow hedges	11,786	4,863
Net gain on hedge of a net investment	2,449	9,362
Other comprehensive loss for the year	(49,949)	(45,330)
Total comprehensive income for the year	8,601	3,259
Attributable to:		
Equity holders of the Bank	1,360	1,062
Non-controlling interests	7,241	2,197
	8,601	3,259

The attached notes 1 to 24 form an integral part of these consolidated financial statements.

BURGAN BANK GROUP
**Consolidated Statement of Changes in Shareholders' Equity
For the year ended 31 December 2022**

	<i>Attributable to the equity holders of the Bank</i>							<i>Total</i> KD 000's	<i>Perpetual Tier 1 capital securities</i> KD 000's	<i>Non- controlling interests</i> KD 000's	<i>Total equity</i> KD 000's
	<i>Share capital</i> KD 000's	<i>Share premium</i> KD 000's	<i>Treasury shares</i> KD 000's	<i>Statutory reserve</i> KD 000's	<i>Voluntary reserve</i> KD 000's	<i>Other reserves*</i> KD 000's	<i>Retained earnings</i> KD 000's				
Balance as at 1 January 2022	313,125	282,802	(1,742)	107,755	108,133	(223,218)	151,028	737,883	151,250	42,792	931,925
Profit for the year	-	-	-	-	-	-	52,130	52,130	-	6,420	58,550
Other comprehensive (loss) income for the year	-	-	-	-	-	(50,770)	-	(50,770)	-	821	(49,949)
Total comprehensive (loss) income for the year	-	-	-	-	-	(50,770)	52,130	1,360	-	7,241	8,601
Transfer to reserves	-	-	-	5,479	5,479	-	(10,958)	-	-	-	-
Bonus shares issued (Note 12)	15,656	-	-	-	-	-	(15,656)	-	-	-	-
Cash dividend (Note 12)	-	-	-	-	-	-	(15,632)	(15,632)	-	-	(15,632)
Dividend paid to non-controlling interests	-	-	-	-	-	-	-	-	-	(1,932)	(1,932)
Foreign currency translation adjustment	-	-	-	-	-	-	(1,900)	(1,900)	1,900	-	-
Net transfer to retained earnings for derecognition of equity investments at FVOCI	-	-	-	-	-	4,867	(4,867)	-	-	-	-
Interest payment on Tier 1 capital securities	-	-	-	-	-	-	(8,815)	(8,815)	-	-	(8,815)
Impact of application of IAS 29 (Note 2.7)	-	-	-	-	-	25,958	7,212	33,170	-	98	33,268
Balance as at 31 December 2022	328,781	282,802	(1,742)	113,234	113,612	(243,163)	152,542	746,066	153,150	48,199	947,415

*Refer to note 12 for further details.

BURGAN BANK GROUP
Consolidated Statement of Changes in Shareholders' Equity (continued)
For the year ended 31 December 2022

	<i>Attributable to the equity holders of the Bank</i>							<i>Total</i> <i>KD 000's</i>	<i>Perpetual Tier 1 capital securities</i> <i>KD 000's</i>	<i>Non-controlling interests</i> <i>KD 000's</i>	<i>Total equity</i> <i>KD 000's</i>
	<i>Share capital</i> <i>KD 000's</i>	<i>Share premium</i> <i>KD 000's</i>	<i>Treasury shares</i> <i>KD 000's</i>	<i>Statutory reserve</i> <i>KD 000's</i>	<i>Voluntary reserve</i> <i>KD 000's</i>	<i>Other reserves*</i> <i>KD 000's</i>	<i>Retained earnings</i> <i>KD 000's</i>				
Balance as at 1 January 2021	262,500	249,052	(1,742)	102,971	103,349	(178,868)	150,011	687,273	151,625	40,866	879,764
Profit for the year	-	-	-	-	-	-	45,389	45,389	-	3,200	48,589
Other comprehensive loss for the year	-	-	-	-	-	(44,327)	-	(44,327)	-	(1,003)	(45,330)
Total comprehensive (loss) income for the year	-	-	-	-	-	(44,327)	45,389	1,062	-	2,197	3,259
Transfer to reserves	-	-	-	4,784	4,784	-	(9,568)	-	-	-	-
Bonus shares issued (note 12)	13,125	-	-	-	-	-	(13,125)	-	-	-	-
Right Shares issued (note 12)	37,500	33,750	-	-	-	-	-	71,250	-	-	71,250
Cash dividend (note 12)	-	-	-	-	-	-	(13,102)	(13,102)	-	-	(13,102)
Dividend paid to non-controlling interests	-	-	-	-	-	-	-	-	-	(271)	(271)
Foreign currency translation adjustment	-	-	-	-	-	-	375	375	(375)	-	-
Net transfer to retained earnings for derecognition of equity investments at FVOCI	-	-	-	-	-	541	(541)	-	-	-	-
Transfer to retained earnings	-	-	-	-	-	(564)	564	-	-	-	-
Right Shares issuance cost	-	-	-	-	-	-	(298)	(298)	-	-	(298)
Interest payment on Tier 1 capital securities	-	-	-	-	-	-	(8,677)	(8,677)	-	-	(8,677)
Balance as at 31 December 2021	313,125	282,802	(1,742)	107,755	108,133	(223,218)	151,028	737,883	151,250	42,792	931,925

*Refer to note 12 for further details.

BURGAN BANK GROUP
Consolidated Statement of Cash Flows
Year ended 31 December 2022

	Notes	2022 KD 000's	2021 KD 000's
Operating activities			
Profit for the year before taxation and Board of directors' remuneration		75,100	55,297
Adjustments:			
Net investment income	15	(7,002)	(29,581)
Provision for credit losses	5	25,287	84,636
Provision release for other financial assets		(10)	(12)
Dividend income		(2,002)	(1,291)
Depreciation and amortisation		14,053	12,684
Net monetary loss	2.7	24,597	-
Operating profit before changes in operating assets and liabilities		130,023	121,733
Changes in operating assets and liabilities:			
Treasury bills and bonds with CBK and others		(106,960)	(51,698)
Due from banks and other financial institutions		(141,610)	132,350
Loans and advances to customers		35,802	(68,157)
Other assets		22,686	(11,208)
Due to banks		(243,487)	107,159
Due to other financial institutions		334,592	(245,425)
Deposits from customers		(200,613)	120,849
Other liabilities		15,003	(10,470)
Taxation paid		(12,646)	(4,737)
Net cash flows (used in) from operating activities		(167,210)	90,396
Investing activities			
Purchase of investment securities		(497,159)	(512,185)
Proceeds from sale of investment securities		409,297	480,792
Purchase of property and equipment		(24,715)	(2,951)
Net movement in non-controlling interests		26	-
Dividend income received		2,002	1,291
Net cash flows used in investing activities		(110,549)	(33,053)
Financing activities			
Other borrowed funds	10	160,695	(56,629)
Cash dividend paid to equity holders of the Bank	12	(15,632)	(13,102)
Cash dividend paid to non-controlling interests		(1,932)	(271)
Proceeds from increase of share capital		-	71,250
Right shares issuance cost		-	(298)
Interest payment on Tier 1 capital securities		(8,815)	(8,677)
Net cash flows from (used in) financing activities		134,316	(7,727)
Net (decrease) increase in cash and cash equivalents		(143,443)	49,616
Effect of foreign currency translation		(20,879)	(42,604)
Cash and cash equivalents at 1 January		971,575	964,563
Cash and cash equivalents at 31 December	3	807,253	971,575
Additional cash flow information:			
Interest received		337,137	226,778
Interest paid		167,883	133,416

The attached notes 1 to 24 form an integral part of these consolidated financial statements.

BURGAN BANK GROUP

Notes to the Consolidated Financial Statements **At 31 December 2022**

1. INCORPORATION AND PRINCIPAL ACTIVITIES

Burgan Bank K.P.S.C. (the “Bank”) is a public shareholding company incorporated in the State of Kuwait by Amiri Decree dated 27 December 1975 listed on the Boursa Kuwait and is registered as a bank with the Central Bank of Kuwait (the “CBK”). The Bank’s registered address is P.O. Box 5389, Safat 12170, State of Kuwait.

The consolidated financial statements of the Bank and its subsidiaries (collectively the “Group”) for the year ended 31 December 2022 were authorised for issue in accordance with a resolution of the Board of Directors on 16 January 2023 and are issued subject to the approval of the Annual General Assembly of the shareholders of the Bank. The Annual General Assembly of the Shareholders has the power to amend these consolidated financial statements after issuance.

The principal activities of the Group are explained in note 18.

The Bank is a subsidiary of Kuwait Projects Company Holding K.S.C.P. (the “Parent Company”).

2.1 BASIS OF PREPARATION

a) Statement of compliance

The consolidated financial statements of the Group has been prepared in accordance with International Financial Reporting Standards (“IFRS”), except as noted below.

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

- (i) Expected credit loss (“ECL”) to be measured at the higher of ECL provision on credit facilities computed under IFRS 9 in accordance with the CBK guidelines or the provisions as required by the CBK instructions along with its consequent impact on related disclosures; and
- (ii) Recognition of modification losses on financial assets arising from payment holidays to customers as a result of Covid-19, during the financial year ended 31 December 2020, as required by the CBK circular reference no. 2/RB, RBA/461/2020. Modification losses referred to in the circular, should be recognised in retained earnings instead of profit or loss as would be required by IFRS 9. However, modification loss on financial assets arising from any other payment holidays to customers shall be recognised in the profit or loss in accordance with IFRS 9. All modification losses incurred after the year ended 31 December 2020, are recognised to the profit or loss. The application of the policy will result in application of different accounting presentation for modification losses in 2020 as compared to other periods.

The above framework is hereinafter referred to as ‘IFRS as adopted by the CBK for use by the State of Kuwait’.

The consolidated financial statements of the Group have been prepared using the accounting policies consistent to those applied for the year ended 31 December 2021 except as noted below in note 2.2. Certain prior year amounts have been restated / reclassified in order to conform to the current year presentation. Such reclassifications do not affect previously reported assets, liabilities, equity and profit for the year.

b) Functional and presentation currency

The consolidated financial statements are presented in the order of liquidity in Kuwaiti Dinars (“KD”), which is the Bank’s functional currency, rounded to the nearest thousand except when otherwise stated.

c) Basis of measurement

The consolidated financial statements are prepared under the historical cost convention, except for financial assets classified as fair value through profit or loss “FVTPL”, fair value through other comprehensive income “FVOCI” and derivative financial instruments that are measured at fair value. Disposal group held for sale and assets pending sale are measured at lower of carrying amount or fair value less costs to sell.

BURGAN BANK GROUP

Notes to the Consolidated Financial Statements **At 31 December 2022**

2.2 CHANGES IN ACCOUNTING POLICIES

New and amended standards and interpretations

The Group applied the following amendments effective from 1 January 2022.

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

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

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

This amendment had no impact on the consolidated financial statements of the Group.

Reference to the Conceptual Framework – Amendments to IFRS 3

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

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

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

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

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

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

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

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

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

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

BURGAN BANK GROUP

Notes to the Consolidated Financial Statements

At 31 December 2022

2.3 BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries (investees which are controlled by the Bank). The reporting date of the subsidiaries is a date not earlier than one month from the Bank's reporting date. The impact of this is not material to the consolidated financial statements of the Group.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

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

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

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

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

Profit or loss and each component of other comprehensive income ("OCI") are attributed to the equity holders of the Parent Company of the Bank and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

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

BURGAN BANK GROUP

Notes to the Consolidated Financial Statements At 31 December 2022

2.3 BASIS OF CONSOLIDATION (continued)

The principal operating subsidiaries of the Group are as follows:

<i>Name of company</i>	<i>Principal activities</i>	<i>Country of incorporation</i>	<i>Effective interest as at 31 December 2022</i>	<i>Effective interest as at 31 December 2021</i>
Algeria Gulf Bank S.P.A. ("AGB")	Banking	Algeria	86.01%	86.01%
Bank of Baghdad P.J.S.C. ("BoB")*	Banking	Iraq	51.79%	51.79%
Tunis International Bank S.A ("TIB")	Banking	Tunisia	86.70%	86.70%
Burgan Bank A.S. ("BBT")	Banking	Turkey	99.71%	99.63%
Burgan Bank Financial Services Limited ("BBFS")	Financial Advisory Services	UAE	100.00%	100.00%
<i>Held through BoB*</i>				
Baghdad Brokerage Company	Brokerage	Iraq	-	51.79%
<i>Held through BBT</i>				
Burgan Finansal Kiralama A.S	Leasing	Turkey	99.71%	99.63%
Burgan Yatirim Menkul Degerler A.S.	Brokerage	Turkey	99.71%	99.63%
<i>Special purpose vehicle ("SPV") treated as a subsidiary</i>				
Burgan Senior SPC Limited	Special purpose entity	UAE	100.00%	100.00%

*Classified as disposal group held for sale, refer note 9 for details.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Instruments

Recognition

A financial asset or a financial liability is recognised when the Group becomes a party to the contractual provisions of the instrument. All regular way purchase and sale of financial assets are recognised using settlement date accounting. Changes in fair value between the trade date and settlement date are recognised in the consolidated statement of income or in other comprehensive income in accordance with the policy applicable to the related instrument. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulations or conventions in the market place.

Classification and measurement

Initial classification and measurement of financial instruments

The classification of financial instruments at initial recognition depends on the business model for managing the instruments and on their contractual cash flow characteristics. Financial instruments are initially measured at their fair value. Transaction costs are added to, or subtracted from this amount, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss. When the fair value of financial instruments at initial recognition differs from the transaction price, the Group accounts for the Day 1 profit or loss.

Business model assessment

The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objectives. The Group's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- ▶ How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;
- ▶ The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed;
- ▶ The expected frequency, value and timing of sales are also important aspects of the Group's assessment.

BURGAN BANK GROUP

Notes to the Consolidated Financial Statements

At 31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

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

Contractual cashflow characteristics

The Group also assesses the characteristics of the contractual cashflow of the financial asset to identify whether the contractual cashflow is Solely for purpose of Payment of Principal and Interest ('SPPI test').

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset. The most significant elements of 'interest' within a lending arrangement are typically the consideration for the time value of money and credit risk. The Group also considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set during its assessment of the SPPI test.

If the contractual terms introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement, the financial asset is required to be measured at fair value through profit or loss as the contractual terms do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding.

The Group reclassifies when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change.

Subsequent classification and measurement categories of financial assets

The Group classifies all of its financial assets as either:

- Financial asset carried at amortised cost;
- Financial asset at fair value through other comprehensive income ("FVOCI");
- Financial asset at fair value through profit or loss ("FVTPL").

Financial asset carried at amortised cost

A financial asset is carried at amortised cost if it meets both of the following conditions:

- It is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- Its contractual terms give rise on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets carried at amortised cost are subsequently measured at amortised cost using the effective interest rate method. Interest income, foreign exchange gains and losses, impairment and gain or loss on derecognition is recognised in the consolidated statement of income.

Cash and cash equivalents, treasury bills and bonds with CBK and others, due from banks and other financial institutions, loans and advances to customers, certain investment securities and certain other assets are classified as financial asset carried at amortised cost.

Financial asset at fair value through other comprehensive income

a) Debt instruments carried at FVOCI:

A debt instrument is carried at FVOCI if it meets both of the following conditions:

- It is held within a business model whose objectives are both to hold asset to collect contractual cash flows and selling financial assets; and
- Its contractual terms give rise on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding.

BURGAN BANK GROUP

Notes to the Consolidated Financial Statements

At 31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

Debt instruments carried at FVOCI are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Interest income and foreign exchange gains and losses and gain or loss on derecognition is recognised in consolidated statement of income in the same manner as financial assets carried at amortised cost.

Certain investment securities comprising quoted and unquoted bonds are classified as debt instruments carried at FVOCI.

b) Equity instruments carried at FVOCI

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

Equity instruments carried at FVOCI are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI and is not recycled to consolidated statement of income on derecognition. Dividend income on equity instruments carried at FVOCI is recognised in consolidated statement of income, when the right to receive the payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI.

Certain investment securities comprising quoted and unquoted equity shares are classified as equity instruments at FVOCI.

Financial assets carried at FVTPL

Financial assets carried at FVTPL is initially recorded in the consolidated statement of financial position at fair value. The financial assets classified under this category are either designated by management upon initial recognition or are mandatorily required to be measured at fair value under IFRS 9. Management designates an instrument as financial asset carried at FVTPL where even though it meets the classification criteria of financial asset carried at amortised cost or financial asset carried at FVOCI, this designation eliminates, or significantly reduces, the inconsistent accounting treatment that would otherwise arise. Such designation is determined on an instrument-by-instrument basis.

Financial assets carried at FVTPL are subsequently measured at fair value. The changes in fair value are recorded in the consolidated statement of income. Interest earned or incurred on instruments designated at FVTPL is accrued in interest income using the effective interest rate method, taking into account any discount/ premium and qualifying transaction costs being an integral part of instrument. Interest earned on assets mandatorily required to be measured at FVTPL is recorded using contractual interest rate. Dividend income from equity instruments measured at FVTPL is recorded in the consolidated statement of income as other operating income when the right to receive the payment has been established.

Certain debt securities, equities and derivatives that are not designated as hedging instruments are classified as financial assets carried at FVTPL.

Subsequent classification and measurement categories of financial liabilities

Financial liabilities, other than financial guarantees and loan commitments, are measured at amortised cost or at FVTPL when they are held for trading and as derivative financial instruments or the fair value designation is applied.

Due to banks, due to other financial institutions, deposits from customers, other borrowed funds and certain other liabilities are classified as financial liabilities carried at amortised cost.

BURGAN BANK GROUP

Notes to the Consolidated Financial Statements

At 31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

Financial guarantees and loan commitments

In the ordinary course of business, the Group issues financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised as a liability at fair value, being the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the consolidated statement of income, and the higher of ECL under IFRS 9 according to the CBK guidelines and provision required by the CBK instructions.

Undrawn loan commitments and letters of credits are commitments under which, over the duration of the commitment, the Group is required to provide a loan with pre-specified terms to the customer. Similar to financial guarantee contracts, under IAS 39, a provision was recognised if they were an onerous contract and the higher of ECL under IFRS 9 according to the CBK guidelines and provision required by the CBK instructions.

De-recognition

De-recognition of financial assets and financial liabilities other than substantial modification of terms and conditions

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

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

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

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the consolidated statement of income.

De-recognition of financial assets due to substantial modification of terms and conditions

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

De-recognition of financial assets due to substantial modification of terms and conditions

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

- Change in currency of the loan;
- Introduction of an equity feature;
- Change in counterparty; or
- If the modification is such that the instrument would no longer meet the SPPI criterion.

BURGAN BANK GROUP

Notes to the Consolidated Financial Statements **At 31 December 2022**

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

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

Interest rate benchmark reform

If the basis for determining the contractual cash flows of a financial asset or financial liability measured at amortised cost changes as a result of interest rate benchmark reform, then the Group updates the effective interest rate of the financial asset or financial liability to reflect the change that is required by the reform. A change in the basis for determining the contractual cash flows is required by interest rate benchmark reform if the following conditions are met:

- the change is necessary as a direct consequence of the reform; and
- the new basis for determining the contractual cash flows is economically equivalent to the previous basis – i.e. the basis immediately before the change.

If changes are made to a financial asset or financial liability in addition to changes to the basis for determining the contractual cash flows required by interest rate benchmark reform, then the Group first updates the effective interest rate of the financial asset or financial liability to reflect the change that is required by interest rate benchmark reform. After that, the Group applies the policies on accounting for modifications set out above to the additional changes

Offsetting of financial assets and financial liabilities

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

Impairment of financial assets

The Group records impairment of financial assets as follows:

Impairment of financial assets classified as credit facilities

Impairment of financial assets classified as credit facilities is recorded as the higher of ECL on credit facilities computed under IFRS 9 in accordance with the CBK guidelines or the provisions as required by the CBK instructions. Credit facilities consists of loans and advances to customers, non-cash credit facilities in the form of bank guarantees, letters of guarantee, documentary letters of credit, bank acceptances, undrawn cash and non-cash credit facilities (revocable and irrevocable).

Impairment of financial assets other than credit facilities

Impairment of financial assets other than credit facilities is computed under IFRS 9 in accordance to the CBK guidelines. These financial assets comprise investments in debt securities measured at amortised cost or FVOCI and on balances and deposits with banks. Equity investments are not subject to ECL.

Expected credit losses under IFRS 9 as per the CBK guidelines

The Group has established a policy to perform an assessment at the end of each reporting period of whether there has been a significant increase in credit risk since initial recognition by considering the change in the risk of default occurring over the remaining life of the financial instrument. ECL are estimated based on the present value of all cash shortfalls over the remaining expected life of the financial asset, i.e., the difference between:

- The contractual cash flows that are due to the Group under the contract; and
- The cash flows that the Group expects to receive, discounted at the effective interest rate of the credit facility.

The Group applies a three-stage approach to classify and measure the ECL on the financial assets classified as credit facilities, as described below:

BURGAN BANK GROUP

Notes to the Consolidated Financial Statements

At 31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

Impairment of financial assets (continued)

Stage 1: 12-month ECL

For financial assets classified as credit facilities where there has not been any significant increase in credit risk since their initial recognition or those credit facilities which are determined to have a low credit risk at the reporting date, the Group classifies these facilities under Stage 1 and measures the loss allowance which is a result of defaults that are expected to arise over the next 12 months (“12-month ECL”) on these financial assets.

Stage 2: Lifetime ECL – not credit impaired

For financial assets classified as credit facilities where there has been a significant increase in credit risk since initial recognition but are not credit impaired, the Group classifies these facilities under Stage 2 and measures loss allowance which is a result of defaults that are expected to arise over the lifetime (“Lifetime ECL”) on these financial assets.

Stage 3: Lifetime ECL – credit impaired

For financial assets classified as credit facilities which are in default and credit impaired, the Group classifies these facilities under Stage 3 and measures loss allowance at an amount equal to 100% of net exposure i.e. exposure after deduction of eligible collateral.

Staging of credit facilities

The Group continuously monitors all financial assets classified as credit facilities and applies a series of absolute thresholds and other criteria to determine the staging. All financial assets classified as credit facilities that are more than 30 days past due are deemed to have significant increase in credit risk since initial recognition and are classified under Stage 2. All rescheduled credit facilities are classified under Stage 2, unless it qualifies for Stage 3. The Group also applies other criteria to determine a significant increase in credit risk for financial assets, such as:

- Deterioration in the customer rating of the borrower indicating default;
- A material decrease in the underlying collateral value where the recovery of the loan is expected from the sale of the collateral;
- A material deterioration in the customer’s financial position in the opinion of the Group causing concerns on the repayment ability;
- A material covenant breach in a committed facility;
- Filing for bankruptcy or liquidation;
- Downgrade in the facility’s credit rating by 2 grades for the facilities with Investment Grade rating and by 1 grade for those with Non-Investment Grade rating.

Except for consumer and instalment credit facilities, transfer of credit facility from Stage 2 to Stage 1 is made after a curing period of 12 months from the satisfaction of all conditions that triggered classification of the credit facility to Stage 2. In addition, the Group also complies with the CBK guidelines with respect to transfer.

Expected credit losses under IFRS 9 as per the CBK guidelines

Definition of default

The Group considers a financial asset to be in default and therefore, Stage 3 (credit impaired) when:

- The borrower is past due for more than 90 days on its credit obligation to the Group;
- The borrower is facing significant financial difficulty;
- The borrower is assessed as credit impaired based on internal qualitative and quantitative assessment; or
- Other indicators such as breach of covenants, customer being deceased etc.

The Group assesses whether objective evidence of impairment exists on an individual basis for each individually significant asset and collectively for others not deemed individually significant.

Measurement of ECL

ECL are probability weighted estimates of credit losses and are measured as the present value of all cash shortfalls discounted at the effective interest rate of the financial instrument. Cash shortfall represent the difference between cashflows due to the Group in accordance with the contract and the cashflows that the Group expects to receive.

BURGAN BANK GROUP

Notes to the Consolidated Financial Statements **At 31 December 2022**

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

Impairment of financial assets (continued)

Measurement of ECL (continued)

The key elements in the measurement of ECL includes exposure at default, probability of default and loss given default.

The Exposure at Default (“EAD”) is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including expected drawdowns on committed facilities, repayments of principal and interest, whether scheduled by contract or otherwise. In addition, Group also complies with the CBK guidelines with respect to application of credit conversion factors.

The Probability of Default (“PD”) is an estimate of the likelihood of default over a given time horizon. For credit facilities other than retail, Through-The-Cycle PD (“TTC PD”) are generated from the rating tool based on internal / external credit ratings. The Group converts the TTC PD to Point In Time (“PIT”) PD term structure using appropriate models and techniques. The Group assesses the PD for its Retail portfolio through behavioural scorecards using logistic regression techniques. In addition, the Group also complies with the CBK guidelines with respect to minimum PD.

The Loss Given Default (“LGD”) is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD. In addition, the Group also complies with the CBK guidelines with respect to eligible collateral and minimum hair-cuts.

The maximum period for which the credit losses are determined is the contractual life of a financial asset, including credit cards and other revolving facilities unless the Group has the legal right to call it earlier except for financial assets in Stage 2 where the maturity is determined in accordance to the CBK guidelines.

Incorporation of forward looking information

The Group incorporates forward-looking economic inputs that are relevant to the region in which the Group is located, for both its assessment of significant increase in credit risk and its measurement of ECL. Qualitative overlays are made as and when necessary to correctly reflect the impact of the movement in the relevant economy on the Group. Incorporating forward-looking information increases the degree of judgement required. The methodologies and assumptions including any forecasts of future economic conditions are reviewed regularly.

Renegotiated credit facilities

In the event of a default, the Group seeks to restructure credit facilities with customers rather than take possession of the collaterals. This may involve extending the payment arrangements and the agreement of new financing conditions. When the credit facilities with customers have been renegotiated or modified but not derecognised, any impairment is measured using the original effective interest rate method as calculated before the modification of terms. Management continually reviews renegotiated credit facilities to ensure that all criteria are met and that future payments are likely to occur.

Write-offs

Financial assets are written off either partially or in their entirety only when there is no realistic prospect of recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount.

BURGAN BANK GROUP

Notes to the Consolidated Financial Statements At 31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

Impairment of financial assets (continued)

Expected credit losses under IFRS 9 as per the CBK guidelines (continued)

Provisions for credit losses in accordance with the CBK instructions

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

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

Derivative financial instruments

The Group makes use of derivative instruments to manage exposures to interest rate, foreign currency and credit risks.

Where derivative contracts are entered into by specifically designating such contracts as a fair value hedge or a cash flow hedge of a recognised asset or liability, the Group accounts for them using hedge accounting principles, provided certain criteria are met. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

For derivative contracts that do not qualify for hedge accounting, any gains or losses arising from changes in fair value of the derivative contract are taken directly to the consolidated statement of income.

Hedge accounting

For the purposes of hedge accounting, hedges are classified into two categories: (a) fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment; and (b) cash flow hedges, when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or a foreign currency risk in an unrecognised firm commitment.

When a financial instrument is designated as a hedge, the Group formally documents the relationship between the hedging instrument and hedged item, as well as, its risk management objectives and its strategy for undertaking the various hedging transactions. The Group also document its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows attributable to the hedge risk.

The Group discontinues hedge accounting when the following criteria are met:

- it is determined that the hedging instrument is not, or has ceased to be, highly effective as a hedge;
- the hedging instrument expires, or is sold, terminated, or exercised;
- the hedged item matures or is sold or repaid; or
- a forecast transaction is no longer deemed highly probable.

BURGAN BANK GROUP

Notes to the Consolidated Financial Statements **At 31 December 2022**

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments (continued)

Hedge accounting (continued)

Fair value hedges

The changes in fair value of the hedging instrument that qualify and is designated as fair value hedge is recorded in the consolidated statement of income, together with changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

If the hedge accounting is discontinued, the fair value adjustment to the hedged item is amortised to the consolidated statement of income over the period to maturity of the previously designated hedge relationship using the effective interest rate.

If the hedged item is derecognised, the unamortised fair value is recognised immediately in the consolidated statement of income.

When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in the consolidated statement of income.

Cash flow hedges

For qualifying cash flow hedges, the fair value gain or loss associated with the effective portion of the cash flow hedge is recognised initially in OCI and transferred to the consolidated statement of income in the periods when the hedged transaction affects consolidated statement of income. Any ineffective portion of the gain or loss on the hedging instrument is recognised immediately in the consolidated statement of income.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in other comprehensive income at that time remains in other comprehensive income and is recognised when the hedged forecast transaction is ultimately recognised in the consolidated statement of income. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was recognised in other comprehensive income is immediately transferred to the consolidated statement of income.

Hedge of net investment in a foreign operation

Hedges of net investments in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a way similar to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised in other comprehensive income while any gains or losses relating to the ineffective portion are recognised in the consolidated statement of income. On disposal of the foreign operation, the cumulative value of any such gains or losses recognised in other comprehensive income is transferred to the consolidated statement of income.

Fair value measurement

The Group measures financial instruments, such as, derivatives, investment securities etc., at each reporting date. 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 the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

BURGAN BANK GROUP

Notes to the Consolidated Financial Statements **At 31 December 2022**

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For financial instruments quoted in an active market, fair value is determined by reference to quoted market prices. Bid prices are used for assets and offer prices are used for liabilities. The fair value of investments in mutual funds, unit trusts or similar investment vehicles are based on the last published net assets value.

For unquoted financial instruments fair value is determined by reference to the market value of a similar investment, discounted cash flows, other appropriate valuation models or brokers' quotes.

For financial instruments carried at amortised cost, the fair value is estimated by discounting future cash flows at the current market rate of return for similar financial instruments.

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 of 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.

For the purpose of fair value disclosure, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Assets pending sale

The Group occasionally acquires non-monetary assets in settlement of certain loans and advances. Such assets are stated at the lower of the carrying value of the related loans and advances and the current fair value of such assets. Gains or losses on disposal, and revaluation losses, are recognised in the consolidated statement of income.

Investment in associates

The Group's investment in its associates is accounted for using the equity method. An associate is an entity in which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but not control or joint control over those policies.

Under the equity method, the investment in associates is carried in the consolidated statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The consolidated statement of income reflects the share of the results of operations of the associate. Where there has been a change recognised directly in the other comprehensive income of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the statement of changes in shareholders' equity. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The Group's share of profit of an associate is shown on the face of the consolidated statement of income. This is the profit attributable to equity holders of the associate and therefore, is profit after tax and non-controlling interests in the subsidiaries of the associate.

BURGAN BANK GROUP

Notes to the Consolidated Financial Statements At 31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment in associates (continued)

The financial statements of the associate are prepared for the same reporting period as the Group. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its associate. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the consolidated statement of income.

Upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retaining investment and proceeds from disposal is recognised in consolidated statement of income.

Disposal group held for sale

The Group classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the disposal of an asset (disposal group), excluding finance costs and income tax expense.

The criteria for held for sale classification is regarded as met, only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. Management must be committed to the plan to sell the asset and the sale expected to be completed within one year from the date of the classification.

Assets and liabilities classified as held for sale are presented separately as current items in the consolidated statement of financial position.

A disposal group qualifies as discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale, and:

- Represents a separate major line of business or geographical area of operations;
- Is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- Is a subsidiary acquired exclusively with a view to resale.

Property and equipment

Property and equipment are stated at cost less accumulated depreciation and impairment losses. Depreciation is provided on all property and equipment, other than freehold land, at rates calculated to write off the cost of each asset on a straight line basis to their residual values over its estimated useful life. Freehold land is stated at cost less impairment losses.

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

Buildings	20 to 35 years
Furniture and equipment	4 to 11 years
Motor vehicles	3 to 7 years
Computers	5 years

When assets are sold or retired, their cost and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is recognised in the consolidated statement of income.

BURGAN BANK GROUP

Notes to the Consolidated Financial Statements

At 31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment (continued)

The carrying amounts of property and equipment are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the assets are written down to their recoverable amounts and the impairment loss is recognised in the consolidated statement of income.

Expenditure incurred to replace a component of an item of property and equipment that is accounted for separately is capitalised and the carrying amount of the component that is replaced is written off. Other subsequent expenditure is capitalised only when it increases future economic benefits of the related item of property and equipment. All other expenditure is recognised in the consolidated statement of income as the expense is incurred.

Intangible assets

Intangible assets represent separately identifiable non-monetary assets without physical substance. Intangible assets are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed as finite.

Intangible assets with finite lives are amortised over the useful economic life, as mentioned below, and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful economic life is reviewed at least at each reporting date. Changes in the expected useful economic life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the consolidated statement of income under "other expenses" consistent with the function of the intangible asset.

Amortisation is calculated using the straight-line method to write down the cost of intangible assets over their estimated useful economic lives as follows:

Banking license	10 to 30 years
Customer relationships and core customer deposits	5 to 10 years

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated statement of income when the asset is derecognised. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised.

Leases

At inception of a contract, the Group assesses whether the contract is a lease. A contract is a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for a consideration. If the contract is identified as a lease, the Group recognises a right-of-use asset and a lease liability at the lease commencement date. The Group elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and lease contracts for which the underlying asset is of low value.

Right-of-use assets

The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred. The right-of-use asset is subsequently depreciated using the straight-line method over the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any. The Group presents right-of-use assets in 'property and equipment' in the consolidated statement of financial position.

BURGAN BANK GROUP

Notes to the Consolidated Financial Statements **At 31 December 2022**

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

Lease liabilities

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the Group's incremental borrowing rate. The lease liability is subsequently measured at amortised cost using the effective interest rate method. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, or a change in the lease payments. The Group presents lease liabilities in 'other liabilities' in the consolidated statement of financial position.

Business combinations and goodwill

A business combination is the bringing together of separate entities or businesses into one reporting entity as a result of one entity, the acquirer, obtaining control of one or more other businesses. The acquisition method of accounting is used to account for business combinations. Under this method, the acquirer recognises, separately from goodwill, identifiable assets acquired, liabilities assumed and any non-controlling interests in the acquiree at the acquisition date.

The identifiable assets acquired and the liabilities assumed at the acquisition date are measured at fair values. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed in the period in which they are incurred.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through the consolidated statement of income. It is then considered in the determination of goodwill.

Goodwill arising in a business combination is recognised as of the acquisition date as the excess of :

- a) the aggregate of the consideration transferred, the amount of any non-controlling interests in the acquiree measured at fair value or at the non-controlling interest's proportionate share of the acquiree's;
- b) identifiable net assets and the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree; over
- c) the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed measured at their fair values.

If the aggregate consideration transferred is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in the consolidated statement of income.

Goodwill is allocated to each of the Group's cash-generating units or for groups of cash-generating units and is tested annually for impairment and is assessed regularly whether there is any indication of impairment. Goodwill impairment is determined by assessing the recoverable amount of cash-generating unit to which goodwill relates.

The recoverable value is the higher of the fair value less costs to sell and its value in use of the cash-generating unit, which is the net present value of estimated future cash flows expected from such cash-generating unit. If the recoverable amount of cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit prorated on the basis of the carrying amount of each asset in the unit. Any impairment loss recognised for goodwill is not reversed in the subsequent period.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operations within that unit is disposed off, the goodwill associated with the operation disposed off is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation.

End of service benefits

Provision is made under the Kuwait Labour Law, employee contracts and respective applicable laws in the countries where the subsidiaries operate. This liability, which is unfunded, represents the amount payable to each employee and is a reliable approximation of the obligation as at the reporting date. The Group also makes contributions to State plans and the obligation is limited to the contributions made.

BURGAN BANK GROUP

Notes to the Consolidated Financial Statements **At 31 December 2022**

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Treasury shares

The Bank's holding in its own shares is stated at acquisition cost and is recognised in shareholders' equity. Treasury shares are accounted for using the cost method. Under this method, the weighted average cost of the shares reacquired is charged to a contra account in the equity. When the treasury shares are reissued, gains are credited to a separate account in equity, "treasury shares reserve", which is not distributable.

Any realised losses are recognised in the same account to the extent of the credit balance on that account. Any excess losses are recognised in retained earnings then to the voluntary reserve and statutory reserve. Gains realised subsequently on the sale of treasury shares are first used to offset any previously recorded losses in the order of reserves, retained earnings and the treasury shares reserve account. These shares are not entitled to any cash dividend that the Bank may propose. The issue of bonus shares increases the number of shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

Share based compensation

The Group operated an equity settled share based compensation plan. The cost of share based compensation transactions with employees is measured by reference to the fair value at the date on which they are granted. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options or shares on the date of grant using the Black Scholes model. Measurement inputs include share price on grant date, exercise price, volatility, risk free interest rate and expected dividend yield. At each reporting date, the Group revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the consolidated statement of income, with a corresponding adjustment to equity.

Other reserve

Other reserve is used to record the effect of changes in ownership interest in subsidiaries, without loss of control, changes in fair value of cash flow hedges, hedge of net investments in foreign operations and other comprehensive income from disposal group held for sale.

Revenue recognition

Interest and similar income and expense

Interest income and expense are recognised in the consolidated statement of income for all financial instruments measured at amortised cost, interest bearing assets classified as FVOCI and financial instruments designated at FVTPL using effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future cash flows through the expected life of the financial instrument or, a shorter period, when appropriate, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, all fees and charges paid or received between parties to the contract, transaction costs and all other premiums or discounts are considered, but not future credit losses.

Once a financial instrument is impaired, interest is thereafter recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

When the Group enters into an interest rate swap to change interest from fixed to floating (or vice versa) the amount of interest income or expense is adjusted by the net interest on the effective portion of the swap. All fees paid or received are treated as an integral part of the effective interest rate of financial instruments and are recognised over the contractual period, except when the underlying risk is sold to a third party, at which time it is recognised immediately.

Fee and commission income

Fee and commission earned for providing services over a period of time are accrued over that period. These fees include credit related fee and other management fees. Loan commitment fee and originating fee that are an integral part of the effective interest rate of a loan are recognised (together with any incremental cost) as an adjustment to the effective interest rate on loan. Fee and commission income where the Group provides specific services are recognised at a point in time upon providing the service.

Dividend income

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

BURGAN BANK GROUP

Notes to the Consolidated Financial Statements **At 31 December 2022**

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Government grants

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

Foreign currency

Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transaction and balances

Transactions in foreign currencies are initially recorded at the spot rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the spot rate of exchange ruling at the reporting date. Any resultant gains or losses are recognised in the consolidated statement of income.

Non-monetary assets and liabilities in foreign currencies that are stated at fair value are translated to respective entity's functional currency at the foreign exchange rates ruling on the dates that the values were determined. In case of non-monetary assets whose change in fair values are recognised directly in OCI, foreign exchange differences are recognised directly in OCI and for non-monetary assets whose change in fair value are recognised directly in the consolidated statement of income, foreign exchange differences are recognised in the consolidated statement of income.

Group companies upon consolidation

As at the reporting date, the assets and liabilities of subsidiaries are translated into the Bank's presentation currency (i.e. "KD") at the rate of exchange ruling on the reporting date, and their statements of income are translated at the average exchange rates for the year. Exchange differences arising on translation are taken directly to OCI. On disposal of a foreign subsidiary, the deferred cumulative amount recognised in OCI relating to that particular subsidiary is recognised in the consolidated statement of income.

Any goodwill or fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the respective subsidiaries and translated at the rate of exchange ruling on the reporting date.

Taxation

National Labour Support Tax (NLST)

The Bank calculates the NLST in accordance with Law No. 19 of 2000 and the Ministry of Finance Resolution No. 24 of 2006 at 2.5% of taxable profit for the year. As per the law, cash dividends from listed companies which are subjected to NLST have been deducted from the profit for the year.

Contribution to Kuwait Foundation for the Advancement of Sciences (KFAS)

The Bank calculates the contribution to KFAS at 1% of the profit in accordance with the calculation based on the Foundation's Board of Directors' resolution.

Zakat

Contribution to Zakat is calculated at 1% of the profit of the Bank in accordance with Law No. 46 of 2006 and the Ministry of Finance resolution No. 58/2007 effective from 10 December 2007.

Taxation on overseas subsidiaries

Taxation on overseas subsidiaries is calculated on the basis of the tax rates applicable and prescribed according to the prevailing laws, regulations and instructions of the countries where these subsidiaries operate. Income tax payable on taxable profit ('current tax') is recognised as an expense in the period in which the profits arise in accordance with the fiscal regulations of the respective countries in which the Group operates.

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

BURGAN BANK GROUP

Notes to the Consolidated Financial Statements **At 31 December 2022**

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except when the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Deferred tax assets and liabilities are measured using tax rates and applicable legislation at the reporting date.

Segment information

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

Contingencies

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

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

Fiduciary assets

Assets and related deposits held in trust or in a fiduciary capacity are not treated as assets or liabilities of the Group and accordingly, are not included in the consolidated statement of financial position.

2.5 STANDARDS ISSUED BUT NOT YET EFFECTIVE

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

- Classification of Liabilities as Current or Non-current (Amendments to IAS 1);
- Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2;
- IFRS 17 Insurance Contracts and amendments to IFRS 17 Insurance Contracts;
- Disclosure of Accounting Estimates ((Amendments to IAS 8);
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12); and
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28).

BURGAN BANK GROUP

Notes to the Consolidated Financial Statements **At 31 December 2022**

2.6 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures, as well as, the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Judgments

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the consolidated financial statements:

Classification of financial assets

The Group determines the classification of financial assets based on the assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding.

Deferred tax assets

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that future taxable profits will be available against which the losses can be utilised. Judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax planning strategies.

Significant judgement in determining the lease term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The following are the critical judgments in the application of IFRS 16, apart from those involving estimations, that management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements:

- identifying whether a contract (or part of a contract) includes a lease;
- determining whether it is reasonably certain that an extension or termination option will be exercised; and
- classification of lease arrangements (when the entity is a lessor).

Hedge of net investment in foreign operations

The management exercises judgement to determine the amount of net assets of the subsidiary to be hedged (also called as hedge ratio) based on the future expected changes in the functional currency exchange rate movements of the subsidiary, hedge cost and forward exchange rate and its impact on the Group's net assets.

Estimation uncertainty and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use or fair value less cost to sell of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

Fair value of assets and liabilities including intangible assets

Considerable judgement by management is required in the estimation of the fair value of the assets including intangible assets with finite useful life, liabilities and contingent liabilities acquired.

BURGAN BANK GROUP

Notes to the Consolidated Financial Statements **At 31 December 2022**

2.6 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Impairment losses on loans and advances

Considerable judgement by management is required in the estimation of the amount and timing of future cash flows, collateral values, significant increase in credit risk, rating models, ECL models, macro economic variables when determining the level of provisions required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty, and actual results may differ resulting in future changes to such provisions.

Fair value measurement of financial instruments

When the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the discounted cash flows model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Any changes in these estimates and assumptions, as well as, the use of different, but equally reasonable estimates and assumptions may have an impact on carrying amounts of loans and receivables and investments at FVOCI.

2.7 HYPERINFLATION

The Bank, through its subsidiary Burgan Bank A.S. (“BBT”), has banking operations in Turkey. The Turkish economy has been assessed as a hyperinflationary economy based on the cumulative inflation rates over the previous three years, effective for reporting period on or after 30 April 2022. Accordingly, these consolidated financial statements include the effects of hyperinflation in accordance with IAS 29 “*Financial Reporting in Hyperinflationary Economies*” stemming from its Turkish operations. IAS 29 has been applied from 1 January 2022 i.e. the beginning of the reporting period in which the Group identified hyperinflation.

The Group has determined the Consumer Price Index (“CPI”) as the appropriate general price index to be used in the inflation accounting and it was measured at 1,128.45 as at 31 December 2022 (31 December 2021: 686.95). The inflation accounting was applied to the books of BBT from the date of acquisition i.e. December 2012.

2.8 INTEREST RATE BENCHMARK REFORM – PHASE 2

The Group has exposure to the London Interbank offered rates (LIBOR), the benchmark rate, through its financial instruments, which will be replaced as part of the fundamental reform of various major interest rate benchmarks. The Group Treasury provides oversight over the transition from LIBORs to alternative reference rates. This includes evaluating the extent to which assets and liabilities are referenced to LIBOR cash flows, whether such contracts need to be amended as a result of those reforms and how to manage communication about LIBOR reform with counterparties. The new contracts to be entered by the Group on or after 1 January 2022 will be based on using various alternative benchmark interest rates including certain “risk-free” rates.

Transition away from LIBOR to the risk-free or alternative “reference rate” (RFR’) regime will affect the pricing of deposits, loan financing, hedging instruments and debt securities.

Financial assets and liabilities

The Group’s exposure to IBOR linked financial assets and liabilities is mainly through USD LIBOR. The Group will perform transition of these contracts to RFRs through bilateral agreements not later than June 2023.

The Group’s exposure to financial assets and liabilities that are based on USD LIBOR maturing after June 2023 is KD 116,767 thousand (2021: KD 182,126 thousand) and KD 295,580 thousand (2021: KD 291,913 thousand) respectively. The Group is in discussion with the counterparties clients to effect an orderly transition of USD exposures to the relevant RFR.

Derivatives held for hedging purposes

The Group is required to transition USD LIBOR based derivatives no later than June 2023. The notional value of USD LIBOR derivatives designated as fair value hedges, maturing after June 2023 is KD 16,847 thousand as at 31 December 2022 (2021: KD 20,933 thousand).

BURGAN BANK GROUP

Notes to the Consolidated Financial Statements At 31 December 2022

3. CASH AND CASH EQUIVALENTS

	2022 KD 000's	2021 KD 000's
Cash on hand and in current account with banks and OFIs	301,402	409,283
Balances with the CBK	168,734	165,839
Due from banks and OFIs with original maturity within thirty days	189,253	246,502
	<u>659,389</u>	<u>821,624</u>
Expected credit losses	(5)	(16)
Cash and cash equivalents as per consolidated statement of financial position	659,384	821,608
Cash and cash equivalents attributable to disposal group held for sale (Note 9)	147,869	149,967
	<u>807,253</u>	<u>971,575</u>

4. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	2022 KD 000's	2021 KD 000's
Loans and advances		
- Banks	38,218	20,111
- Other financial institutions (OFIs)	219,602	196,762
	<u>257,820</u>	<u>216,873</u>
Deposits with banks	249,704	139,439
Gross due from banks and OFIs	507,524	356,312
Provision (Note 5)	(25,413)	(24,945)
Expected credit losses	(10)	(43)
	<u>482,101</u>	<u>331,324</u>

5. LOANS AND ADVANCES TO CUSTOMERS

a) Balances

	2022 KD 000's	2021 KD 000's
Corporate	3,928,638	4,069,684
Retail	454,904	366,573
	<u>4,383,542</u>	<u>4,436,257</u>
Gross loans and advances to customers	4,383,542	4,436,257
Provision	(155,805)	(157,548)
	<u>4,227,737</u>	<u>4,278,709</u>

b) Provisions

	<i>Banks and OFIs</i> KD 000's	<i>Corporate</i> KD 000's	<i>Retail</i> KD 000's	<i>Total</i> KD 000's
At 1 January 2022	25,393	161,877	14,362	201,632
Exchange adjustment	12	312	36	360
Amounts written off	-	(13,747)	(2,946)	(16,693)
Charged to consolidated statement of income	497	19,150	5,640	25,287
Transferred to disposal group held for sale (Note 9)	-	(3,794)	(1,235)	(5,029)
At 31 December 2022	<u>25,902</u>	<u>163,798</u>	<u>15,857</u>	<u>205,557</u>

BURGAN BANK GROUP
Notes to the Consolidated Financial Statements
At 31 December 2022
5. LOANS AND ADVANCES TO CUSTOMERS (continued)

	<i>Banks and OFIs KD 000's</i>	<i>Corporate KD 000's</i>	<i>Retail KD 000's</i>	<i>Total KD 000's</i>
At 1 January 2021	25,368	240,151	15,858	281,377
Exchange adjustment	(2)	(10,720)	(167)	(10,889)
Amounts written off	-	(141,763)	(5,310)	(147,073)
Charged to consolidated statement of income	27	80,628	3,981	84,636
Transferred to disposal group held for sale (Note 9)	-	(6,419)	-	(6,419)
At 31 December 2021	<u>25,393</u>	<u>161,877</u>	<u>14,362</u>	<u>201,632</u>

The provision includes KD 24,339 thousand (2021: KD 19,139 thousand), being provision for non-cash facilities reported under other liabilities (Note 11), of which KD 489 thousand (2021: KD 448 thousand) relates to due from Banks and OFIs.

The impairment provision for credit facilities complies in all material respects with the specific provision requirements of the CBK and IFRS as adopted by the CBK for use by the State of Kuwait. In March 2007, the CBK issued a circular amending the basis of making minimum general provisions on facilities changing the rate from 2% to 1% for cash facilities and 0.5% for non cash facilities. The revised rates are applied effective from 1 January 2007 on the net increase in facilities, net of certain restricted categories of collateral during the reporting period. The general provision as of 31 December 2006 in excess of the present 1% for cash facilities and 0.5% for non cash facilities amounts to KD 16,154 thousand and is retained as a general provision until further directive from the CBK. Interest income on impaired loans and advances is immaterial.

During the year, the Group recovered KD 4,150 thousand (2021: KD 13,422 thousand) from customers whose balances were written off and recorded the same under other income in the consolidated statement of income.

The breakup of specific and general provision is as follows:

	<i>2022 KD 000's</i>	<i>2021 KD 000's</i>
General provision	185,903	181,579
Specific provision	19,654	20,053
	<u>205,557</u>	<u>201,632</u>

An analysis of the gross carrying amounts of credit facilities, commitments and contingent liabilities, and the corresponding ECL based on the staging criteria under IFRS 9 in accordance with the CBK guidelines is as follows:

<i>31 December 2022</i>	<i>Stage 1 KD 000's</i>	<i>Stage 2 KD 000's</i>	<i>Stage 3 KD 000's</i>	<i>Total KD 000's</i>
High	653,903	10,555	-	664,458
Standard	3,192,344	522,310	-	3,714,654
Past due or impaired	11,299	155,335	95,616	262,250
Loans and advances to Banks, OFIs and customers	<u>3,857,546</u>	<u>688,200</u>	<u>95,616</u>	<u>4,641,362</u>
Contingent liabilities*	<u>2,384,309</u>	<u>183,247</u>	<u>16,269</u>	<u>2,583,825</u>
ECL allowance for credit facilities	<u>25,176</u>	<u>58,054</u>	<u>54,159</u>	<u>137,389</u>

BURGAN BANK GROUP
Notes to the Consolidated Financial Statements
At 31 December 2022
5. LOANS AND ADVANCES TO CUSTOMERS (continued)

<i>31 December 2021</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>
High	496,252	977	-	497,229
Standard	3,334,541	581,615	-	3,916,156
Past due or impaired	9,135	150,879	79,731	239,745
	<u>3,839,928</u>	<u>733,471</u>	<u>79,731</u>	<u>4,653,130</u>
Loans and advances to Banks, OFIs and customers				
Contingent liabilities*	2,265,073	199,110	14,721	2,478,904
	<u>2,265,073</u>	<u>199,110</u>	<u>14,721</u>	<u>2,478,904</u>
ECL allowance for credit facilities	27,873	55,672	47,920	131,465
	<u>27,873</u>	<u>55,672</u>	<u>47,920</u>	<u>131,465</u>

*includes commitments to extend non-cash facilities.

The weightings assigned to each macro-economic scenario are based on the credit cycle index, and as at 31 December 2022, were 40% to the Base Case, 30% to Downside and 30% to the Upside Case. (2021: 40% to the Base Case, 30% to Downside and 30% to the Upside Case).

An analysis of the changes in the ECL allowance for credit facilities (cash and non-cash facilities) computed under IFRS 9 in accordance with the CBK guidelines is as follows:

	<i>31 December 2022</i>			
	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>
ECL allowance as at 1 January 2022	27,873	55,672	47,920	131,465
ECL movement for the year	(2,280)	8,175	28,957	34,852
Amounts written off	-	-	(16,693)	(16,693)
Foreign exchange adjustments	(417)	(5,793)	(6,025)	(12,235)
	<u>25,176</u>	<u>58,054</u>	<u>54,159</u>	<u>137,389</u>
Balance at 31 December 2022	25,176	58,054	54,159	137,389
	<u>25,176</u>	<u>58,054</u>	<u>54,159</u>	<u>137,389</u>
	<i>31 December 2021</i>			
	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>
ECL allowance as at 1 January 2021	52,962	99,591	100,162	252,715
ECL movement for the year	(23,497)	(30,080)	125,458	71,881
Amounts written off	-	-	(147,073)	(147,073)
Foreign exchange adjustments	(1,592)	(13,839)	(30,627)	(46,058)
	<u>27,873</u>	<u>55,672</u>	<u>47,920</u>	<u>131,465</u>
Balance at 31 December 2021	27,873	55,672	47,920	131,465
	<u>27,873</u>	<u>55,672</u>	<u>47,920</u>	<u>131,465</u>

BURGAN BANK GROUP
Notes to the Consolidated Financial Statements
At 31 December 2022
6. INVESTMENT SECURITIES
As at 31 December 2022

	<i>FVOCI</i> <i>KD 000's</i>	<i>FVTPL</i> <i>KD 000's</i>	<i>Amortised</i> <i>cost</i> <i>KD 000's</i>	<i>Associate</i> <i>KD 000's</i>	<i>Total</i> <i>KD 000's</i>
Debt securities	300,000	7,880	184,056	-	491,936
Equity securities	137,076	2,918	-	4,557	144,551
Managed funds	-	78,323	-	-	78,323
Less: Expected credit losses	-	-	(661)	-	(661)
	<u>437,076</u>	<u>89,121</u>	<u>183,395</u>	<u>4,557</u>	<u>714,149</u>

As at 31 December 2021

	<i>FVOCI</i> <i>KD 000's</i>	<i>FVTPL</i> <i>KD 000's</i>	<i>Amortised</i> <i>cost</i> <i>KD 000's</i>	<i>Associate</i> <i>KD 000's</i>	<i>Total</i> <i>KD 000's</i>
Debt securities	271,487	3,033	119,427	-	393,947
Equity securities	155,884	13,029	-	4,579	173,492
Managed funds	-	82,441	-	-	82,441
Less: Expected credit losses	-	-	(614)	-	(614)
	<u>427,371</u>	<u>98,503</u>	<u>118,813</u>	<u>4,579</u>	<u>649,266</u>

7. OTHER ASSETS

	<i>2022</i> <i>KD 000's</i>	<i>2021</i> <i>KD 000's</i>
Accrued interest receivable	97,334	110,993
Prepaid expenses	3,677	3,051
Assets pending sale *	85,480	98,836
Deferred tax assets	8,362	5,250
Taxation paid in advance	3,784	3,496
Sundry debtors	10,580	9,375
Other balances	48,984	46,712
Less: Expected credit losses	(153)	(151)
	<u>258,048</u>	<u>277,562</u>

*The fair value of real estate assets included in assets pending for sale are based on valuations performed by accredited independent valuers by using market comparable method. However, the impact on the consolidated statement of income would be immaterial if the relevant risk variables used to fair value were altered by 5%.

BURGAN BANK GROUP
Notes to the Consolidated Financial Statements
At 31 December 2022
8. INTANGIBLE ASSETS

	<i>Goodwill</i> <i>KD 000's</i>	<i>Other intangible</i> <i>assets</i> <i>KD 000's</i>	<i>Total</i> <i>KD 000's</i>
Cost			
At 1 January 2022	8,036	40,053	48,089
Exchange adjustment	134	1,429	1,563
At 31 December 2022	8,170	41,482	49,652
Amortisation			
At 1 January 2022	-	29,677	29,677
Charge for the year	-	2,445	2,445
At 31 December 2022	-	32,122	32,122
Net book value			
At 31 December 2022	8,170	9,360	17,530
At 31 December 2021	8,036	10,376	18,412

The carrying amounts of goodwill and other intangible assets allocated to each CGU are as follows:

	<i>Other intangible assets</i> <i>KD 000's</i>			<i>Total</i> <i>KD 000's</i>
	<i>Goodwill</i> <i>KD 000's</i>	<i>Banking</i> <i>license</i>	<i>Total</i>	
AGB	2,903	4,925	4,925	7,828
TIB	5,267	4,435	4,435	9,702
At 31 December 2022	8,170	9,360	9,360	17,530

	<i>Other intangible assets</i> <i>KD 000's</i>				<i>Total</i> <i>KD 000's</i>
	<i>Goodwill</i> <i>KD 000's</i>	<i>Banking</i> <i>license</i>	<i>Customer</i> <i>relationships</i>	<i>Core</i> <i>customer</i> <i>deposits</i>	
AGB	2,834	5,196	-	-	5,196
TIB	5,202	5,033	-	-	5,033
BBT	-	-	130	17	147
At 31 December 2021	8,036	10,229	130	17	10,376

BURGAN BANK GROUP

Notes to the Consolidated Financial Statements At 31 December 2022

8. INTANGIBLE ASSETS (continued)

Impairment testing of goodwill

The carrying value of goodwill is tested for impairment on an annual basis (or more frequently if evidence exists that goodwill might be impaired) by estimating the recoverable amount of the cash-generating unit ("CGU") to which these items are allocated using value-in-use calculations unless fair value based on active market price is higher than the carrying value of the CGU. The value in use calculations use pre-tax cash flow projections based on financial projections approved by management over a five years period and a relevant terminal growth rate of 5% (2021: 5%). These cash flows were then discounted using a pre-tax discount rate of 25% to 30% (2021: 18% to 25%) to derive a net present value which is compared to the carrying value. The discount rate used is pre-tax and reflects specific risks relating to the relevant CGU. The recoverable amounts are either higher or approximates the carrying value of goodwill. The Group has also performed a sensitivity analysis by varying these input factors by a reasonable possible margin. Based on such analysis, there are no indications that goodwill is impaired considering the level of judgments and estimations used.

9. DISPOSAL GROUP HELD FOR SALE

The Group owns 51.79% equity interest in Bank of Baghdad ("BoB"). The investment in BoB was classified as disposal group held for sale as at 31 December 2020, based on approval from the Board of Directors, as the Bank had the intention to sell the investment in BoB and was actively looking for buyers and is carried at lower of carrying value or fair value less costs to sell in accordance with "IFRS 5- Non-current Assets Held for Sale and Discontinued Operations".

During the year, the Bank has signed a binding offer with Jordan Kuwait Bank ("JKB") along with the approvals of the Board of Directors of the Bank, Board of Directors of JKB and Central Bank of Jordan.

Subsequent to the year end, the Bank has obtained the approval from Central Bank of Iraq. The completion of the transaction is subject to fulfilment of legal documentation and Iraqi Stock Exchange requirements.

The results for the year are presented below:

	2022 KD 000's	2021 KD 000's
Interest income	9,184	4,193
Interest expense	(2,038)	(1,440)
Net interest income	7,146	2,753
Fee and commission income	12,158	10,036
Fee and commission expense	(522)	(467)
Net fee and commission income	11,636	9,569
Net gain from foreign currencies	3,688	4,571
Other income	78	69
Operating income	22,548	16,962
Staff expenses	(3,013)	(3,054)
Other expenses	(3,264)	(2,485)
Operating profit before provision	16,271	11,423
Provision for credit losses (Note 5 (b))	(5,029)	(6,419)
Profit for the year before taxation	11,242	5,004
Taxation	(2,052)	(1,744)
Profit for the year	9,190	3,260

BURGAN BANK GROUP

Notes to the Consolidated Financial Statements At 31 December 2022

9. DISPOSAL GROUP HELD FOR SALE (continued)

Assets and liabilities of disposal group classified as held for sale as at 31 December are, as follows:

	2022 <i>KD 000's</i>	2021 <i>KD 000's</i>
ASSETS		
Cash and cash equivalents (note 3)	147,869	149,967
Treasury bills and bonds	136,613	83,814
Due from banks and other financial institutions	26,142	35,777
Loans and advances to customers	10,256	12,693
Investment securities	686	1,328
Other assets	4,732	4,486
Property and equipment	16,088	12,423
TOTAL ASSETS	342,386	300,488
LIABILITIES		
Due to banks	181	417
Deposits from customers	264,712	236,085
Other borrowed funds	123	337
Other liabilities	16,188	12,584
TOTAL LIABILITIES	281,204	249,423

	2022 <i>KD 000's</i>	2021 <i>KD 000's</i>
Net assets directly associated with disposal group	61,182	51,065

	2022 <i>KD 000's</i>	2021 <i>KD 000's</i>
The net cash flows are as follows:		
Net cash flows from (used in):		
- Operating activities	3,904	7,329
- Investment activities	(3,282)	(1,962)
- Financing activities	(4,893)	(14)
Net (decrease) increase in cash and cash equivalents during the year	(4,271)	5,353

Material non-controlling interests

The management of the Bank has concluded that Bank of Baghdad "BoB" is the only subsidiary which has non-controlling interests that is material to the Group. The information relating to non-controlling interests is as follows:

	2022 <i>KD 000's</i>	2021 <i>KD 000's</i>
Accumulated balances	29,949	26,344
Profit attributable	4,430	1,572

BURGAN BANK GROUP

Notes to the Consolidated Financial Statements At 31 December 2022

10. OTHER BORROWED FUNDS

	<i>Effective interest rate</i>	<i>2022</i> <i>KD 000's</i>	<i>2021</i> <i>KD 000's</i>
Murabaha facility – unsecured 2024	3M Libor + (1.00% - 1.18%)	152,818	150,680
Subordinated bonds – 2031*	2.750%	152,542	150,498
Medium term borrowing – unsecured (2023to 2026)	3M Libor + (1.00% - 1.40%)	325,741	321,305
Medium term borrowing -unsecured (2025)	SOFR+ 1.05%	152,291	-
		783,392	622,483

*In 2020, the Bank issued USD 500 million Subordinated Tier 2 Notes due in 2031 (the “Notes”) at the principal amount. The Notes meet the requirements to be treated as Tier 2 Capital under Basel III Regulations as adopted by the CBK. The Notes are callable in whole but not in part at the option of the issuer after 6 years from the date of their issuance, or on any interest payment date there after, subject to certain conditions being satisfied and the prior approval of the CBK.

Movement in other borrowed funds included in the consolidated statements of cash flows under financing activities includes KD 7,035 thousand (2021: KD 714 thousand) arising from foreign currency translation.

11. OTHER LIABILITIES

	<i>2022</i> <i>KD 000's</i>	<i>2021</i> <i>KD 000's</i>
Accrued interest payable	39,647	31,516
Staff benefits	20,513	17,662
Provision for non-cash credit facilities (note 5)	24,339	19,139
Clearing cheques and balances	29,605	36,947
Income received in advance	14,011	10,445
Other payable and accruals	49,680	44,033
Deferred tax liabilities	6,595	196
Taxation payable	16,944	12,759
Other balances	42,557	53,071
	243,891	225,768

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Notes to the Consolidated Financial Statements At 31 December 2022

12. EQUITY AND RESERVES

- a) Authorised, issued and fully paid up capital of the Bank

	2022	2021
Authorised share capital (shares of 100 fils each)	<u>4,000,000,000</u>	<u>4,000,000,000</u>
Issued and fully paid up capital (shares of 100 fils each)	<u>3,287,812,500</u>	<u>3,131,250,000</u>

- b) On 5 April 2022, the Annual General Assembly approved the distribution of cash dividend of 5 fils per share (2020: 5 fils) and bonus shares of 5% (2020: 5%) for the year ended 31 December 2021.
- c) During the previous year, after obtaining necessary approvals, the Bank increased its paid up share capital through the issuance of rights issue of 375,000,000 shares, each with a nominal value of 100 fils and share premium of 90 fils. The rights issue were fully subscribed resulting in an increase in share capital of KD 37,500 thousand and share premium of KD 33,750 thousand during the previous year.
- d) The share premium and treasury shares reserve are not available for distribution. The Companies Law and the Bank's articles of association require that 10% of the profit for the year attributable to equity holders of the Bank before Board of Directors remuneration, NLST, KFAS and Zakat be transferred annually to statutory reserve. The Bank may resolve to discontinue such annual transfers when the reserve equals 50% of paid up share capital. Distribution of statutory reserve is limited to the amount required to enable the payment of dividend of 5% of share capital in years when accumulated profits are not sufficient for the payment of a dividend of that amount.
- e) The articles of association of the Bank requires an amount of not less than 10% of the profit for the year attributable to equity holders of the Bank before Board of Directors remuneration, NLST, KFAS and Zakat be transferred annually to the voluntary reserve. There is no restriction on distribution of this reserve, except as noted in note 12 (f).

- f) Treasury shares

	2022	2021
Number of shares held	<u>5,057,911</u>	<u>4,811,693</u>
Percentage of shares held	<u>0.15%</u>	<u>0.15%</u>
Cost KD 000's	<u>1,742</u>	<u>1,742</u>
Market value KD 000's	<u>1,103</u>	<u>1,193</u>
Weighted average market value per share (fils)	<u>260</u>	<u>224</u>

The balance in the treasury share reserve account is not available for distribution. An amount equal to the cost of treasury shares is not available for distribution from share premium, statutory reserve, voluntary reserve and retained earnings throughout the holding period of these treasury shares.

BURGAN BANK GROUP
Notes to the Consolidated Financial Statements
At 31 December 2022
12. EQUITY AND RESERVES (continued)

g) Other reserves attributable to the equity holders of the Bank:

	<i>31 December 2022</i>								
	<i>Treasury shares reserve KD 000's</i>	<i>Fair value reserve KD 000's</i>	<i>Foreign currency translation reserve KD 000's</i>	<i>Hedge of net investment in foreign operations KD 000's</i>	<i>Cash flow hedge reserve KD 000's</i>	<i>Changes in ownership in subsidiaries KD 000's</i>	<i>Reserve of disposal group held for sale KD 000's</i>	<i>Total KD 000's</i>	
Balance at 1 January 2022	43,135	(65,398)	(222,514)	22,507	7,137	(1,478)	(6,607)	(223,218)	
Other comprehensive (loss) income for the period	-	(45,333)	(19,638)	2,449	11,752	-	-	(50,770)	
Total comprehensive (loss) income	-	(45,333)	(19,638)	2,449	11,752	-	-	(50,770)	
Transfer related to disposal group held for sale	-	18	(472)	-	-	-	454	-	
Net transfer to retained earnings for derecognition of equity investments at FVOCI	-	4,867	-	-	-	-	-	4,867	
Impact of application of IAS 29 (Note 2.7)	-	-	25,958	-	-	-	-	25,958	
Balance at 31 December 2022	43,135	(105,846)	(216,666)	24,956	18,889	(1,478)	(6,153)	(243,163)	
	<i>31 December 2021</i>								
	<i>Treasury shares reserve KD 000's</i>	<i>Fair value reserve KD 000's</i>	<i>Share based compensation reserve KD 000's</i>	<i>Foreign currency translation reserve KD 000's</i>	<i>Hedge of net investment in foreign operations KD 000's</i>	<i>Cash flow hedge reserve KD 000's</i>	<i>Changes in ownership in subsidiaries KD 000's</i>	<i>Reserve of disposal group held for sale KD 000's</i>	<i>Total KD 000's</i>
Balance at 1 January 2021	43,135	(49,953)	564	(181,259)	13,145	2,295	(1,478)	(5,317)	(178,868)
Other comprehensive (loss) income for the period	-	(16,188)	-	(42,343)	9,362	4,842	-	-	(44,327)
Total comprehensive (loss) income	-	(16,188)	-	(42,343)	9,362	4,842	-	-	(44,327)
Transfer related to disposal group held for sale	-	202	-	1,088	-	-	-	(1,290)	-
Net transfer to retained earnings for derecognition of equity investments at FVOCI	-	541	-	-	-	-	-	-	541
Transfer to retained earnings	-	-	(564)	-	-	-	-	-	(564)
Balance at 31 December 2021	43,135	(65,398)	-	(222,514)	22,507	7,137	(1,478)	(6,607)	(223,218)

BURGAN BANK GROUP

Notes to the Consolidated Financial Statements At 31 December 2022

12. EQUITY AND RESERVES (CONTINUED)

h) Proposed dividend

The Board of Directors has recommended distributing cash dividend of 8 fils per share (2021: 5 fils) and bonus shares of 5% (2021: 5%) for the financial year ended 31 December 2022. Subject to approval at the annual general meeting ("AGM") of the shareholders, the cash dividend and bonus shares shall be payable to shareholders registered in the Bank's records as of the AGM date.

i) Perpetual Tier 1 Capital Securities

On 2 July 2019, the Bank issued Perpetual Tier 1 Capital Securities (the "Tier 1 securities"), amounting to USD 500,000 thousand.

The Tier 1 securities constitute direct, unconditional, subordinated and unsecured obligations of the Bank and are classified as equity in accordance with IAS 32, *Financial Instruments – Classification*. The Tier 1 securities do not have a maturity date. They are redeemable by the Bank at its discretion after 9 July 2024 (the "First Call Date") or on any interest payment date thereafter subject to the prior consent of the regulatory authority.

The Tier 1 securities bear interest on their nominal amount from the issue date to the First Call Date at a fixed annual rate of 5.7492%. Thereafter, the interest rate will be reset at five-year intervals. Interest will be payable semi-annually in arrears and treated as a deduction from equity.

The Bank, at its sole discretion, may elect not to distribute interest and this is not considered an event of default. If the Bank does not pay interest on the Tier 1 securities, on a scheduled interest payment date (for whatever reason), then the Bank must not make any other distribution or payment on or with respect to its other shares that rank equally with or junior to the Tier 1 securities (other than pro-rata distributions or payments on shares that rank equally with Tier 1 securities) unless and until it has paid two consecutive interest payments in full on the Tier 1 securities.

13. INTEREST INCOME

	2022 KD 000's	2021 KD 000's
Loans and advances to customers	249,813	211,241
Due from banks and other financial institutions	49,711	31,551
Treasury bills and bonds	6,298	7,450
Investment securities	17,656	3,879
	<u>323,478</u>	<u>254,121</u>

14. INTEREST EXPENSE

	2022 KD 000's	2021 KD 000's
Deposits from customers	109,687	76,677
Due to banks	40,506	33,256
Due to other financial institutions	4,242	448
Other borrowed funds	21,579	15,566
	<u>176,014</u>	<u>125,947</u>

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15. NET INVESTMENT INCOME

	2022 KD 000's	2021 KD 000's
Net gain on financial assets at FVTPL	6,736	28,764
Net gain from financial assets at FVOCI	138	371
Share of result from associates	128	446
	<u>7,002</u>	<u>29,581</u>

16. TAXATION

	2022 KD 000's	2021 KD 000's
NLST	1,094	1,004
KFAS	493	481
Zakat	519	476
Taxation on overseas subsidiaries	14,334	4,747
	<u>16,440</u>	<u>6,708</u>

Components of taxation arising from overseas subsidiaries are as follows:

	2022 KD 000's	2021 KD 000's
Current tax	17,462	6,646
Deferred tax	(3,128)	(1,899)
	<u>14,334</u>	<u>4,747</u>

The tax rate applicable to the taxable subsidiary companies is in the range of 15% to 35% (2021: 15% to 35%) whereas the effective income tax rate for the year ended 31 December 2022 is in the range of 15% to 34% (2021: 27% to 28%). For the purpose of determining the taxable results for the year, the accounting profit of the overseas subsidiary companies were adjusted for tax purposes. Adjustments for tax purposes include items relating to both income and expense. The adjustments are based on the current understanding of the existing laws, regulations and practices of each overseas subsidiary companies jurisdiction.

17. EARNINGS PER SHARE

Basic and diluted earnings per share is computed by dividing the profit for the year attributable to equity holders of the Bank after interest payment and other movements on Tier 1 capital securities by the weighted average number of shares outstanding during the year less treasury shares.

The computation of basic and diluted earnings per share is as follows:

	2022 KD 000's	2021 KD 000's
Profit for the year attributable to equity holders of the Bank	52,130	45,389
Less: Interest payment and other movements on Tier 1 capital securities	(10,715)	(8,302)
	<u>41,415</u>	<u>37,087</u>
	<i>Shares</i>	<i>Shares</i>
Weighted average number of outstanding shares, net of treasury shares	3,282,754,589	2,962,687,273
Basic and diluted earnings per share (fils)	<u>12.6</u>	<u>12.5</u>

Earning per share calculations for 2021 have been adjusted to take account of the bonus shares issued in 2022.

BURGAN BANK GROUP

Notes to the Consolidated Financial Statements

At 31 December 2022

18. SEGMENT INFORMATION

For management purposes, the Group organises its operations by geographic territory in the first instance, primarily Domestic and International. All operations outside Kuwait are classified as International. Within its domestic operations, the Group is organised into the following business segments:

- ▶ **Corporate and Consumer banking:** provides comprehensive product and services to Financial institutions, corporate and individual customers, including lending, deposits, trade services, foreign exchange, advisory services, credit and debit cards, and others.
- ▶ **Treasury and Investment banking:** includes treasury activities, investment services and management. It also provides products and services to banks including money markets, lending, deposits, foreign exchange and others.
- ▶ **Central office:** includes liquidity and funding management, any residual in respect of transfer pricing and other unallocated activities.

Executive Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on segment result after provisions which in certain respects are measured differently from operating profit or loss in the consolidated financial statements.

Consequent to an internal re-organisation during the year, the management has merged the previously reported segments of Corporate Banking and Retail and Private Banking segments into “Corporate and Consumer Banking” segment. The financial information relating to these segments in the comparative financial year has been restated to conform to the current year presentation.

BURGAN BANK GROUP

Notes to the Consolidated Financial Statements

At 31 December 2022

18. SEGMENT INFORMATION (continued)

The table below presents income and results and certain assets and liabilities information regarding the Group's operating segments.

	<i>Kuwait Operations</i>				<i>International Operations*</i>	<i>Unallocated / Intragroup Transactions</i>	<i>Group</i>
	<i>Corporate and consumer banking KD 000's</i>	<i>Treasury and investment banking KD 000's</i>	<i>Central office KD 000's</i>	<i>Total KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>Total KD 000's</i>
31 December 2022							
Net interest income	96,462	(6,491)	3,382	93,353	69,737	(15,626)	147,464
Segment operating results	118,757	60	2,863	121,680	122,152	(11,782)	232,050
Profit (loss) for the year	54,463	(4,541)	(2,612)	47,310	25,094	(13,854)	58,550
Total assets	3,731,241	839,337	554,106	5,124,684	2,222,710	(181,434)	7,165,960
Total liabilities	2,590,302	298,754	1,584,718	4,473,774	1,905,326	(160,555)	6,218,545
	<i>Kuwait Operations</i>				<i>International Operations*</i>	<i>Unallocated / Intragroup Transactions</i>	<i>Group</i>
	<i>Corporate and consumer banking KD 000's</i>	<i>Treasury and investment banking KD 000's</i>	<i>Central office KD 000's</i>	<i>Total KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>Total KD 000's</i>
31 December 2021							
Net interest income	91,053	431	(5,683)	85,801	52,624	(10,251)	128,174
Segment operating results	119,054	30,512	(5,188)	144,378	93,401	(3,049)	234,730
Profit (loss) for the year	35,397	25,205	(9,617)	50,985	6,727	(9,123)	48,589
Total assets	3,878,838	745,945	600,290	5,225,073	2,040,862	(191,020)	7,074,915
Total liabilities	2,520,868	397,702	1,603,385	4,521,955	1,805,309	(184,274)	6,142,990

*International operations include operational results of BoB which is classified as disposal group held for sale as at 31 December 2022 and 31 December 2021 (Note 9).

BURGAN BANK GROUP

Notes to the Consolidated Financial Statements At 31 December 2022

19. TRANSACTIONS WITH RELATED PARTIES

The Group has entered into transactions with certain related parties (Parent Company, directors and key management personnel of the Group and entities controlled, jointly controlled or significantly influenced by such parties) who were customers of the Group during the year. The "Others" column in the table below mainly represent transactions with other related parties that are either controlled or significantly influenced by the Parent Company. The terms of these transactions are substantially on the same commercial basis as approved by the Group's management, including collateral. Lending to Board Members and their related parties is secured by tangible collateral in accordance with regulations of Central Bank of Kuwait. The outstanding balances and transactions are as follows:

	<i>Parent Company KD 000's</i>	<i>Others KD 000's</i>	<i>2022 KD 000s</i>	<i>2021 KD 000s</i>
Consolidated Statement of Financial Position				
Due from banks and OFIs*	-	190,190	190,190	175,970
Loans and advances to customers*	-	963,745	963,745	968,721
Investment securities	14,341	91,624	105,965	126,323
Investment securities managed by a related party	-	78,062	78,062	82,108
Other assets	-	6,244	6,244	5,867
Due to banks	-	5,367	5,367	7,429
Due to other financial institutions	-	30,822	30,822	64,509
Deposits from customers	125,745	60,799	186,544	153,134
Commitments and contingent liabilities				
Letters of credit	-	10,245	10,245	711
Letters of guarantee	-	106,365	106,365	69,607
Undrawn lines of credit	-	115,829	115,829	127,207
Other commitments	-	14,867	14,867	15,793
Transactions				
Interest income	40	42,255	42,295	30,912
Interest expense	(229)	(617)	(846)	(656)
Fee and commission income	3	1,231	1,234	804
Fee and commission expenses	-	(731)	(731)	(517)
Dividend income	599	209	808	499
Other expense	-	(4,683)	(4,683)	(10,845)
Other transactions during the year				
Purchase of property and equipments	-	20	20	1,664
Sale of investment securities	-	3,155	3,155	-
Loss on sale of investment securities	-	(3,830)	(3,830)	-

* As of 31 December 2022, the fair value of the total eligible collateral to the extent of the outstanding balances amounting to KD 512,533 thousand (2021: KD 532,224 thousand).

BURGAN BANK GROUP

Notes to the Consolidated Financial Statements At 31 December 2022

19. TRANSACTIONS WITH RELATED PARTIES (continued)

	<i>No. of Board members or executive staff</i>	<i>2022 KD 000's</i>	<i>2021 KD 000's</i>
Board members*			
Loans and advances to customers	4	5,777	4,995
Deposits from customers	6	2,127	978
Executive staff			
Loans and advances to customers	16	850	217
Deposits from customers	42	3,148	1,983
Letters of guarantee	1	16	18

*Transactions with Board members include transaction with one of the Group executive staff who is also a board member.

Key management compensation

Remuneration paid or payable in relation to "key management" (deemed for this purpose to comprise Directors in relation to their committee service, the Chief Executive Officer and other Senior Officers), was as follows:

	<i>2022 KD 000's</i>	<i>2021 KD 000's</i>
Short term employee benefits – including salary and bonus	5,440	4,759
Accrual for end of service indemnity	1,521	1,485
Accrual for cost of long term incentive rights	859	573
Accrual for committee services	440	490
	8,260	7,307

20. COMMITMENTS AND CONTINGENT LIABILITIES

	<i>2022 KD 000's</i>	<i>2021 KD 000's</i>
Acceptances	27,777	40,182
Letters of credit	282,925	209,612
Letters of guarantee	884,771	822,849
	1,195,473	1,072,643

Irrecoverable commitments to extend credit amount to KD 600,921 thousand (2021: KD 642,447 thousand). This includes commitments to extend credit which are irrecoverable over the life of the facility or are revocable only in response to a material adverse change.

The primary purpose of these instruments is to ensure that funds are available to customers as required. Acceptances, standby letters of credit and guarantees, which represent irrevocable assurances that the Group will make payments in the event that the customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are undertaken by the Group on behalf of the customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing.

Undrawn lines of credit represent unused portions of authorisations to extend cash credit. With respect to credit risk on undrawn lines of credit, the Group is potentially exposed to loss in an amount equal to the total unused lines. However, the likely amount of loss is less than the total unused lines since most of these lines will expire or terminate without being funded.

BURGAN BANK GROUP

Notes to the Consolidated Financial Statements **At 31 December 2022**

20. COMMITMENTS AND CONTINGENT LIABILITIES (continued)

The Group makes available to its customers guarantees which may require that the Group makes payments on their behalf and enters into commitments to extend credit lines to secure their liquidity needs. Such payments are collected from customers based on the terms of the letter of credit. They expose the Group to similar risks to loans and these are mitigated by the same control processes and policies.

The Group has commitments in respect of capital expenditure amounting to KD 14,867 thousand (2021: KD 15,793 thousand).

21. DERIVATIVE FINANCIAL INSTRUMENTS

In the ordinary course of business, the Group enters into various types of transactions that involve derivative financial instruments. The Group offers its clients derivatives products that are traded in the financial markets in order to service their risk management needs to hedge currency and interest rate exposures. The Group also uses derivatives for economic hedging purpose to manage its own assets and liabilities as well as to hedge certain risk exposures such as variation in future cash flows attributable to a recognised asset or liability (cash flow hedge), or hedges of net investment in foreign operation. For those derivative contracts that are designated as a hedging instrument, hedge accounting is used provided certain criteria are met.

Derivatives are initially recognised and are subsequently measured at fair value. Fair values are obtained from quoted market prices in active markets, and valuation techniques (such as discounted cash flow models and option pricing models), as appropriate. All derivatives are carried as assets when their fair value is positive and as liabilities when fair values are negative.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged.

At the inception of the transactions the Group documents the relationship between the hedging instruments and the hedged items, its risk management objective, together with the methods selected to assess hedge effectiveness. The Group also documents its assessment both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of the hedged items.

Derivative instruments that are used by the Group as part of its risk management strategies, but which do not qualify for hedge accounting under the Group's hedge accounting policies, are presented as Derivatives held for trading (non-qualifying hedges).

Derivatives held for hedging

Hedge of net investment in foreign operations

The Bank entered into forward foreign exchange contracts between TRY and USD, which has been designated as a hedge of the Bank's net investment in its Turkish subsidiary. This transaction has created a net long position in USD. Gains or losses on the retranslation of the aforesaid contracts are recorded in equity to offset any gains or losses on translation of the net investments in the Turkish subsidiary. Hedge ineffectiveness only arises to the extent the hedging instruments exceeds in nominal terms, the risk exposure from the foreign operations. No ineffectiveness from hedges of net investments in foreign operations was recognised in the consolidated statement of income during the year. The Group regularly assess the optimal hedge ratio i.e. the amount of net assets of the subsidiary to be hedged and as at 31 December 2022 has determined 30% (2021: 40%) as the optimal hedge ratio.

Cash flow hedges

One of the subsidiary of the Group applies cash flow hedge accounting using interest rate swaps to hedge its foreign currency deposits with an average maturity upto 3 months against interest rate fluctuations. The subsidiary implements effectiveness tests at the reporting dates for hedge accounting; the effective portions are accounted as part of changes in fair value of derivatives under other reserves, whereas the ineffective portion is recognised in the consolidated statement of income.

No ineffectiveness from hedges was recognised in the consolidated statement of income during the year.

Derivatives held for trading

Derivative contracts that are entered into for the purpose of servicing customers in their risk management needs as well as derivatives used by the Group for economic hedging purpose but which do not meet the qualifying criteria for hedge accounting are classified as 'Derivatives held for trading'. The risk exposures on account of derivative contracts for customers are covered by entering into positions with an opposite risk profile with other counter parties or by other risk mitigating transactions.

BURGAN BANK GROUP

Notes to the Consolidated Financial Statements At 31 December 2022

21. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Types of derivative contracts

Forward foreign exchange contracts

Forward foreign exchange contracts are contractual agreements to either buy or sell a specified currency, at a specific price and date in the future, and are customised contracts transacted in the over-the-counter market.

Swaps

Swaps are contractual agreements between two parties to exchange streams of payments over time based on specified notional amounts, in relation to movements in a specified underlying index such as an interest rate, foreign currency rate or equity index.

Interest rate swaps relate to contracts taken out by the Bank with OFIs in which the Group either receives or pays a floating rate of interest, respectively, in return for paying or receiving a fixed rate of interest. The payment flows are usually netted against each other, with the difference being paid by one party to the other. In a currency swap, the Group pays a specified amount in one currency and receives a specified amount in another currency. Currency swaps are mostly gross settled.

Options

Options are contractual agreements that convey the right, but not the obligation, for the purchaser either to buy or sell a specified amount of a financial instrument at a fixed price, either at a fixed future date or at any time within a specified period.

The Group purchases and sells options through regulated exchanges and in the over-the-counter markets. Options purchased by the Group provide the Group with the opportunity to purchase (call options) or sell (put options) the underlying asset at an agreed upon value either on or before the expiration of the option. The Group is exposed to credit risk on purchased options only to the extent of their carrying amount, which is their fair value.

Options written by the Group provide the purchaser the opportunity to purchase from or sell to the Group the underlying asset at an agreed upon value either on or before the expiration of the option.

The table below shows the fair value of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts analysed by the terms of maturity. The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are indicative of neither the market risk nor the credit risk. Credit risk in respect of derivative financial instruments is limited to the positive fair value of instruments. The credit risk exposure is managed as part of the overall borrowers lending limits, together with potential exposures from market movements.

31 December 2022	Positive fair value KD 000's	Negative fair value KD 000's	Notional amount		
			Within 1 year KD 000's	Over 1 year KD 000's	Total KD 000's
Derivatives held for trading: (non-qualifying hedges)					
Forward swaps / foreign exchange contracts	3,003	(7,311)	1,353,895	258,564	1,612,459
Interest rate swaps	2,652	(581)	19,537	576	20,113
Options	1,570	(3,188)	186,004	-	186,004
	<u>7,225</u>	<u>(11,080)</u>	<u>1,559,436</u>	<u>259,140</u>	<u>1,818,576</u>
Derivatives held for hedging: Hedge of net investment in foreign operations:					
Forward swaps / foreign exchange contracts	347	(19)	28,650	-	28,650
Cash flow hedges:					
Interest rate swaps	34,740	(2,992)	29,044	203,153	232,197
	<u>35,087</u>	<u>(3,011)</u>	<u>57,694</u>	<u>203,153</u>	<u>260,847</u>

BURGAN BANK GROUP
Notes to the Consolidated Financial Statements
At 31 December 2022
21. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

31 December 2021	<i>Positive fair value KD 000's</i>	<i>Negative fair value KD 000's</i>	<i>Notional amount</i>		
			<i>Within 1 year KD 000's</i>	<i>Over 1 year KD 000's</i>	<i>Total KD 000's</i>
<i>Derivatives held for trading: (non-qualifying hedges)</i>					
Forward swaps / foreign exchange contracts	26,657	(16,362)	1,518,030	121,826	1,639,856
Interest rate swaps	1,903	(2,208)	34,652	46,482	81,134
Options	1,405	(1,979)	52,556	-	52,556
	<u>29,965</u>	<u>(20,549)</u>	<u>1,605,238</u>	<u>168,308</u>	<u>1,773,546</u>
<i>Derivatives held for hedging:</i>					
<i>Hedge of net investment in foreign operations:</i>					
Forward swaps / foreign exchange contracts	6,704	-	20,931	-	20,931
<i>Cash flow hedges:</i>					
Interest rate swaps	36,159	(2,112)	63,399	133,043	196,442
	<u>42,863</u>	<u>(2,112)</u>	<u>84,330</u>	<u>133,043</u>	<u>217,373</u>

Hedging instruments are used to hedge net investment in a foreign operation and interest rate risk pertaining to hedged items. Hedged item for net investment in foreign operation pertain to the Bank's net investment in BBT and the foreign exchange translation loss recorded in OCI amounted to KD 17,476 thousand (2021: KD 15,981 thousand) for the hedged portion. Hedged item for interest rate risk include a portion of customer deposits and long term borrowings denominated in foreign currency in a subsidiary having a carrying value of KD 232,197 thousand (2021: KD 196,442 thousand). All the hedges were determined to be effective as at the yearend.

BURGAN BANK GROUP

Notes to the Consolidated Financial Statements

At 31 December 2022

22. FAIR VALUE MEASUREMENT

Fair value of all financial instruments is not materially different from their carrying values. For financial assets and financial liabilities that are liquid or having a short-term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits, savings accounts without a specific maturity.

The fair value of investment securities is categorised as per the policy on fair value measurement in Note 2. Movement in level 3 is mainly on account of purchase, sale and change in fair value and on account of investment security acquired against recovery of debt previously written off, recorded as other income and change in fair value and reclassification under IFRS 9. During the year, a decrease of KD 10,600 thousand (2021: decrease of KD 5,848 thousand) was recorded in the other comprehensive income representing change in fair value. There were no material transfers between the levels during the year. The impact on the consolidated statement of financial position or the consolidated statement of shareholders' equity would be immaterial if the relevant risk variables used to fair value the unquoted securities were altered by 5%.

Debt securities included under level 3 consists of unquoted corporate bonds. The fair values of these bonds are estimated using discounted cash flow method. Equities and other securities included in this category mainly include strategic equity investments and managed funds which are not traded in an active market. The fair values of these investments are estimated by using valuation techniques that are appropriate in the circumstances. Valuation techniques include discounted cash flow models, observable market information of comparable companies, recent transaction information and net asset values.

Significant unobservable inputs used in valuation techniques mainly include discount rate, terminal growth rate, revenue, profit estimates and market multiples such as price to book and price to earnings. Given the diverse nature of these investments, it is not practical to disclose a range of significant unobservable inputs.

Other financial assets and liabilities are carried at amortised cost and their carrying values are not materially different from their fair values. Fair values of remaining financial assets and liabilities carried at amortised cost are estimated using valuation techniques incorporating certain assumptions such as future cashflows and credit spreads that are appropriate in the circumstances.

The impact on the consolidated statement of financial position or the consolidated statement of income or the consolidated statement of shareholders' equity would be immaterial if the relevant risk variables used for fair value estimations to fair value the unquoted securities were altered by 5%.

BURGAN BANK GROUP
Notes to the Consolidated Financial Statements
At 31 December 2022
22. FAIR VALUE MEASUREMENT (continued)

Fair value measurement hierarchy for financial assets and financial liabilities that are carried at fair value is as follows:

	<i>31 December 2022</i>				<i>31 December 2021</i>			
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
	<i>KD '000</i>	<i>KD '000</i>	<i>KD '000</i>	<i>KD '000</i>	<i>KD '000</i>	<i>KD '000</i>	<i>KD '000</i>	<i>KD '000</i>
Financial assets:								
Equity securities	65,459	-	74,535	139,994	81,462	-	87,451	168,913
Debt securities	307,880	-	-	307,880	274,520	-	-	274,520
Managed funds	-	-	78,323	78,323	-	-	82,441	82,441
Derivative financial instruments	-	42,312	-	42,312	-	72,828	-	72,828
Financial liabilities:								
Derivative financial instruments	-	14,091	-	14,091	-	22,661	-	22,661

Investment securities classified as FVOCI and amortised cost (Note 6) and other debt instruments carried at amortised cost (excluding credit facilities) are subject to expected credit losses. These financial assets are categorised under Stage 1 (2021: Stage 1). Central Bank of Kuwait bonds and Kuwait Government treasury bonds are not subject to expected credit losses.

BURGAN BANK GROUP

Notes to the Consolidated Financial Statements **At 31 December 2022**

23. RISK MANAGEMENT

INTRODUCTION

Monitoring and controlling risks is primarily performed based on limits established by the Group. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Group is willing to accept, with additional emphasis on selected geographic and industrial sectors. In addition, the Group monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

The operations of certain subsidiaries are also subject to regulatory requirements within the jurisdictions where it operates. Such regulations not only prescribe approval and monitoring of activities, but also impose certain restrictive provisions (e.g. capital adequacy) to minimise the risk of default and insolvency on the part of the banking and insurance companies to meet unforeseen liabilities as these arise.

As part of its overall risk management, the Group uses derivatives and other instruments to manage exposures resulting from changes in interest rates and foreign currency transactions.

The risk profile is assessed before entering into hedge transactions, which are authorised by the appropriate level of seniority within the Group.

The Group classifies the risks faced as part of its day to day activities into certain categories of risks and accordingly specific responsibilities have been given to various officers for the identification, measurement, control and reporting of these identified families of risks. The categories of risks are:

Risks arising from financial instruments:

- i. Credit risk which includes default risk of clients and counterparties;
- ii. Market risk which includes interest rate, foreign exchange and equity price risks; and
- iii. Liquidity risk.

Other risks

- i. Operational risk which includes risks due to operational failures.

A. CREDIT RISK

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or group of borrowers, and to geographical and industry segments. Such risks are monitored on a regular basis and are subject to regular review. Limits on the level of credit risk by product, industry sector and by country are approved by the Board or each subsidiary.

The exposure to any one borrower, including Banks and OFIs is further restricted by sub limits covering items on the consolidated statement of financial position and commitments and contingent liabilities exposures and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily. The Group has a well-documented credit policy that complies with the CBK regulations and defines the appetite of the Group for assumption of risks in its various business groups.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

Credit risk arising from derivative financial instruments is limited to those with positive fair values, recorded in the consolidated statement of financial position.

Internal rating and PD estimation process

In managing its portfolio, the Group utilises ratings and other measures and techniques which seek to take account of all aspects of perceived risk. The Group uses industry standard rating tools for assessing ratings/scores that are leveraged for PD estimation process. The tool provides the ability to analyse a business and produce risk ratings at both the obligor and facility level. The analysis supports the usage of financial factors as well as non-financial subjective factors. The Group also uses external ratings by recognised rating agencies for externally rated portfolios.

BURGAN BANK GROUP

Notes to the Consolidated Financial Statements At 31 December 2022

23. RISK MANAGEMENT (continued)

A. CREDIT RISK (continued)

Maximum exposure to credit risk:

The table below shows the maximum exposure to credit risk across financial assets before taking into consideration the effect of any collateral and other credit enhancements i.e. credit risk mitigation.

	2022 <i>KD 000's</i>	2021 <i>KD 000's</i>
Cash and cash equivalents	587,143	762,434
Treasury bills and bonds with CBK and others	301,554	247,393
Due from banks and other financial institutions	482,101	331,324
Loans and advances to customers	4,227,737	4,278,709
Investments securities	491,275	393,333
Other assets*	156,745	166,929
Total	6,246,555	6,180,122
Commitments and contingent liabilities (note 20)	1,811,261	1,730,883
Maximum credit risk exposure before consideration of credit risk mitigation	<u>8,057,816</u>	<u>7,911,005</u>

* Other assets include accrued interest receivable, sundry debtors and other debt balances, net of ECL as shown in note 7.

The exposures set above, are based on net carrying amounts as reported in the consolidated statement of financial position, except for commitments and contingent liabilities.

Collateral and credit risk mitigation techniques

The amount, type and valuation of collateral are based on guidelines specified in the risk management framework. The main types of collaterals accepted include real estate and marketable securities. The revaluation and custody of collaterals are performed independent of the business units.

The main credit risk mitigation techniques applied by the Group are based on eligible collaterals. The Group's management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of the collateral at regular intervals in line with regulatory guidelines.

For further details regarding the Group's use of credit risk mitigation techniques, and collateral policy, refer to Basel III – Pillar 3 Disclosures under the risk management section of the annual report.

Credit risk concentration

The top 10 largest exposures outstanding as a percentage of gross loans and advances to customers at 31 December 2022 is 26% (31 December 2021: 24%).

BURGAN BANK GROUP

Notes to the Consolidated Financial Statements At 31 December 2022

23. RISK MANAGEMENT (continued)

A. CREDIT RISK (continued)

The concentration across classes within loans and advances to customers, which form part of the significant portion of assets subject to credit risk, is given in Note 5.

The Group's financial assets and commitments and contingent liabilities, before taking into account any collateral held or credit enhancements can be analysed by the following geographic regions:

	2022			2021		
	<i>Financial assets</i>	<i>Commitments and contingent liabilities</i>	<i>Total</i>	<i>Financial assets</i>	<i>Commitments and contingent liabilities</i>	<i>Total</i>
	<i>KD 000s</i>	<i>KD 000s</i>	<i>KD 000s</i>	<i>KD 000s</i>	<i>KD 000s</i>	<i>KD 000s</i>
Kuwait	3,819,402	1,434,928	5,254,330	3,832,757	1,373,376	5,206,133
Jordan	18,102	11,448	29,550	1,753	5,375	7,128
Algeria	598,102	130,015	728,117	553,023	112,579	665,602
Iraq	-	779	779	-	243	243
Tunisia	16,198	563	16,761	26,994	1,227	28,221
Turkey	959,388	166,194	1,125,582	885,323	157,773	1,043,096
Other Middle East	551,762	26,216	577,978	543,815	7,730	551,545
Europe	101,283	21,720	123,003	97,013	29,221	126,234
Rest of the world	182,318	19,398	201,716	239,444	43,359	282,803
	6,246,555	1,811,261	8,057,816	6,180,122	1,730,883	7,911,005

The Group's financial assets and commitments and contingent liabilities, before taking into account any collateral held or credit enhancements can be analysed by the following industry sectors:

	2022	2021
	<i>KD 000's</i>	<i>KD 000's</i>
Industry sector		
Sovereign	1,048,934	1,144,529
Banking	693,037	483,466
Investment	369,462	381,218
Trade and commerce	662,634	715,484
Real estate	1,191,225	1,238,075
Personal	1,712,861	1,573,289
Manufacturing	687,922	689,567
Construction	722,700	637,847
Other services	969,041	1,047,530
	8,057,816	7,911,005

Credit quality per class of financial assets

The Bank has a comprehensive credit policy encompassing evaluation of the customer's credit request, assessment of the purpose of request, business of the client, market, management, financials, ratings, conduct of the account and such other means to establish the credit worthiness of the counterparty and accordingly the credit exposures are classified as "High" or "Standard" based on inherent credit quality of the counterparties. Credit exposures classified as "High" quality are those where the ultimate risk of finance loss from the obligor's failure to discharge its obligation is assessed to be low. These include facilities to counterparties with financial condition, risk indicators and capacity to repay which are considered excellent. Credit exposures classified as "Standard" quality comprise all other facilities whose payment performance is compliant with the contractual conditions. The credit quality per class of financial assets for comparative period has been reclassified to conform the presentation of current year classification.

BURGAN BANK GROUP

Notes to the Consolidated Financial Statements

At 31 December 2022

23. RISK MANAGEMENT (continued)

A. CREDIT RISK (continued)

The table also shows the credit risk exposure by credit quality of financial assets by class, grade and status:

	2022				
	Rated			Impaired financial assets*	Total KD 000's
	High KD 000's	Standard KD 000's	Past due but not impaired*		
Sovereigns	633,030	-	-	-	633,030
Banks and OFIs	319,549	418,219	-	-	737,768
Corporates	621,007	2,934,404	155,607	76,035	3,787,053
Retail	10,079	414,055	11,027	5,523	440,684
Other credit exposures	346,224	301,796	-	-	648,020
	<u>1,929,889</u>	<u>4,068,474</u>	<u>166,634</u>	<u>81,558</u>	<u>6,246,555</u>
	2021				
	Rated			Impaired financial assets*	Total KD 000's
	High KD 000's	Standard KD 000's	Past due but not impaired*		
Sovereigns	674,516	182,757	-	-	857,273
Banks and OFIs	279,252	253,026	-	-	532,278
Corporates	478,073	3,184,119	149,470	64,583	3,876,245
Retail	9,859	329,855	10,544	3,806	354,064
Other credit exposures	326,406	233,856	-	-	560,262
	<u>1,768,106</u>	<u>4,183,613</u>	<u>160,014</u>	<u>68,389</u>	<u>6,180,122</u>

*Fair value of collateral to the extent of the outstanding exposure against the above mentioned past due but not impaired financial assets and impaired financial assets amounted to KD 45,686 thousand (2021: KD 58,005 thousand) and KD 77,188 thousand (2021: KD 65,332 thousand) respectively.

B. MARKET RISK

Market risk is the risk that the value of an asset will fluctuate as a result of changes in market variables such as interest rates, foreign exchange rates, and equity prices, whether those changes are caused by factors specific to the individual investment or its issuer or factors affecting all financial assets traded in the market.

Market risk is managed on the basis of pre-determined asset allocations across various asset categories, diversification of assets in terms of geographical distribution and industry concentration, a continuous appraisal of market conditions and trends and management's estimate of long and short term changes in fair value.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the fair value or cash flows of the financial instruments. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. This arises 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 manages this risk by matching the repricing of assets and liabilities through risk management strategies.

The Group is exposed to interest rate risk on its interest bearing assets and liabilities (treasury bills and bonds with CBK and others, due from banks and OFIs, loans and advances to customers, due to banks, due to OFIs, deposits from customers and other borrowed funds).

BURGAN BANK GROUP

Notes to the Consolidated Financial Statements At 31 December 2022

23. RISK MANAGEMENT (continued)

B. MARKET RISK (continued)

The table below summarises the effect on net interest income as a result of the changes in interest rate:

	2022 KD 000's	2021 KD 000's
Increase in interest rate "Basis Points"		
50	6,092	7,328
100	12,184	14,656
Decrease in interest rate "Basis Points"		
50	(6,092)	(7,324)
100	(12,184)	(14,646)

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group takes on exposure to effects of fluctuations in the prevailing currency exchange rates on its financial position and cash flows. The Board of Directors sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily.

The table below analyses the effect on profit and equity of an assumed 5% strengthening in value of the currency rate against the Kuwaiti Dinar from levels applicable at the year end, with all other variables held constant. A negative amount in the table reflects a potential net reduction in profit or equity, where as a positive amount reflects a net potential increase.

Currency	% Change in currency rate	2022		2021	
		Effect on profit KD 000's	Effect on equity KD 000's	Effect on profit KD 000's	Effect on equity KD 000's
Algerian Dinar	+5	497	4,322	566	4,331
Iraqi Dinar	+5	385	3,309	238	3,157
Turkish Lira	+5	464	3,305	(4)	2,759
US Dollar	+5	394	2,976	358	3,519
Others	+5	673	-	14	-

Equity price risk

Equity price risk is the risk that the fair values of equities will fluctuate as a result of changes in the level of equity indices or the value of individual share prices. Equity price risk arises from the change in fair values of equity investments. The Group manages this risk through diversification of investments in terms of geographical distribution and industry concentration. The majority of the Group's quoted investments are listed on the regional stock exchanges.

The Group conducts sensitivity analysis on regular intervals in order to assess the potential impact of any major changes in fair value of equity instruments. Based on the results of the analysis conducted there are no material implication over the Group's profit or other comprehensive income for a 5% fluctuation in major stock exchanges.

Prepayment risk

Prepayment risk is the risk that the Group will incur a financial loss because its customers and counterparties repay or request repayment earlier than expected, such as fixed rate mortgages when interest rate fall. The fixed rate assets of the Group are not significant compared to the total assets. Moreover, other market conditions causing prepayment is not significant in the markets in which the Group operates. Therefore, the Group considers the effect of prepayment on net interest income is not material after taking in to account the effect of any prepayment penalties.

BURGAN BANK GROUP

Notes to the Consolidated Financial Statements At 31 December 2022

23. RISK MANAGEMENT (continued)

C. LIQUIDITY RISK

Liquidity risk is the risk that the Group will be unable to meet its liabilities when they fall due. The Group is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs, guarantees. To limit this risk, the Group manages assets with liquidity in mind and monitors liquidity on a daily basis.

The table below shows an analysis of financial liabilities and contingent liabilities and commitments based on the remaining undiscounted contractual maturities:

	<i>Up to 3 months KD 000's</i>	<i>3 to 6 months KD 000's</i>	<i>6 to 12 months KD 000's</i>	<i>More than 12 months KD 000's</i>	<i>Total KD 000's</i>
31 December 2022					
Financial liabilities					
Due to banks	244,852	29,265	4,894	592	279,603
Due to other financial institutions	658,951	10,886	34,682	-	704,519
Deposits from customers	3,339,229	254,918	229,255	142,486	3,965,888
Other borrowed funds	9,938	9,938	139,513	717,748	877,137
Other liabilities	171,612	520	7,024	64,735	243,891
	<u>4,424,582</u>	<u>305,527</u>	<u>415,368</u>	<u>925,561</u>	<u>6,071,038</u>
Contingent liabilities and commitments	<u>655,829</u>	<u>231,892</u>	<u>480,866</u>	<u>442,674</u>	<u>1,811,261</u>
	<i>Up to 3 months KD 000's</i>	<i>3 to 6 months KD 000's</i>	<i>6 to 12 months KD 000's</i>	<i>More than 12 months KD 000's</i>	<i>Total KD 000's</i>
31 December 2021					
Financial liabilities					
Due to banks	420,474	36,884	61,456	3,926	522,740
Due to other financial institutions	281,859	36,251	47,907	-	366,017
Deposits from customers	3,094,972	617,858	322,717	148,686	4,184,233
Other borrowed funds	2,616	5,260	7,904	671,125	686,905
Other liabilities	170,449	1,329	1,532	52,458	225,768
	<u>3,970,370</u>	<u>697,582</u>	<u>441,516</u>	<u>876,195</u>	<u>5,985,663</u>
Contingent liabilities and commitments	<u>487,933</u>	<u>273,591</u>	<u>512,434</u>	<u>456,925</u>	<u>1,730,883</u>

The table below summarises the maturity profile of the Group's assets and liabilities. The maturities of assets and liabilities have been determined according to when they are expected to be recovered or settled. The maturity profile for financial assets at FVTPL and FVOCI is determined based on management's estimate of liquidation of those financial assets. The actual maturities may differ from the maturities shown below since borrowers may have the right to prepay obligations with or without prepayment penalties.

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At 31 December 2022
23. RISK MANAGEMENT (continued)
C. LIQUIDITY RISK (continued)

	<i>Up to 3 months KD 000s</i>	<i>3 to 6 months KD 000s</i>	<i>6 to 12 months KD 000s</i>	<i>More than 12 months KD 000s</i>	<i>Total KD 000s</i>
31 December 2022					
ASSETS					
Cash and cash equivalents	659,384	-	-	-	659,384
Treasury bills and bonds with CBK and others	132,564	133,292	20,543	15,155	301,554
Due from banks and other financial institutions	417,766	26,785	20,464	17,086	482,101
Loans and advances to customers	1,889,020	481,520	492,154	1,365,043	4,227,737
Investment securities	24,113	14,466	46,422	629,148	714,149
Other assets	96,211	1,158	3,363	157,316	258,048
Property and equipment	-	-	-	163,071	163,071
Intangible assets	-	-	-	17,530	17,530
Disposal group held for sale	342,386	-	-	-	342,386
Total assets	3,561,444	657,221	582,946	2,364,349	7,165,960
LIABILITIES AND EQUITY					
Due to banks	244,340	28,532	4,683	591	278,146
Due to other financial institutions	654,893	10,805	33,723	-	699,421
Deposits from customers	3,331,802	246,498	220,725	133,466	3,932,491
Other borrowed funds	-	-	119,457	663,935	783,392
Other liabilities	171,612	520	7,024	64,735	243,891
Liability directly associated with disposal group held for sale	281,204	-	-	-	281,204
Equity	-	-	-	947,415	947,415
Total liabilities and equity	4,683,851	286,355	385,612	1,810,142	7,165,960

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At 31 December 2022
23. RISK MANAGEMENT (continued)
C. LIQUIDITY RISK (continued)

	<i>Up to 3 months KD 000s</i>	<i>3 to 6 months KD 000s</i>	<i>6 to 12 months KD 000s</i>	<i>More than 12 months KD 000s</i>	<i>Total KD 000s</i>
31 December 2021					
ASSETS					
Cash and cash equivalents	821,608	-	-	-	821,608
Treasury bills and bonds with CBK and others	130,398	80,472	16,438	20,085	247,393
Due from banks and other financial institutions	233,344	70,647	27,333	-	331,324
Loans and advances to customers	1,241,226	357,755	998,775	1,680,953	4,278,709
Investment securities	35,155	7	10,004	604,100	649,266
Other assets	131,631	1,252	3,089	141,590	277,562
Property and equipment	-	-	-	150,153	150,153
Intangible assets	-	-	-	18,412	18,412
Disposal group held for sale	300,488	-	-	-	300,488
Total assets	2,893,850	510,133	1,055,639	2,615,293	7,074,915
LIABILITIES AND EQUITY					
Due to banks	417,511	36,412	60,908	3,925	518,756
Due to other financial institutions	281,726	36,052	47,051	-	364,829
Deposits from customers	3,092,313	612,461	316,897	140,060	4,161,731
Other borrowed funds	-	-	-	622,483	622,483
Other liabilities	170,449	1,329	1,532	52,458	225,768
Liability directly associated with disposal group held for sale	249,423	-	-	-	249,423
Equity	-	-	-	931,925	931,925
Total liabilities and equity	4,211,422	686,254	426,388	1,750,851	7,074,915

BURGAN BANK GROUP

Notes to the Consolidated Financial Statements At 31 December 2022

D. OPERATIONAL RISK

Operational risk is the risk of loss arising from the failures in operational process, people and system that supports operational processes. The Group has a set of policies and procedures, which are approved by the Board of Directors and are applied to identify, assess and supervise operational risk in addition to other types of risks relating to the banking and financial activities of the Group. Operational risk is managed by Risk management. Risk management ensures compliance with policies and procedures to identify, assess, supervise and monitor operational risk as part of overall Global risk management.

24. CAPITAL MANAGEMENT

The primary objectives of the Group's capital management policy are to ensure that the Group complies with regulatory capital requirements and that the Group maintains strong credit ratings and healthy capital ratios in order to support its business and maximise shareholder value.

Capital adequacy, financial leverage and the use of various levels of regulatory capital are monitored regularly by the Group's management and are governed by guidelines of Basel Committee on Banking Supervision as adopted by the CBK.

The disclosures relating to the capital adequacy regulations issued by CBK as stipulated in CBK Circular number 2/RB, RBA/A336/2014 dated 24 June 2014 (Basel III) and the Leverage regulations as stipulated in CBK Circular number 2/BS/ 342/2014 dated 21 October 2014 under the Basel Committee framework are included under the 'Basel III qualitative and quantitative disclosures' section of the Annual Report.

The Group's risk weighted assets (after regulatory phase out of real estate collaterals), regulatory capital and capital adequacy ratios (Basel III), are shown below:

	<i>2022</i> <i>KD 000s</i>	<i>2021</i> <i>KD 000s</i>
Risk weighted assets	6,433,584	6,250,981
Total capital required	804,198	718,863
Common Equity Tier 1 (CET1) capital	697,290	711,119
Additional Tier 1 (AT1) capital	154,897	152,913
Tier 2 capital	231,846	227,605
Total eligible capital	1,084,033	1,091,637
CET1 capital adequacy ratio	10.8%	11.4%
Tier 1 capital adequacy ratio	13.2%	13.8%
Total capital adequacy ratio	16.8%	17.5%

The Group's financial leverage ratio, calculated in accordance with CBK circular number 2/BS/ 342/2014 dated 21 October 2014, is shown below:

	<i>2022</i> <i>KD 000s</i>	<i>2021</i> <i>KD 000s</i>
Tier 1 capital	852,187	864,032
Total exposure	7,807,156	7,684,488
Leverage ratio	10.9%	11.2%



BURGAN BANK GROUP

**CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2021**



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Independent auditors' report to the Shareholders of Burgan Bank K.P.S.C.

Opinion

We have audited the consolidated financial statements of Burgan Bank K.P.S.C. (the "Bank") and its subsidiaries (together "the Group"), which comprise the consolidated statement of financial position as at 31 December 2021, the consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory 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 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS"), as adopted by the CBK for use by the State of Kuwait.

Basis for Opinion

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

Key Audit Matters

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

Credit losses on loans and advances to customers

See Note 5 to the consolidated financial statements

The key audit matter

The recognition of credit losses on loans and advances to customers (“credit facilities”) is the higher of Expected Credit Loss (“ECL”) on credit facilities computed under IFRS 9 in accordance with the CBK guidelines or the provisions as required by the CBK instructions along with its consequent impact on related disclosures (the “CBK rules”).

Recognition of ECL under IFRS 9, determined in accordance with the CBK guidelines, requires considerable judgement in its implementation. ECL is dependent on management’s judgement in assessing the level of credit risk on initial recognition and significant increase in credit risk subsequently on the reporting date relative to its initial recognition and classification into the three stages of IFRS 9. As a result, the ECL has a higher than usual degree of estimation uncertainty and the inputs used are inherently subject to change, which may materially impact the estimate in future periods.

Recognition of specific provision on impaired credit facilities under the CBK rules is based on the instructions prescribed by the CBK on the minimum provisions to be recognised.

Due to the significance of credit facilities and the related estimation uncertainty and judgement in the calculation of ECL, this was considered as a key audit matter. The estimation uncertainty relating to this matter was further heightened due to the ongoing economic impact of COVID-19.

How the matter was addressed in our audit

- Our audit procedures included assessing the design and implementation of controls over the inputs and assumptions used by the Group in developing the models, its governance and review controls performed by the management in determining the adequacy of ECL.
- With respect to ECL, we have selected samples of credit facilities outstanding and checked the appropriateness of the Group’s determination of significant increase in credit risk and the resultant basis for classification of the credit facilities into various stages. For a sample of credit facilities, we have checked the appropriateness of the Group’s staging criteria, Exposure at Default (“EAD”), Probability of Default (“PD”) and Loss Given Default (“LGD”), including the eligibility and value of collateral considered in the ECL models used by the Group and the overlays considered by the management in view of the ongoing COVID-19 pandemic, in order to determine ECL taking into consideration the CBK guidelines. We have also checked the consistency of various inputs and assumptions used by the Group’s management to determine ECL.
- We involved our specialists to review the ECL model in terms of key data, methods and assumptions used to ensure they are in line with the requirements of IFRS 9, determined in accordance with the CBK guidelines.
- Further, with respect to the CBK rules relating to the provisioning requirements, we have assessed the criteria for determining whether there is a requirement to calculate any credit losses in accordance with the related regulations (considering the days past due, account conduct and collateral) and, if required, it has been computed accordingly. For the samples selected, we have verified whether all impairment events have been identified by the Group’s management. For the selected samples which also included impaired credit facilities, we have assessed the valuation of collateral and checked the resultant provision computations.
- Evaluating the adequacy of the Group’s disclosure in relation to use of significant estimates and judgement and credit quality of loans and advances to customers.

Valuation of investment securities designated under level 3 of the fair value hierarchy

See Note 23 to the consolidated financial statements

The key audit matter

The fair value of investment securities is determined through application of valuation techniques which often involve exercise of judgment by the management and use of assumptions and estimates, most predominantly for the instruments classified under level 3 of the fair value hierarchy, especially due to the ongoing COVID-19 pandemic. Key inputs used in the valuation of investments, designated under level 3 of the fair value hierarchy, are market comparable data, market multiples, expected cash flows and risk free rates. Due to significance of such investment securities carried at fair value and related estimation uncertainty, this is considered a key audit matter.

The Group's policies on valuation of investment securities carried at fair values and designated under level 3 of the fair value hierarchy are given in Note 2 to the consolidated financial statements.

How the matter was addressed in our audit

- With respect to the investment securities carried at fair value and designated under level 3 of the fair value hierarchy, we assessed the methodology and tested the appropriateness of the models used by the Group and the reliability of the data that was used as input to these models to value the investment securities. The use of different valuation techniques and assumptions could produce significantly different estimates of the fair values. For that reason we involved our specialists to assist us in evaluating the reasonableness of key inputs and assumptions used in the valuations such as the comparable market information, market multiples, expected cash flows, risk free rates and credit spreads by benchmarking them with external data.
- Evaluating the adequacy of the Group's fair value disclosures for investment securities carried at fair value are presented in Note 23 to the consolidated financial statements.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Group's Annual Report, but does not include the consolidated financial statements and our auditors' report thereon. Prior to the date of this auditors' 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 and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information; we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

As part of an audit in accordance with ISA, 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 management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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


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

Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion proper books of account have been kept by the Bank and the consolidated financial statements, together with the contents of the Board of Directors' report relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Capital Adequacy Regulations and Financial Leverage Ratio Regulations issued by the Central Bank of Kuwait ("CBK") as stipulated in the CBK Circular Nos. 2/RB, RBA/336/2014 dated 24 June 2014 and its amendments, and 2/BS/342/2014 dated 21 October 2014 and its amendments, respectively, the Companies Law No. 1 of 2016, as amended, and its Executive Regulations, as amended, and by the Bank's Memorandum of Incorporation and Articles of Association, as amended, that an inventory was carried out, and that, to the best of our knowledge and belief, no violations of the Capital Adequacy Regulations and Financial Leverage Ratio Regulations issued by the CBK as stipulated in the CBK Circular Nos. 2/RB, RBA/336/2014 dated 24 June 2014 and its amendments, and 2/BS/342/2014 dated 21 October 2014 and its amendments, respectively, the Companies Law No. 1 of 2016, as amended, and its Executive Regulations, as amended, or of the Bank's Memorandum of Incorporation and Articles of Association, as amended, have occurred during the year ended 31 December 2021 that might have had a material effect on the business of the Bank or on its consolidated financial position.

We further report that, during the course of our audit, we have not become aware of any violations of the provisions of Law No. 32 of 1968, as amended, concerning currency, the CBK and the organisation of banking business, and its related regulations during the year ended 31 December 2021 that might have had a material effect on the business of the Bank or on its consolidated financial position.

Dr. Rasheed M. Al-Qenae
License No. 130-A
of KPMG Safi Al-Mutawa & Partners
Member Firm of KPMG International



Nayef M. Al Bazie
License No. 91-A
RSM Albazie & Co

Kuwait: 6 February 2022

BURGAN BANK GROUP
Consolidated Statement of Financial Position
As at 31 December 2021

	Notes	2021 KD 000's	2020 KD 000's
ASSETS			
Cash and cash equivalents	3	821,608	819,477
Treasury bills and bonds with CBK and others		247,393	243,550
Due from banks and other financial institutions	4	331,324	469,517
Loans and advances to customers	5	4,278,709	4,345,058
Investment securities	6	649,266	591,668
Other assets	7	277,562	215,769
Property and equipment		150,153	157,143
Intangible assets	8	18,412	20,344
		<u>6,774,427</u>	<u>6,862,526</u>
Disposal group held for sale	9	300,488	243,558
TOTAL ASSETS		<u>7,074,915</u>	<u>7,106,084</u>
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks		518,756	413,717
Due to other financial institutions		364,829	610,254
Deposits from customers		4,161,731	4,091,383
Other borrowed funds	10	622,483	679,096
Other liabilities	11	225,768	238,700
		<u>5,893,567</u>	<u>6,033,150</u>
Liabilities directly associated with the disposal group held for sale	9	249,423	193,170
TOTAL LIABILITIES		<u>6,142,990</u>	<u>6,226,320</u>
EQUITY			
Share capital	12	313,125	262,500
Share premium	12	282,802	249,052
Treasury shares	12	(1,742)	(1,742)
Statutory reserve	12	107,755	102,971
Voluntary reserve	12	108,133	103,349
Treasury shares reserve	12	43,135	43,135
Fair value reserve		(65,398)	(49,953)
Share based compensation reserve		-	564
Foreign currency translation reserve		(222,514)	(181,259)
Other reserves	12	21,559	8,645
Retained earnings		151,028	150,011
		<u>737,883</u>	<u>687,273</u>
Total equity attributable to the equity holders of the Bank		737,883	687,273
Perpetual Tier 1 capital securities	12	151,250	151,625
Non-controlling interests		42,792	40,866
TOTAL EQUITY		<u>931,925</u>	<u>879,764</u>
TOTAL LIABILITIES AND EQUITY		<u>7,074,915</u>	<u>7,106,084</u>



Khalid Al Zouman
Group Chief Financial Officer



Masoud M.J. Hayat
Vice Chairman &
Group Chief Executive Officer



Majed Eesa Al Ajeel
Chairman of the Board

The attached notes 1 to 25 form an integral part of these consolidated financial statements.

BURGAN BANK GROUP
Consolidated Statement of Income
For the year ended 31 December 2021

	<i>Notes</i>	<i>2021</i> <i>KD 000's</i>	<i>2020</i> <i>KD 000's</i>
Interest income	13	254,121	270,262
Interest expense	14	(125,947)	(130,243)
Net interest income		128,174	140,019
Fee and commission income		40,841	38,360
Fee and commission expense		(5,498)	(5,687)
Net fee and commission income		35,343	32,673
Net gain from foreign currencies		17,161	10,094
Net investment income	15	29,581	15,853
Dividend income		1,291	1,869
Other income (net)		23,180	12,262
Net operating income		234,730	212,770
Staff expenses		(46,289)	(47,280)
Other expenses		(48,520)	(49,950)
Operating profit before provision		139,921	115,540
Provision for credit losses	5	(84,636)	(76,416)
Provision release (charge) for other financial assets		12	(736)
Profit for the year before taxation		55,297	38,388
Taxation	16	(6,708)	(4,302)
Profit for the year		48,589	34,086
Attributable to:			
Equity holders of the Bank		45,389	33,662
Non-controlling interests		3,200	424
		48,589	34,086
Basic and diluted earnings per share attributable to the equity holders of the Bank (Fils)	17	13.1	8.9

The attached notes 1 to 25 form an integral part of these consolidated financial statements.

BURGAN BANK GROUP
Consolidated Statement of Comprehensive Income
For the year ended 31 December 2021

	<i>2021</i>	<i>2020</i>
	<i>KD 000's</i>	<i>KD 000's</i>
Profit for the year	48,589	34,086
Other comprehensive (loss) income:		
<i>Items that will not be reclassified to consolidated statement of income in subsequent periods:</i>		
Net change in fair value of equity instruments at fair value through other comprehensive income	(9,046)	(20,480)
	(9,046)	(20,480)
<i>Items that are or may be reclassified to consolidated statement of income in subsequent periods:</i>		
Debt instruments at fair value through other comprehensive income:		
Net change in fair value	(6,977)	9,553
Net transfer to consolidated statement of income	(385)	(8,589)
Foreign currency translation adjustment	(43,147)	(43,551)
Changes in fair value of cash flow hedges	4,863	1,723
Net gain on hedge of a net investment	9,362	4,562
Other comprehensive loss for the year	(45,330)	(56,782)
Total comprehensive income (loss) for the year	3,259	(22,696)
Attributable to:		
Equity holders of the Bank	1,062	(15,043)
Non-controlling interests	2,197	(7,653)
	3,259	(22,696)

The attached notes 1 to 25 form an integral part of these consolidated financial statements.

BURGAN BANK GROUP

Consolidated Statement of Changes in Shareholders' Equity For the year ended 31 December 2021

	<i>Attributable to the equity holders of the Bank</i>														
	<i>Share capital</i>	<i>Share premium</i>	<i>Treasury shares</i>	<i>Statutory reserve</i>	<i>Voluntary reserve</i>	<i>Treasury shares reserve</i>	<i>Fair value reserve</i>	<i>Share based compensation reserve</i>	<i>Foreign currency translation reserve</i>	<i>Other reserves*</i>	<i>Retained earnings</i>	<i>Total</i>	<i>Perpetual Tier 1 capital securities</i>	<i>Non-controlling interests</i>	<i>Total equity</i>
	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>
Balance as at 1 January 2021	262,500	249,052	(1,742)	102,971	103,349	43,135	(49,953)	564	(181,259)	8,645	150,011	687,273	151,625	40,866	879,764
Profit for the year	-	-	-	-	-	-	-	-	-	-	45,389	45,389	-	3,200	48,589
Other comprehensive (loss) income for the year	-	-	-	-	-	-	(16,188)	-	(42,343)	14,204	-	(44,327)	-	(1,003)	(45,330)
Total comprehensive (loss) income for the year	-	-	-	-	-	-	(16,188)	-	(42,343)	14,204	45,389	1,062	-	2,197	3,259
Transfer to reserves	-	-	-	4,784	4,784	-	-	-	-	-	(9,568)	-	-	-	-
Bonus shares issued (note 12)	13,125	-	-	-	-	-	-	-	-	-	(13,125)	-	-	-	-
Right Shares issued (note 12)	37,500	33,750	-	-	-	-	-	-	-	-	-	71,250	-	-	71,250
Cash dividend (note 12)	-	-	-	-	-	-	-	-	-	-	(13,102)	(13,102)	-	-	(13,102)
Dividend paid to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	-	(271)	(271)
Transfer to reserve for disposal group held for sale (note 9 and 12)	-	-	-	-	-	-	202	-	1,088	(1,290)	-	-	-	-	-
Foreign currency translation adjustment	-	-	-	-	-	-	-	-	-	-	375	375	(375)	-	-
Net transfer to retained earnings for equity investments at FVOCI	-	-	-	-	-	-	541	-	-	-	(541)	-	-	-	-
Transfer to retained earnings	-	-	-	-	-	-	-	(564)	-	-	564	-	-	-	-
Right Shares issuance cost	-	-	-	-	-	-	-	-	-	-	(298)	(298)	-	-	(298)
Interest payment on Tier 1 capital securities	-	-	-	-	-	-	-	-	-	-	(8,677)	(8,677)	-	-	(8,677)
Balance as at 31 December 2021	313,125	282,802	(1,742)	107,755	108,133	43,135	(65,398)	-	(222,514)	21,559	151,028	737,883	151,250	42,792	931,925

*Refer to note 12 for further details.

BURGAN BANK GROUP

Consolidated Statement of Changes in Shareholders' Equity (continued) For the year ended 31 December 2021

	<i>Attributable to the equity holders of the Bank</i>														
	<i>Share capital</i>	<i>Share premium</i>	<i>Treasury shares</i>	<i>Statutory reserve</i>	<i>Voluntary reserve</i>	<i>Treasury shares reserve</i>	<i>Fair value reserve</i>	<i>Share based compensation reserve</i>	<i>Foreign currency translation reserve</i>	<i>Other reserves*</i>	<i>Retained earnings</i>	<i>Total</i>	<i>Perpetual Tier 1 capital securities</i>	<i>Non-controlling interests</i>	<i>Total equity</i>
	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>
Balance as at 1 January 2020	262,500	249,052	(1,742)	99,465	99,843	43,135	(30,564)	564	(151,972)	8,674	172,205	751,160	151,525	49,573	952,258
Profit for the year	-	-	-	-	-	-	-	-	-	-	33,662	33,662	-	424	34,086
Other comprehensive (loss) income for the year	-	-	-	-	-	-	(19,463)	-	(35,520)	6,278	-	(48,705)	-	(8,077)	(56,782)
Total comprehensive (loss) income for the year	-	-	-	-	-	-	(19,463)	-	(35,520)	6,278	33,662	(15,043)	-	(7,653)	(22,696)
Transfer to reserves	-	-	-	3,506	3,506	-	-	-	-	-	(7,012)	-	-	-	-
Cash dividend (note 12)	-	-	-	-	-	-	-	-	-	-	(31,445)	(31,445)	-	-	(31,445)
Dividend paid to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,054)	(1,054)
Transfer to reserve for disposal group held for sale (note 9 and 12)	-	-	-	-	-	-	74	-	6,233	(6,307)	-	-	-	-	-
Modification loss on retail loans (note 2.1)	-	-	-	-	-	-	-	-	-	-	(8,499)	(8,499)	-	-	(8,499)
Foreign currency translation adjustment	-	-	-	-	-	-	-	-	-	-	(100)	(100)	100	-	-
Interest payment on Tier 1 capital securities	-	-	-	-	-	-	-	-	-	-	(8,800)	(8,800)	-	-	(8,800)
Balance as at 31 December 2020	<u>262,500</u>	<u>249,052</u>	<u>(1,742)</u>	<u>102,971</u>	<u>103,349</u>	<u>43,135</u>	<u>(49,953)</u>	<u>564</u>	<u>(181,259)</u>	<u>8,645</u>	<u>150,011</u>	<u>687,273</u>	<u>151,625</u>	<u>40,866</u>	<u>879,764</u>

*Refer to note 12 for further details.

BURGAN BANK GROUP
Consolidated Statement of Cash Flows
Year ended 31 December 2021

	<i>Notes</i>	<i>2021</i> <i>KD 000's</i>	<i>2020</i> <i>KD 000's</i>
Operating activities			
Profit for the year before taxation		55,297	38,388
Adjustments:			
Net investment income	15	(29,581)	(15,853)
Provision for credit losses	5	84,636	76,416
Provision (release) charge for other financial assets		(12)	736
Dividend income		(1,291)	(1,869)
Depreciation and amortisation		12,684	12,646
Other income		-	(3,432)
Loss on measurement of disposal group held for sale	9	-	688
Operating profit before changes in operating assets and liabilities		121,733	107,720
Changes in operating assets and liabilities:			
Treasury bills and bonds with CBK and others		(51,698)	33,233
Due from banks and other financial institutions		132,350	240,858
Loans and advances to customers		(68,157)	(130,523)
Other assets		(11,208)	42,533
Due to banks		107,159	(98,685)
Due to other financial institutions		(245,425)	(101,242)
Deposits from customers		120,849	69,839
Other liabilities		(10,470)	14,082
Taxation paid		(4,737)	(5,029)
Net cash flows from operating activities		90,396	172,786
Investing activities			
Purchase of investment securities		(512,185)	(763,513)
Proceeds from sale of investment securities		480,792	706,284
Advance repaid for sale of subsidiary		-	(7,981)
Purchase of property and equipment		(2,951)	(50,619)
Dividend income received		1,291	1,869
Net cash flows used in investing activities		(33,053)	(113,960)
Financing activities			
Other borrowed funds	10	(56,629)	223,018
Cash dividend paid to equity holders of the Bank	12	(13,102)	(31,445)
Cash dividend paid to non-controlling interests		(271)	(1,054)
Proceeds from increase of share capital		71,250	-
Right Shares issuance cost		(298)	-
Interest payment on Tier 1 capital securities		(8,677)	(8,800)
Net cash flows (used in) from financing activities		(7,727)	181,719
Net increase in cash and cash equivalents		49,616	240,545
Effect of foreign currency translation		(42,604)	(37,490)
Cash and cash equivalents at 1 January		964,563	761,508
Cash and cash equivalents at 31 December	3	971,575	964,563
Additional cash flow information:			
Interest received		226,778	267,970
Interest paid		133,416	140,691

The attached notes 1 to 25 form an integral part of these consolidated financial statements.

BURGAN BANK GROUP

Notes to the Consolidated Financial Statements **At 31 December 2021**

1. INCORPORATION AND PRINCIPAL ACTIVITIES

Burgan Bank K.P.S.C. (the “Bank”) is a public shareholding company incorporated in the State of Kuwait by Amiri Decree dated 27 December 1975 listed on the Kuwait Stock Exchange and is registered as a bank with the Central Bank of Kuwait (the “CBK”). The Bank’s registered address is P.O. Box 5389, Safat 12170, State of Kuwait.

The consolidated financial statements of the Bank and its subsidiaries (collectively the “Group”) for the year ended 31 December 2021 were authorised for issue in accordance with a resolution of the Board of Directors on 10 January 2022 and are issued subject to the approval of the Annual General Assembly of the shareholders of the Bank. The Annual General Assembly of the Shareholders has the power to amend these consolidated financial statements after issuance.

The principal activities of the Group are explained in note 18.

The Bank is a subsidiary of Kuwait Projects Company Holding K.S.C.P. (the “Parent Company”).

2.1 BASIS OF PREPARATION

a) Statement of compliance

The consolidated financial statements of the Group has been prepared in accordance with International Financial Reporting Standards (“IFRS”), except as noted below.

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

- (i) Expected credit loss (“ECL”) to be measured at the higher of ECL on credit facilities computed under IFRS 9 in accordance with the CBK guidelines or the provisions as required by the CBK instructions along with its consequent impact on related disclosures; and
- (ii) Recognition of modification losses on financial assets arising from payment holidays to customers as a result of Covid-19, during the financial year ended 31 December 2020, as required by the CBK circular reference no. 2/RB, RBA/461/2020. Modification losses referred to in the circular, should be recognised in retained earnings instead of profit or loss as would be required by IFRS 9. However, modification loss on financial assets arising from any other payment holidays to customers shall be recognised in the profit or loss in accordance with IFRS 9. All modification losses incurred after the year ended 31 December 2020, are recognised to the profit or loss. The application of the policy will result in different accounting presentation for modification losses in 2020 as compared to 2021.

The above framework is hereinafter referred to as ‘IFRS as adopted by the CBK for use by the State of Kuwait’.

The consolidated financial statements of the Group have been prepared using the accounting policies consistent to those applied for the year ended 31 December 2020 except as noted below in note 2.2. Certain prior year amounts have been restated / reclassified in order to conform to the current year presentation. Such reclassifications do not affect previously reported assets, liabilities, equity and profit for the year.

b) Functional and presentation currency

The consolidated financial statements are presented in the order of liquidity in Kuwaiti Dinars (“KD”), which is the Bank’s functional currency, rounded to the nearest thousand except when otherwise stated.

c) Basis of measurement

The consolidated financial statements are prepared under the historical cost convention, except for financial assets classified as fair value through profit or loss FVTPL, fair value through other comprehensive income FVOCI and derivative financial instruments that are measured at fair value. Disposal group held for sale and assets pending sale are measured at lower of carrying amount or fair value less costs to sell.

BURGAN BANK GROUP

Notes to the Consolidated Financial Statements **At 31 December 2021**

2.2 CHANGES IN ACCOUNTING POLICIES

New and amended standards and interpretations

The Group applied the following amendments effective from 1 January 2021.

Interest Rate Benchmark Reform - Phase 2 Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (“IBOR”) is replaced with an alternative nearly risk-free interest rate (“RFR”).

The amendments include the following practical expedients:

- A practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest;
- Permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued; and
- Provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component.

Other amendments to IFRS which are effective for annual accounting period starting from 1 January 2021 did not have any material impact on the accounting policies, financial position or performance of the Group.

2.3 BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries (investees which are controlled by the Bank). The reporting date of the subsidiaries is a date not earlier than one month from the Bank’s reporting date. The impact of this is not material to the consolidated financial statements of the Group.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

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

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

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

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

Profit or loss and each component of other comprehensive income (“OCI”) are attributed to the equity holders of the Parent Company of the Bank and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group’s accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

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

BURGAN BANK GROUP

Notes to the Consolidated Financial Statements At 31 December 2021

2.3 BASIS OF CONSOLIDATION (continued)

The principal operating subsidiaries of the Group are as follows:

<i>Name of company</i>	<i>Principal activities</i>	<i>Country of incorporation</i>	<i>Effective interest as at 31 December 2021</i>	<i>Effective interest as at 31 December 2020</i>
Algeria Gulf Bank S.P.A. ("AGB")	Banking	Algeria	86.01%	86.01%
Bank of Baghdad P.J.S.C. ("BoB")*	Banking	Iraq	51.79%	51.79%
Tunis International Bank S.A ("TIB")	Banking	Tunisia	86.70%	86.70%
Burgan Bank A.S. ("BBT")	Banking	Turkey	99.63%	99.56%
Burgan Bank Financial Services Limited ("BBFS")	Financial Advisory Services	UAE	100.00%	100.00%
Held through BoB*				
Baghdad Brokerage Company	Brokerage	Iraq	51.79%	51.79%
Held through BBT				
Burgan Finansal Kiralama A.S	Leasing	Turkey	99.63%	99.56%
Burgan Yatirim Menkul Degerler A.S.	Brokerage	Turkey	99.63%	99.56%
Special purpose vehicle ("SPV") treated as a subsidiary				
Burgan Senior SPC Limited	Special purpose entity	UAE	100.00%	100.00%

*Classified as disposal group held for sale, refer note 9 for details.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Instruments

Recognition

A financial asset or a financial liability is recognised when the Group becomes a party to the contractual provisions of the instrument. All regular way purchase and sale of financial assets are recognised using settlement date accounting. Changes in fair value between the trade date and settlement date are recognised in the consolidated statement of income or in other comprehensive income in accordance with the policy applicable to the related instrument. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulations or conventions in the market place.

Classification and measurement

Initial classification and measurement of financial instruments

The classification of financial instruments at initial recognition depends on the business model for managing the instruments and on their contractual cash flow characteristics. Financial instruments are initially measured at their fair value, except in the case of financial assets and financial liabilities recorded at FVTPL, transaction costs are added to, or subtracted from this amount. When the fair value of financial instruments at initial recognition differs from the transaction price, the Group accounts for the Day 1 profit or loss.

Business model assessment

The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objectives. The Group's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- ▶ How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;
- ▶ The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed;
- ▶ The expected frequency, value and timing of sales are also important aspects of the Group's assessment.

BURGAN BANK GROUP

Notes to the Consolidated Financial Statements **At 31 December 2021**

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Instruments (continued)

Business model assessment(continued)

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

Contractual cashflow characteristics

The Group also assesses the characteristics of the contractual cashflow of the financial asset to identify whether the contractual cashflow is Solely for purpose of Payment of Principal and Interest ('SPPI test').

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset. The most significant elements of 'interest' within a lending arrangement are typically the consideration for the time value of money and credit risk. The Group also considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set during its assessment of the SPPI test.

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

The Group reclassifies when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change.

Subsequent classification and measurement categories of financial assets

The Group classifies all of its financial assets as either:

- Financial asset carried at amortised cost;
- Financial asset at fair value through other comprehensive income ("FVOCI");
- Financial asset at fair value through profit or loss ("FVTPL").

Financial asset carried at amortised cost

A financial asset is carried at amortised cost if it meets both of the following conditions:

- It is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- Its contractual terms give rise on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets carried at amortised cost are subsequently measured at amortised cost using the effective interest rate method. Interest income, foreign exchange gains and losses, impairment and gain or loss on derecognition is recognised in the consolidated statement of income.

Cash and cash equivalents, Treasury bills and bonds with CBK and others, due from banks and other financial institutions, loans and advances to customers, certain investment securities and certain other assets are classified as financial asset carried at amortised cost.

BURGAN BANK GROUP

Notes to the Consolidated Financial Statements **At 31 December 2021**

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Instruments (continued)

Financial asset at fair value through other comprehensive income

a) *Debt instruments carried at FVOCI:*

A debt instrument is carried at FVOCI if it meets both of the following conditions:

- It is held within a business model whose objectives are both to hold asset to collect contractual cash flows and selling financial assets; and
- Its contractual terms give rise on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments carried at FVOCI are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Interest income and foreign exchange gains and losses and gain or loss on derecognition is recognised in consolidated statement of income in the same manner as financial assets carried at amortised cost.

Certain investment securities comprising of quoted and unquoted bonds are classified as debt instruments carried at FVOCI.

b) *Equity instruments carried at FVOCI*

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

Equity instruments carried at FVOCI are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI and is not recycled to consolidated statement of income on derecognition. Dividend income on equity instruments carried at FVOCI is recognised in consolidated statement of income, when the right to receive the payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI.

Certain investment securities comprising of quoted and unquoted equity shares are classified as equity instruments at FVOCI.

Financial assets carried at FVTPL

Financial assets carried at FVTPL is initially recorded in the consolidated statement of financial position at fair value. The financial assets classified under this category are either designated by management upon initial recognition or are mandatorily required to be measured at fair value under IFRS 9. Management designates an instrument as financial asset carried at FVTPL where even though it meets the classification criteria of financial asset carried at amortised cost or financial asset carried at FVOCI, this designation eliminates, or significantly reduces, the inconsistent accounting treatment that would otherwise arise. Such designation is determined on an instrument-by-instrument basis.

Financial assets carried at FVTPL are subsequently measured at fair value. The changes in fair value are recorded in the consolidated statement of income. Interest earned or incurred on instruments designated at FVTPL is accrued in interest income using the effective interest rate method, taking into account any discount/ premium and qualifying transaction costs being an integral part of instrument. Interest earned on assets mandatorily required to be measured at FVTPL is recorded using contractual interest rate. Dividend income from equity instruments measured at FVTPL is recorded in the consolidated statement of income as other operating income when the right to receive the payment has been established.

Certain debt securities, equities and derivatives that are not designated as hedging instruments are classified as financial assets carried at FVTPL.

BURGAN BANK GROUP

Notes to the Consolidated Financial Statements **At 31 December 2021**

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Instruments (continued)

Subsequent classification and measurement categories of financial liabilities

Financial liabilities, other than financial guarantees and loan commitments, are measured at amortised cost or at FVTPL when they are held for trading and derivative financial instruments or the fair value designation is applied.

Due to banks, due to other financial institutions, deposits from customers, other borrowed funds and certain other liabilities are classified as financial liabilities carried at amortised cost.

Financial guarantees and loan commitments

In the ordinary course of business, the Group issues financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised as a liability at fair value, being the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the consolidated statement of income, and the higher of ECL under IFRS 9 according to the CBK guidelines and provision required by the CBK instructions.

Undrawn loan commitments and letters of credits are commitments under which, over the duration of the commitment, the Group is required to provide a loan with pre-specified terms to the customer. Similar to financial guarantee contracts, under IAS 39, a provision was recognised if they were an onerous contract and the higher of ECL under IFRS 9 according to the CBK guidelines and provision required by the CBK instructions.

De-recognition

De-recognition of financial assets and financial liabilities other than substantial modification of terms and conditions

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

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

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

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the consolidated statement of income.

De-recognition of financial assets due to substantial modification of terms and conditions

The Group derecognises a financial asset, such as loans and advances to customers, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognised loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be purchased or originated credit impaired ("POCI").

BURGAN BANK GROUP

Notes to the Consolidated Financial Statements **At 31 December 2021**

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Instruments (continued)

De-recognition of financial assets due to substantial modification of terms and conditions (continued)

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

- Change in currency of the loan;
- Introduction of an equity feature;
- Change in counterparty; or
- If the modification is such that the instrument would no longer meet the SPPI criterion.

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

Interest rate benchmark reform

If the basis for determining the contractual cash flows of a financial asset or financial liability measured at amortised cost changes as a result of interest rate benchmark reform, then the Group updates the effective interest rate of the financial asset or financial liability to reflect the change that is required by the reform. A change in the basis for determining the contractual cash flows is required by interest rate benchmark reform if the following conditions are met:

- the change is necessary as a direct consequence of the reform; and
- the new basis for determining the contractual cash flows is economically equivalent to the previous basis – i.e. the basis immediately before the change.

If changes are made to a financial asset or financial liability in addition to changes to the basis for determining the contractual cash flows required by interest rate benchmark reform, then the Group first updates the effective interest rate of the financial asset or financial liability to reflect the change that is required by interest rate benchmark reform. After that, the Group applies the policies on accounting for modifications set out above to the additional changes

Offsetting of financial assets and financial liabilities

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

Impairment of financial assets

The Group records impairment of financial assets as follows:

Impairment of financial assets classified as credit facilities

Impairment of financial assets classified as credit facilities is recorded as the higher of ECL on credit facilities computed under IFRS 9 in accordance to the CBK guidelines or the provisions as required by the CBK instructions. Credit facilities consists of loans and advances to customers, non-cash credit facilities in the form of bank guarantees, letters of guarantee, documentary letters of credit, bank acceptances, undrawn cash and non-cash credit facilities (revocable and irrevocable).

Impairment of financial assets other than credit facilities

Impairment of financial assets other than credit facilities is computed under IFRS 9 in accordance to the CBK guidelines. These financial assets comprise of investments in debt securities measured at amortised cost or FVOCI and on balances and deposits with banks. Equity investments are not subject to ECL.

BURGAN BANK GROUP

Notes to the Consolidated Financial Statements **At 31 December 2021**

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Instruments (continued)

Impairment of financial assets (continued)

Expected credit losses under IFRS 9 as per the CBK guidelines

The Group has established a policy to perform an assessment at the end of each reporting period of whether there has been a significant increase in credit risk since initial recognition by considering the change in the risk of default occurring over the remaining life of the financial instrument. ECL are estimated based on the present value of all cash shortfalls over the remaining expected life of the financial asset, i.e., the difference between:

- The contractual cash flows that are due to the Group under the contract; and
- The cash flows that the Group expects to receive, discounted at the effective interest rate of the credit facility.

The Group applies a three-stage approach to classify and measure the ECL on the financial assets classified as credit facilities, as described below:

Stage 1: 12-month ECL

For financial assets classified as credit facilities where there has not been any significant increase in credit risk since their initial recognition or those credit facilities which are determined to have a low credit risk at the reporting date, the Group classifies these facilities under Stage 1 and measures the loss allowance which is a result of defaults that are expected to arise over the next 12 months ("12-month ECL") on these financial assets.

Stage 2: Lifetime ECL – not credit impaired

For financial assets classified as credit facilities where there has been a significant increase in credit risk since initial recognition but are not credit impaired, the Group classifies these facilities under Stage 2 and measures loss allowance which is a result of defaults that are expected to arise over the lifetime ("Lifetime ECL") on these financial assets.

Stage 3: Lifetime ECL – credit impaired

For financial assets classified as credit facilities which are in default and credit impaired, the Group classifies these facilities under Stage 3 and measures loss allowance at an amount equal to 100% of net exposure i.e. exposure after deduction of eligible collateral.

Staging of credit facilities

The Group continuously monitors all financial assets classified as credit facilities and applies a series of absolute thresholds and other criteria to determine the staging. All financial assets classified as credit facilities that are more than 30 days past due are deemed to have significant increase in credit risk since initial recognition and are classified under Stage 2. All rescheduled credit facilities are classified under the Stage 2, unless it qualifies for Stage 3. The Group also applies other criteria to determine a significant increase in credit risk for financial assets, such as:

- Deterioration in the customer rating of the borrower indicating default;
- A material decrease in the underlying collateral value where the recovery of the loan is expected from the sale of the collateral;
- A material deterioration in the customer's financial position in the opinion of the Group causing concerns on the repayment ability;
- A material covenant breach in a committed facility;
- Filing for bankruptcy or liquidation;
- Downgrade in the facility's credit rating by 2 grades for the facilities with Investment Grade rating and by 1 grade for those with Non-Investment Grade rating.

Except for consumer and instalment credit facilities, transfer of credit facility from Stage 2 to Stage 1 is made after a curing period of 12 months from the satisfaction of all conditions that triggered classification of the credit facility to Stage 2.

BURGAN BANK GROUP

Notes to the Consolidated Financial Statements **At 31 December 2021**

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Instruments (continued)

Impairment of financial assets (continued)

Expected credit losses under IFRS 9 as per the CBK guidelines (continued)

Definition of default

The Group considers a financial asset to be in default and therefore, Stage 3 (credit impaired) when:

- The borrower is past due for more than 90 days on its credit obligation to the Group;
- The borrower is facing significant financial difficulty;
- The borrower is assessed as credit impaired based on internal qualitative and quantitative assessment; or
- Other indicators such as breach of covenants, customer being deceased etc.

The Group assesses whether objective evidence of impairment exists on an individual basis for each individually significant asset and collectively for others not deemed individually significant.

Measurement of ECL

ECL are probability weighted estimates of credit losses and are measured as the present value of all cash shortfalls discounted at the effective interest rate of the financial instrument. Cash shortfall represent the difference between cashflows due to the Group in accordance with the contract and the cashflows that the Group expects to receive. The key elements in the measurement of ECL includes exposure at default, probability of default and loss given default.

The Exposure at Default (“EAD”) is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including expected drawdowns on committed facilities, repayments of principal and interest, whether scheduled by contract or otherwise. In addition, Group also complies with the CBK guidelines with respect to application of credit conversion factors.

The Probability of Default (“PD”) is an estimate of the likelihood of default over a given time horizon. For credit facilities other than retail, Through-The-Cycle PD (“TTC PD”) are generated from the rating tool based on internal / external credit ratings. The Group converts the TTC PD to Point In Time (“PIT”) PD term structure using appropriate models and techniques. The Group assesses the PD for it’s Retail portfolio through behavioural scorecards using logistic regression techniques. In addition, the Group also complies with the CBK guidelines with respect to minimum PD.

The Loss Given Default (“LGD”) is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD. In addition, Group also complies with the CBK guidelines with respect to eligible collateral and minimum hair-cuts.

The maximum period for which the credit losses are determined is the contractual life of a financial asset, including credit cards and other revolving facilities unless the Group has the legal right to call it earlier except for financial assets in Stage 2 where the maturity is determined in accordance to the CBK guidelines.

Incorporation of forward looking information

The Group incorporates forward-looking economic inputs that are relevant to the region in which the Group is located, for both its assessment of significant increase in credit risk and its measurement of ECL. Qualitative overlays are made as and when necessary to correctly reflect the impact of the movement in the relevant economy on the Group. Incorporating forward-looking information increases the degree of judgement required. The methodologies and assumptions including any forecasts of future economic conditions are reviewed regularly.

Renegotiated credit facilities

In the event of a default, the Group seeks to restructure credit facilities with customers rather than take possession of the collaterals. This may involve extending the payment arrangements and the agreement of new financing conditions. When the credit facilities with customers have been renegotiated or modified but not derecognised, any impairment is measured using the original effective interest rate method as calculated before the modification of terms. Management continually reviews renegotiated credit facilities to ensure that all criteria are met and that future payments are likely to occur.

BURGAN BANK GROUP

Notes to the Consolidated Financial Statements At 31 December 2021

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Instruments (continued)

Impairment of financial assets (continued)

Expected credit losses under IFRS 9 as per the CBK guidelines (continued)

Write-offs

Financial assets are written off either partially or in their entirety only when there is no realistic prospect of recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount.

Provisions for credit losses in accordance with the CBK instructions

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

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

Derivative financial instruments

The Group makes use of derivative instruments to manage exposures to interest rate, foreign currency and credit risks.

Where derivative contracts are entered into by specifically designating such contracts as a fair value hedge or a cash flow hedge of a recognised asset or liability, the Group accounts for them using hedge accounting principles, provided certain criteria are met. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

For derivative contracts that do not qualify for hedge accounting, any gains or losses arising from changes in fair value of the derivative contract are taken directly to the consolidated statement of income.

Hedge accounting

For the purposes of hedge accounting, hedges are classified into two categories: (a) fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment; and (b) cash flow hedges, when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or a foreign currency risk in an unrecognised firm commitment.

When a financial instrument is designated as a hedge, the Group formally documents the relationship between the hedging instrument and hedged item, as well as, its risk management objectives and its strategy for undertaking the various hedging transactions. The Group also document its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows attributable to the hedge risk.

The Group discontinues hedge accounting when the following criteria are met:

- it is determined that the hedging instrument is not, or has ceased to be, highly effective as a hedge;
- the hedging instrument expires, or is sold, terminated, or exercised;
- the hedged item matures or is sold or repaid; or
- a forecast transaction is no longer deemed highly probable.

BURGAN BANK GROUP

Notes to the Consolidated Financial Statements **At 31 December 2021**

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derivative financial instruments (continued)

Hedge accounting (continued)

Fair value hedges

The changes in fair value of the hedging instrument that qualify and is designated as fair value hedge is recorded in the consolidated statement of income, together with changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

If the hedge accounting is discontinued, the fair value adjustment to the hedged item is amortised to the consolidated statement of income over the period to maturity of the previously designated hedge relationship using the effective interest rate.

If the hedged item is derecognised, the unamortised fair value is recognised immediately in the consolidated statement of income.

When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in consolidated statement of income.

Cash flow hedges

For qualifying cash flow hedges, the fair value gain or loss associated with the effective portion of the cash flow hedge is recognised initially in OCI and transferred to the consolidated statement of income in the periods when the hedged transaction affects consolidated statement of income. Any ineffective portion of the gain or loss on the hedging instrument is recognised immediately in the consolidated statement of income.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in other comprehensive income at that time remains in other comprehensive income and is recognised when the hedged forecast transaction is ultimately recognised in the consolidated statement of income. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was recognised in other comprehensive income is immediately transferred to the consolidated statement of income.

Hedge of net investment in a foreign operation

Hedges of net investments in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a way similar to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised in other comprehensive income while any gains or losses relating to the ineffective portion are recognised in the consolidated statement of income. On disposal of the foreign operation, the cumulative value of any such gains or losses recognised in other comprehensive income is transferred to the consolidated statement of income.

Fair value measurement

The Group measures financial instruments, such as, derivatives, investment securities etc., at each reporting date. 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 the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

BURGAN BANK GROUP

Notes to the Consolidated Financial Statements **At 31 December 2021**

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair value measurement (continued)

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For financial instruments quoted in an active market, fair value is determined by reference to quoted market prices. Bid prices are used for assets and offer prices are used for liabilities. The fair value of investments in mutual funds, unit trusts or similar investment vehicles are based on the last published net assets value.

For unquoted financial instruments fair value is determined by reference to the market value of a similar investment, discounted cash flows, other appropriate valuation models or brokers' quotes.

For financial instruments carried at amortised cost, the fair value is estimated by discounting future cash flows at the current market rate of return for similar financial instruments.

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 of 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.

For the purpose of fair value disclosure, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Assets pending sale

The Group occasionally acquires non-monetary assets in settlement of certain loans and advances. Such assets are stated at the lower of the carrying value of the related loans and advances and the current fair value of such assets. Gains or losses on disposal, and revaluation losses, are recognised in the consolidated statement of income.

Investment in associates

The Group's investment in its associates is accounted for using the equity method. An associate is an entity in which the Group has significant influence. 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.

Under the equity method, the investment in associates is carried in the consolidated statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The consolidated statement of income reflects the share of the results of operations of the associate. Where there has been a change recognised directly in the other comprehensive income of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the statement of changes in shareholders' equity. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The Group's share of profit of an associate is shown on the face of the consolidated statement of income. This is the profit attributable to equity holders of the associate and therefore, is profit after tax and non-controlling interests in the subsidiaries of the associate.

BURGAN BANK GROUP

Notes to the Consolidated Financial Statements **At 31 December 2021**

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investment in associates (continued)

The financial statements of the associate are prepared for the same reporting period as the Group. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its associate. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the consolidated statement of income.

Upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retaining investment and proceeds from disposal is recognised in consolidated statement of income.

Disposal group held for sale

The Group classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the disposal of an asset (disposal group), excluding finance costs and income tax expense.

The criteria for held for sale classification is regarded as met, only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. Management must be committed to the plan to sell the asset and the sale expected to be completed within one year from the date of the classification.

Assets and liabilities classified as held for sale are presented separately as current items in the consolidated statement of financial position.

A disposal group qualifies as discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale, and:

- Represents a separate major line of business or geographical area of operations;
- Is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- Is a subsidiary acquired exclusively with a view to resale.

Property and equipment

Property and equipment are stated at cost less accumulated depreciation and impairment losses. Depreciation is provided on all property and equipment, other than freehold land, at rates calculated to write off the cost of each asset on a straight line basis to their residual values over its estimated useful life. Freehold land is stated at cost less impairment losses.

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

Buildings	20 to 35 years
Furniture and equipment	4 to 11 years
Motor vehicles	3 to 7 years
Computers	5 years

When assets are sold or retired, their cost and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is recognised in the consolidated statement of income.

BURGAN BANK GROUP

Notes to the Consolidated Financial Statements

At 31 December 2021

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and equipment (continued)

The carrying amounts of property and equipment are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the assets are written down to their recoverable amounts and the impairment loss is recognised in the consolidated statement of income.

Expenditure incurred to replace a component of an item of property and equipment that is accounted for separately is capitalised and the carrying amount of the component that is replaced is written off. Other subsequent expenditure is capitalised only when it increases future economic benefits of the related item of property and equipment. All other expenditure is recognised in the consolidated statement of income as the expense is incurred.

Intangible assets

Intangible assets represent separately identifiable non-monetary assets without physical substance arising from business combinations. Intangible assets are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed as finite.

Intangible assets with finite lives are amortised over the useful economic life, as mentioned below, and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful economic life is reviewed at least at each reporting date. Changes in the expected useful economic life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the consolidated statement of income under “other expenses” consistent with the function of the intangible asset.

Amortisation is calculated using the straight-line method to write down the cost of intangible assets over their estimated useful economic lives as follows:

Banking license	10 to 30 years
Customer relationships and core customer deposits	5 to 10 years

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated statement of income when the asset is derecognised. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset’s recoverable amount since the last impairment loss was recognised.

Leases

At inception of a contract, the Group assesses whether the contract is a lease. A contract is a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for a consideration. If the contract is identified as a lease, the Group recognises a right-of-use asset and a lease liability at the lease commencement date. The Group elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and lease contracts for which the underlying asset is of low value.

Right-of-use assets

The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred. The right-of-use asset is subsequently depreciated using the straight-line method over the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any. The Group presents right-of-use assets in ‘premises and equipment’ in the consolidated statement of financial position.

BURGAN BANK GROUP

Notes to the Consolidated Financial Statements **At 31 December 2021**

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (continued)

Lease liabilities

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the Group's incremental borrowing rate. The lease liability is subsequently measured at amortised cost using the effective interest rate method. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, or a change in the lease payments. The Group presents lease liabilities in 'other liabilities' in the consolidated statement of financial position.

Business combinations and goodwill

A business combination is the bringing together of separate entities or businesses into one reporting entity as a result of one entity, the acquirer, obtaining control of one or more other businesses. The acquisition method of accounting is used to account for business combinations. Under this method, the acquirer recognises, separately from goodwill, identifiable assets acquired, liabilities assumed and any non-controlling interests in the acquiree at the acquisition date.

The identifiable assets acquired and the liabilities assumed at the acquisition date are measured at fair values. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed in the period in which they are incurred.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through the consolidated statement of income. It is then considered in the determination of goodwill.

Goodwill arising in a business combination is recognised as of the acquisition date as the excess of :

- a) the aggregate of the consideration transferred, the amount of any non-controlling interests in the acquiree measured at fair value or at the non-controlling interest's proportionate share of the acquiree's;
- b) identifiable net assets and the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree; over
- c) the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed measured at their fair values.

If the aggregate consideration transferred is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in consolidated statement of income.

Goodwill is allocated to each of the Group's cash-generating units or for groups of cash-generating units and is tested annually for impairment and is assessed regularly whether there is any indication of impairment. Goodwill impairment is determined by assessing the recoverable amount of cash-generating unit to which goodwill relates.

The recoverable value is the higher of the fair value less costs to sell and its value in use of the cash-generating unit, which is the net present value of estimated future cash flows expected from such cash-generating unit. If the recoverable amount of cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit prorated on the basis of the carrying amount of each asset in the unit. Any impairment loss recognised for goodwill is not reversed in the subsequent period.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operations within that unit is disposed off, the goodwill associated with the operation disposed off is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation.

BURGAN BANK GROUP

Notes to the Consolidated Financial Statements

At 31 December 2021

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

End of service benefits

Provision is made under the Kuwait Labour Law, employee contracts and respective applicable laws in the countries where the subsidiaries operate. This liability, which is unfunded, represents the amount payable to each employee and is a reliable approximation of the present value of the obligation as at the reporting date. The Group also makes contributions to State plans and the obligation is limited to the contributions made.

Treasury shares

The Bank's holding in its own shares is stated at acquisition cost and is recognised in shareholders' equity. Treasury shares are accounted for using the cost method. Under this method, the weighted average cost of the shares reacquired is charged to a contra account in the equity. When the treasury shares are reissued, gains are credited to a separate account in equity, "treasury shares reserve", which is not distributable.

Any realised losses are recognised in the same account to the extent of the credit balance on that account. Any excess losses are recognised in retained earnings then to the voluntary reserve and statutory reserve. Gains realised subsequently on the sale of treasury shares are first used to offset any previously recorded losses in the order of reserves, retained earnings and the treasury shares reserve account. These shares are not entitled to any cash dividend that the Bank may propose. The issue of bonus shares increases the number of shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

Share based compensation

The Group operated an equity settled share based compensation plan. The cost of share based compensation transactions with employees is measured by reference to the fair value at the date on which they are granted. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options or shares on the date of grant using the Black Scholes model. Measurement inputs include share price on grant date, exercise price, volatility, risk free interest rate and expected dividend yield. At each reporting date, the Group revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the consolidated statement of income, with a corresponding adjustment to equity.

Other reserve

Other reserve is used to record the effect of changes in ownership interest in subsidiaries, without loss of control, changes in fair value of cash flow hedges, hedge of net investments in foreign operations and other comprehensive income from disposal group held for sale.

Revenue recognition

Interest and similar income and expense

Interest income and expense are recognised in the consolidated statement of income for all financial instruments measured at amortised cost, interest bearing assets classified as FVOCI and financial instruments designated at fair value through profit or loss using effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future cash flows through the expected life of the financial instrument or, a shorter period, when appropriate, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, all fees and points paid or received between parties to the contract, transaction costs and all other premiums or discounts are considered, but not future credit losses.

Once a financial instrument is impaired, interest is thereafter recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

When the Group enters into an interest rate swap to change interest from fixed to floating (or vice versa) the amount of interest income or expense is adjusted by the net interest on the effective portion of the swap. All fees paid or received are treated as an integral part of the effective interest rate of financial instruments and are recognised over the contractual period, except when the underlying risk is sold to a third party, at which time it is recognised immediately.

BURGAN BANK GROUP

Notes to the Consolidated Financial Statements **At 31 December 2021**

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (continued)

Fee and commission income

Fee and commission earned for providing services over a period of time are accrued over that period. These fees include credit related fee and other management fees. Loan commitment fee and originating fee that are an integral part of the effective interest rate of a loan are recognised (together with any incremental cost) as an adjustment to the effective interest rate on loan. Fee and commission income where the Group provides specific services are recognised at a point in time upon providing the service.

Dividend income

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

Government grants

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

Foreign currency

Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transaction and balances

Transactions in foreign currencies are initially recorded at the spot rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the spot rate of exchange ruling at the reporting date. Any resultant gains or losses are recognised in the consolidated statement of income.

Non-monetary assets and liabilities in foreign currencies that are stated at fair value are translated to respective entity's functional currency at the foreign exchange rates ruling on the dates that the values were determined. In case of non-monetary assets whose change in fair values are recognised directly in OCI, foreign exchange differences are recognised directly in OCI and for non-monetary assets whose change in fair value are recognised directly in the consolidated statement of income, foreign exchange differences are recognised in the consolidated statement of income.

Group companies upon consolidation

As at the reporting date, the assets and liabilities of subsidiaries are translated into the Bank's presentation currency (i.e. "KD") at the rate of exchange ruling on the reporting date, and their statements of income are translated at the average exchange rates for the year. Exchange differences arising on translation are taken directly to OCI. On disposal of a foreign subsidiary, the deferred cumulative amount recognised in OCI relating to that particular subsidiary is recognised in the consolidated statement of income.

Any goodwill or fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the respective subsidiaries and translated at the rate of exchange ruling on the reporting date.

Taxation

National Labour Support Tax (NLST)

The Bank calculates the NLST in accordance with Law No. 19 of 2000 and the Ministry of Finance Resolution No. 24 of 2006 at 2.5% of taxable profit for the year. As per law, cash dividends from listed companies which are subjected to NLST have been deducted from the profit for the year.

Contribution to Kuwait Foundation for the Advancement of Sciences (KFAS)

The Bank calculates the contribution to KFAS at 1% of the profit in accordance with the calculation based on the Foundation's Board of Directors' resolution.

Zakat

Contribution to Zakat is calculated at 1% of the profit of the Bank in accordance with Law No. 46 of 2006 and the Ministry of Finance resolution No. 58/2007 effective from 10 December 2007.

BURGAN BANK GROUP

Notes to the Consolidated Financial Statements **At 31 December 2021**

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxation (continued)

Taxation on overseas subsidiaries

Taxation on overseas subsidiaries is calculated on the basis of the tax rates applicable and prescribed according to the prevailing laws, regulations and instructions of the countries where these subsidiaries operate. Income tax payable on taxable profit ('current tax') is recognised as an expense in the period in which the profits arise in accordance with the fiscal regulations of the respective countries in which the Group operates.

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except when the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Deferred tax assets and liabilities are measured using tax rates and applicable legislation at the reporting date.

Segment information

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

Contingencies

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

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

Fiduciary assets

Assets and related deposits held in trust or in a fiduciary capacity are not treated as assets or liabilities of the Group and accordingly, are not included in the consolidated statement of financial position.

BURGAN BANK GROUP

Notes to the Consolidated Financial Statements **At 31 December 2021**

2.5 STANDARDS ISSUED BUT NOT YET EFFECTIVE

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

- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37);
- Annual Improvements to IFRS Standards 2018-2020;
- Property Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16);
- Reference to the Conceptual Framework (Amendments to IFRS 3);
- Classification of Liabilities as Current or Non-current (Amendments to IAS 1);
- IFRS 17 Insurance Contracts and amendments to IFRS 17 Insurance Contracts;
- Disclosure of Accounting Estimates ((Amendments to IAS 8);
- Deferred Tax related to Assets And Liabilities arising from a Single Transaction (Amendments to IAS 12); and
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28).

2.6 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures, as well as, the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Judgments

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the consolidated financial statements:

Classification of financial assets

The Group determines the classification of financial assets based on the assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding.

Deferred tax assets

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that future taxable profits will be available against which the losses can be utilised. Judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax planning strategies.

Significant judgement in determining the lease term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The following are the critical judgments in the application of IFRS 16, apart from those involving estimations, that the management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements:

- identifying whether a contract (or part of a contract) includes a lease;
- determining whether it is reasonably certain that an extension or termination option will be exercised; and
- classification of lease arrangements (when the entity is a lessor).

BURGAN BANK GROUP

Notes to the Consolidated Financial Statements

At 31 December 2021

2.6 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Hedge of net investment in foreign operations

The management exercises judgement to determine the amount of net assets of the subsidiary to be hedged (also called as hedge ratio) based on the future expected changes in the functional currency exchange rate movements of the subsidiary, hedge cost and forward exchange rate and its impact on the group's net assets.

Estimation uncertainty and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use or fair value less cost to sell of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

Fair value of assets and liabilities including intangible assets

Considerable judgement by management is required in the estimation of the fair value of the assets including intangible assets with finite useful life, liabilities and contingent liabilities acquired.

Impairment losses on loans and advances

Considerable judgement by management is required in the estimation of the amount and timing of future cash flows, collateral values, significant increase in credit risk, rating models, ECL models, macro economic variables when determining the level of provisions required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty, and actual results may differ resulting in future changes to such provisions.

Fair value measurement of financial instruments

When the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the discounted cash flows model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Any changes in these estimates and assumptions, as well as, the use of different, but equally reasonable estimates and assumptions may have an impact on carrying amounts of loans and receivables and investments at FVOCI.

BURGAN BANK GROUP

Notes to the Consolidated Financial Statements At 31 December 2021

3. CASH AND CASH EQUIVALENTS

	<i>2021</i> <i>KD 000's</i>	<i>2020</i> <i>KD 000's</i>
Cash on hand and in current account with banks and OFIs	409,283	359,202
Balances with the CBK	165,839	260,575
Due from banks and OFIs maturing within thirty days	246,502	199,724
	821,624	819,501
Expected credit losses	(16)	(24)
Cash and cash equivalents as per consolidated statement of financial position	821,608	819,477
Cash and cash equivalents attributable to disposal group held for sale (Note 9)	149,967	145,086
Cash and cash equivalents as per consolidated statement of cash flows	971,575	964,563

4. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	<i>2021</i> <i>KD 000's</i>	<i>2020</i> <i>KD 000's</i>
Loans and advances		
- Banks	20,111	39,524
- Other financial institutions (OFIs)	196,762	185,658
	216,873	225,182
Deposits with banks	139,439	269,416
Gross due from banks and OFIs	356,312	494,598
Provision (Note 5)	(24,945)	(24,831)
Expected credit losses	(43)	(250)
	331,324	469,517

5. LOANS AND ADVANCES TO CUSTOMERS

a) Balances

	<i>2021</i> <i>KD 000's</i>	<i>2020</i> <i>KD 000's</i>
Corporate	4,069,684	4,222,038
Retail	366,573	364,094
Gross loans and advances to customers	4,436,257	4,586,132
Provision	(157,548)	(241,074)
	4,278,709	4,345,058

b) Provisions

	<i>Banks and OFIs KD 000's</i>	<i>Corporate KD 000's</i>	<i>Retail KD 000's</i>	<i>Total KD 000's</i>
At 1 January 2021	25,368	240,151	15,858	281,377
Exchange adjustment	(2)	(10,720)	(167)	(10,889)
Amounts written off	-	(141,763)	(5,310)	(147,073)
Charged to consolidated statement of income	27	80,628	3,981	84,636
Transferred to disposal group held for sale (Note 9)	-	(6,419)	-	(6,419)
At 31 December 2021	25,393	161,877	14,362	201,632

BURGAN BANK GROUP

Notes to the Consolidated Financial Statements At 31 December 2021

5. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

	<i>Banks and OFIs KD 000's</i>	<i>Corporate KD 000's</i>	<i>Retail KD 000's</i>	<i>Total KD 000's</i>
At 1 January 2020	24,766	213,657	14,018	252,441
Exchange adjustment	(6)	103	(257)	(160)
Amounts written off	(510)	(36,566)	(3,099)	(40,175)
Charged to consolidated statement of income	1,118	70,328	4,970	76,416
Transferred to disposal group held for sale (Note 9)	-	(7,371)	226	(7,145)
At 31 December 2020	<u>25,368</u>	<u>240,151</u>	<u>15,858</u>	<u>281,377</u>

The provision includes KD 19,139 thousand (2020: KD 15,472 thousand), being provision for non-cash facilities reported under other liabilities (Note 11), of which KD 448 thousand (2020: KD 537 thousand) relates to due from Banks and OFIs.

The impairment provision for credit facilities complies in all material respects with the specific provision requirements of the CBK and IFRS. In March 2007, the CBK issued a circular amending the basis of making minimum general provisions on facilities changing the rate from 2% to 1% for cash facilities and 0.5% for non cash facilities. The revised rates are applied effective from 1 January 2007 on the net increase in facilities, net of certain restricted categories of collateral during the reporting period. The general provision as of 31 December 2006 in excess of the present 1% for cash facilities and 0.5% for non cash facilities amounts to KD 16,154 thousand and is retained as a general provision until further directive from the CBK. Interest income on impaired loans and advances is immaterial.

During the year, the Group recovered KD 13,422 thousand (2020: KD 8,160 thousand) from customers whose balances were written off and recorded the same under other income in the consolidated statement of income.

The breakup of specific and general provision is as follows:

	<i>2021 KD 000's</i>	<i>2020 KD 000's</i>
General provision	181,579	255,659
Specific provision	20,053	25,718
	<u>201,632</u>	<u>281,377</u>

An analysis of the gross carrying amounts of credit facilities, commitments and contingent liabilities, and the corresponding ECL based on the staging criteria under IFRS 9 in accordance with the CBK guidelines is as follows:

<i>31 December 2021</i>	<i>Stage 1 KD 000's</i>	<i>Stage 2 KD 000's</i>	<i>Stage 3 KD 000's</i>	<i>Total KD 000's</i>
High	496,252	977	-	497,229
Standard	3,334,541	581,615	-	3,916,156
Past due or impaired	9,135	150,879	79,731	239,745
Loans and advances to Banks, OFIs and customers	<u>3,839,928</u>	<u>733,471</u>	<u>79,731</u>	<u>4,653,130</u>
Contingent liabilities*	<u>2,265,073</u>	<u>199,110</u>	<u>14,721</u>	<u>2,478,904</u>
ECL allowance for credit facilities	<u>27,873</u>	<u>55,672</u>	<u>47,920</u>	<u>131,465</u>

BURGAN BANK GROUP
Notes to the Consolidated Financial Statements
At 31 December 2021
5. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

<i>31 December 2020</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>
High	567,928	5,591	-	573,519
Standard	3,072,937	692,308	-	3,765,245
Past due or impaired	51,622	222,678	198,250	472,550
Loans and advances to Banks, OFIs and customers	3,692,487	920,577	198,250	4,811,314
Contingent liabilities*	2,266,893	294,124	5,956	2,566,973
ECL allowance for credit facilities	52,962	99,591	100,162	252,715

*including commitments to extend non-cash facilities.

The weightings assigned to each macro-economic scenario are based on the credit cycle index, and as at 31 December 2021, were 40% to the Base Case 30% to Downside and 30% to the Upside Case. (2020: 40% to the Base Case, 30% to Downside and 30% to the Upside Case)

An analysis of the changes in the ECL in relation to loans and advances to customers (cash and non-cash facilities) computed under IFRS 9 in accordance with the CBK guidelines is as follows:

	<i>31 December 2021</i>			
	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>
ECL allowance as at 1 January 2021	52,962	99,591	100,162	252,715
ECL movement for the year	(23,497)	(30,080)	125,458	71,881
Amounts written off	-	-	(147,073)	(147,073)
Foreign exchange adjustments	(1,592)	(13,839)	(30,627)	(46,058)
Balance at 31 December 2021	27,873	55,672	47,920	131,465
	<i>31 December 2020</i>			
	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>
ECL allowance as at 1 January 2020	28,370	103,516	62,814	194,700
ECL movement for the year	26,008	6,637	87,921	120,566
Amounts written off	-	-	(40,175)	(40,175)
Foreign exchange adjustments	(1,416)	(10,562)	(10,398)	(22,376)
Balance at 31 December 2020	52,962	99,591	100,162	252,715

BURGAN BANK GROUP
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At 31 December 2021
6. INVESTMENT SECURITIES
As at 31 December 2021

	<i>FVOCI</i> <i>KD 000's</i>	<i>FVTPL</i> <i>KD 000's</i>	<i>Amortised</i> <i>cost</i> <i>KD 000's</i>	<i>Associate</i> <i>KD 000's</i>	<i>Total</i> <i>KD 000's</i>
Debt securities	271,487	3,033	119,427	-	393,947
Equity securities	155,884	13,029	-	4,579	173,492
Managed Funds	-	82,441	-	-	82,441
Less: Expected credit losses	-	-	(614)	-	(614)
	<u>427,371</u>	<u>98,503</u>	<u>118,813</u>	<u>4,579</u>	<u>649,266</u>

As at 31 December 2020

	<i>FVOCI</i> <i>KD 000's</i>	<i>FVTPL</i> <i>KD 000's</i>	<i>Amortised</i> <i>cost</i> <i>KD 000's</i>	<i>Associate</i> <i>KD 000's</i>	<i>Total</i> <i>KD 000's</i>
Debt securities	250,104	2,938	86,205	-	339,247
Equity securities	161,871	19,794	-	4,314	185,979
Managed Funds	-	66,739	-	-	66,739
Less: Expected credit losses	-	-	(297)	-	(297)
	<u>411,975</u>	<u>89,471</u>	<u>85,908</u>	<u>4,314</u>	<u>591,668</u>

Associate of the Group:

<i>Name of company</i>	<i>Principal activities</i>	<i>Country of incorporation</i>	<i>Effective interest as at 31 December 2021</i>	<i>Effective interest as at 31 December 2020</i>
First Real Estate Investment Company K.S.C. (Closed) ("FREICO")	Investing in Real Estate	Kuwait	19.8%	19.8%

7. OTHER ASSETS

	<i>2021</i> <i>KD 000's</i>	<i>2020</i> <i>KD 000's</i>
Accrued interest receivable	110,993	83,650
Prepaid expenses	3,051	2,799
Assets pending sale *	98,836	50,965
Deferred tax assets	5,250	5,293
Taxation paid in advance	3,496	4,533
Sundry debtors	9,375	11,199
Other balances	46,712	57,491
Less: Expected credit losses	(151)	(161)
	<u>277,562</u>	<u>215,769</u>

*The fair value of real estate assets included in assets pending for sale are based on valuations performed by accredited independent valuers by using market comparable method. However, the impact on the consolidated statement of income would be immaterial if the relevant risk variables used to fair value were altered by 5%.

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Notes to the Consolidated Financial Statements
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8. INTANGIBLE ASSETS

	<i>Goodwill</i> <i>KD 000's</i>	<i>Other intangible</i> <i>assets</i> <i>KD 000's</i>	<i>Total</i> <i>KD 000's</i>
Cost			
At 1 January 2021	8,203	39,341	47,544
Exchange adjustment	(167)	712	545
At 31 December 2021	8,036	40,053	48,089
Amortisation			
At 1 January 2021	-	27,200	27,200
Charge for the year	-	2,477	2,477
At 31 December 2021	-	29,677	29,677
Net book value			
At 31 December 2021	8,036	10,376	18,412
At 31 December 2020	8,203	12,141	20,344

The carrying amounts of goodwill and other intangible assets allocated to each CGU are as follows:

	<i>Other intangible assets</i> <i>KD 000's</i>					<i>Total</i> <i>KD 000's</i>
	<i>Goodwill</i> <i>KD 000's</i>	<i>Banking</i> <i>license</i>	<i>Customer</i> <i>relationships</i>	<i>Core</i>	<i>Total</i>	
				<i>customer</i> <i>deposits</i>		
AGB	2,834	5,196	-	-	5,196	8,030
TIB	5,202	5,033	-	-	5,033	10,235
BBT	-	-	130	17	147	147
At 31 December 2021	8,036	10,229	130	17	10,376	18,412
	<i>Other intangible assets</i> <i>KD 000's</i>					<i>Total</i> <i>KD 000's</i>
	<i>Goodwill</i> <i>KD 000's</i>	<i>Banking</i> <i>license</i>	<i>Customer</i> <i>relationships</i>	<i>Core</i>	<i>Total</i>	
				<i>customer</i> <i>deposits</i>		
AGB	2,988	5,887	-	-	5,887	8,875
TIB	5,215	5,693	-	-	5,693	10,908
BBT	-	-	499	62	561	561
At 31 December 2020	8,203	11,580	499	62	12,141	20,344

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Notes to the Consolidated Financial Statements At 31 December 2021

8. INTANGIBLE ASSETS (CONTINUED)

Impairment testing of goodwill

The carrying value of goodwill is tested for impairment on an annual basis (or more frequently if evidence exists that goodwill might be impaired) by estimating the recoverable amount of the cash-generating unit ("CGU") to which these items are allocated using value-in-use calculations unless fair value based on active market price is higher than the carrying value of the CGU. The value in use calculations use pre-tax cash flow projections based on financial budgets approved by management over a five years period and a relevant terminal growth rate of 5% (2020: 5%). These cash flows were then discounted using a pre-tax discount rate of 18% to 25% (2020: 18% to 28%) to derive a net present value which is compared to the carrying value. The discount rate used is pre-tax and reflects specific risks relating to the relevant CGU. The recoverable amounts are either higher or approximates the carrying value of goodwill. The Group has also performed a sensitivity analysis by varying these input factors by a reasonable possible margin. Based on such analysis, there are no indications that goodwill is impaired considering the level of judgments and estimations used.

9. DISPOSAL GROUP HELD FOR SALE

The Group owns 51.79% equity interest in Bank of Baghdad ("BoB"). The investment in BoB was initially classified as disposal group held for sale on 30 October 2019, based on approval from the Board of Directors of the Bank. However, during 2020, the sale of BoB was cancelled due to the challenging macroeconomic environment caused by the COVID-19 pandemic. Accordingly, the investment in BoB was re-classified as a subsidiary as at 30 June 2020.

BoB was re-classified as disposal group held for sale as at 31 December 2020, based on approval from the Board of Directors, as the Bank had the intention to sell the investment in BoB and was actively looking for buyers and is carried at lower of carrying value or fair value less cost to sale in accordance with IFRS 5- *Non-current Assets Held for Sale and Discontinued Operations*. This resulted in an impairment loss in the previous year of KD 688 thousand recorded through other income in consolidated statement of income.

The results for the year are presented below:

	2021 KD 000's	2020 KD 000's
Interest income	4,193	4,237
Interest expense	(1,440)	(1,291)
Net interest income	2,753	2,946
Fee and commission income	10,036	6,918
Fee and commission expense	(467)	(904)
Net fee and commission income	9,569	6,014
Net gain from foreign currencies	4,571	4,275
Other income	69	1,738
Operating income	16,962	14,973
Staff expenses	(3,054)	(3,436)
Other expenses	(2,485)	(3,128)
Operating profit before provision	11,423	8,409
Provision for credit losses (Note 5-b)	(6,419)	(7,145)
Provision charge of other financial assets	-	(374)
Profit for the year before taxation	5,004	890
Taxation	(1,744)	(1,308)
Loss on remeasurement of disposal group held for sale	-	(688)
	3,260	(1,106)

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Notes to the Consolidated Financial Statements At 31 December 2021

9. DISPOSAL GROUP HELD FOR SALE (continued)

Assets and liabilities of disposal group classified as held for sale as at 31 December are, as follows:

	2021 KD 000's	2020 KD 000's
ASSETS		
Cash and cash equivalents (Note 3)	149,967	145,086
Treasury bills and bonds	83,814	35,959
Due from banks and other financial institutions	35,777	30,048
Loans and advances to customers	13,381	18,504
Investment securities	1,328	1,211
Other assets	4,486	1,963
Property and equipment	12,423	11,475
TOTAL ASSETS	301,176	244,246
LIABILITIES		
Due to banks	417	296
Deposits from customers	236,085	185,584
Other borrowed funds	337	353
Other liabilities	12,584	6,937
TOTAL LIABILITIES	249,423	193,170

	2021 KD 000's	2020 KD 000's
Net assets directly associated with disposal group	51,753	51,076
Loss on remeasurement of disposal group held for sale*	-	(688)
Attributable to:		
Equity holders of the Bank	-	(356)
Non-controlling interests	-	(332)

*Loss on remeasurement of disposal group held for sale is allocated to first to intangible assets and other non-current assets.

	2021 KD 000's	2020 KD 000's
The net cash flows are as follows:		
Net cash flows from (used in):		
- Operating activities	7,329	24,850
- Investment activities	(1,962)	(113)
- Financing activities	(14)	(45)
Net increase in cash and cash equivalents during the year	5,353	24,692

Material non-controlling interests

The management of the Bank has concluded that Bank of Baghdad "BoB" is the only subsidiary which has non-controlling interests that is material to the Group. The information relating to non-controlling interests is as follows:

	2021 KD 000's	2020 KD 000's
Accumulated balances	26,344	25,051
Profit (loss) attributable	1,572	(454)

BURGAN BANK GROUP

Notes to the Consolidated Financial Statements At 31 December 2021

10. OTHER BORROWED FUNDS

	<i>Effective interest rate</i>	<i>2021 KD 000's</i>	<i>2020 KD 000's</i>
Subordinated bonds – KWD 2026 (Fixed tranche)	6.00%	-	29,913
Subordinated bonds – KWD 2026 (Floating tranche capped at 7%)	CBK+3.95%	-	69,467
Euro Medium Term Note	3.125%	-	151,416
Senior unsecured fixed rate bonds	4.125%	-	99,862
Murabaha facility – unsecured 2024	3M Libor + (1.00% - 1.18%)	150,680	60,195
Subordinated bonds – 2031*	2.750%	150,498	150,755
Medium term borrowing – unsecured (2023-2026)	3M Libor + (1.00% - 1.40%)	321,305	117,488
		622,483	679,096

*During 2020, the Bank issued US\$500 million Subordinated Tier 2 Notes due in 2031 (the “Notes”) at the principal amount. The Notes meet the requirements to be treated as Tier 2 Capital under Basel III Regulations as adopted by the CBK. The Notes are callable in whole but not at part at the option of the issuer after 6 years from the date of their issuance, or on any interest payment date thereafter, subject to certain conditions being satisfied and the prior approval of the CBK.

Movement in other borrowed funds included in consolidated statements of cash flows under financing activities includes KD 714 thousand (2020: KD 136 thousand) arising from foreign currency translation.

11. OTHER LIABILITIES

	<i>2021 KD 000's</i>	<i>2020 KD 000's</i>
Accrued interest payable	31,516	38,985
Staff benefits	17,662	17,096
Provision for non-cash credit facilities (note 5)	19,139	15,472
Clearing cheques and balances	36,947	35,126
Income received in advance	10,445	10,373
Other payable and accruals	44,033	37,848
Deferred tax liabilities	196	294
Taxation payable	12,759	11,825
Other balances	53,071	71,681
	225,768	238,700

BURGAN BANK GROUP

Notes to the Consolidated Financial Statements At 31 December 2021

12. EQUITY AND RESERVES

- a) Authorised, issued and fully paid up capital of the Bank

	<i>2021</i>	<i>2020</i>
Authorised share capital (shares of 100 fils each)	4,000,000,000	4,000,000,000
Issued and fully paid up capital (shares of 100 fils each)	3,131,250,000	2,625,000,000

- b) On 6 June 2021, the Annual General Assembly approved the distribution of cash dividend of 5 fils per share (2019: 12 fils) and bonus share of 5% (2019: nil) for the year ended 31 December 2020.
- c) During the year, after obtaining necessary approvals, the Bank increased its paid up share capital through the issuance of rights issue of 375,000,000 shares, each with a nominal value of 100 fils and share premium of 90 fils. The rights issue has been fully subscribed resulting in an increase in share capital of KD 37,500 thousand and share premium of KD 33,750 thousand.
- d) The share premium and treasury shares reserve are not available for distribution. The Companies Law and the Bank's articles of association require that 10% of the profit for the year attributable to equity holders of the Bank before Board of Directors remuneration, NLST, KFAS and Zakat be transferred annually to statutory reserve. The Bank may resolve to discontinue such annual transfers when the reserve equals 50% of paid up share capital. Distribution of statutory reserve is limited to the amount required to enable the payment of dividend of 5% of share capital in years when accumulated profits are not sufficient for the payment of a dividend of that amount.
- e) The articles of association of the Bank requires an amount of not less than 10% of the profit for the year attributable to equity holders of the Bank before Board of Directors remuneration, NLST, KFAS and Zakat be transferred annually to the voluntary reserve. There is no restriction on distribution of this reserve, except as noted in note 12 (f).

- f) Treasury shares

	<i>2021</i>	<i>2020</i>
Number of shares held	4,811,693	4,577,228
Percentage of shares held	0.15%	0.17%
Cost KD 000's	1,742	1,742
Market value KD 000's	1,193	975
Weighted average market value per share (fils)	224	217

The balance in the treasury share reserve account is not available for distribution. An amount equal to the cost of treasury shares is not available for distribution from share premium, statutory reserve, voluntary reserve and retained earnings throughout the holding period of these treasury shares.

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Notes to the Consolidated Financial Statements
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12. EQUITY AND RESERVES (CONTINUED)

g) Other reserves attributable to the equity holders of the Bank:

	<i>2021</i>				
	<i>Hedge of net investment in foreign operations</i>	<i>Cash flow hedge reserve</i>	<i>Changes in ownership in subsidiaries</i>	<i>Reserve of disposal group held for sale</i>	<i>Total</i>
	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>
Balance at 1 January	13,145	2,295	(1,478)	(5,317)	8,645
Changes in fair value of cash flow hedge reserve	-	4,842	-	-	4,842
Gain on hedge of a net investment	9,362	-	-	-	9,362
Transfer related to disposal group held for sale (note 9)	-	-	-	(1,290)	(1,290)
Total comprehensive income (loss)	9,362	4,842	-	(1,290)	12,914
Balance at the end of the year	22,507	7,137	(1,478)	(6,607)	21,559
	<i>2020</i>				
	<i>Hedge of net investment in foreign operations</i>	<i>Cash flow hedge reserve</i>	<i>Changes in ownership in subsidiaries</i>	<i>Reserve of disposal group held for sale</i>	<i>Total</i>
	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>
Balance at 1 January	8,583	579	(1,478)	990	8,674
Changes in fair value of cash flow hedge reserve	-	1,716	-	-	1,716
Gain on hedge of a net investment	4,562	-	-	-	4,562
Transfer related to disposal group held for sale (note 9)	-	-	-	(6,307)	(6,307)
Total comprehensive income (loss)	4,562	1,716	-	(6,307)	(29)
Balance at the end of the year	13,145	2,295	(1,478)	(5,317)	8,645

h) Proposed dividend

The Board of Directors has recommended distributing cash dividend of 5 fils per share (2020: 5 fils) and bonus shares of 5% (2020: 5%) for the financial year ended 31 December 2021. Subject to approval at the annual general meeting ("AGM") of the shareholders, the cash dividend and bonus shares shall be payable to shareholders registered in the Bank's records as of the AGM date.

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Notes to the Consolidated Financial Statements At 31 December 2021

12. EQUITY AND RESERVES (CONTINUED)

i) Perpetual Tier 1 Capital Securities

On 2 July 2019, the Bank issued Perpetual Tier 1 Capital Securities (the “Tier 1 securities”), amounting to USD 500,000 thousand.

The Tier 1 securities constitute direct, unconditional, subordinated and unsecured obligations of the Bank and are classified as equity in accordance with IAS 32, *Financial Instruments – Classification*. The Tier 1 securities do not have a maturity date. They are redeemable by the Bank at its discretion after 9 July 2024 (the “First Call Date”) or on any interest payment date thereafter subject to the prior consent of the regulatory authority.

The Tier 1 securities bear interest on their nominal amount from the issue date to the First Call Date at a fixed annual rate of 5.7492%. Thereafter, the interest rate will be reset at five-year intervals. Interest will be payable semi-annually in arrears and treated as a deduction from equity.

The Bank, at its sole discretion, may elect not to distribute interest and this is not considered an event of default. If the Bank does not pay interest on the Tier 1 securities, on a scheduled interest payment date (for whatever reason), then the Bank must not make any other distribution or payment on or with respect to its other shares that rank equally with or junior to the Tier 1 securities (other than pro-rata distributions or payments on shares that rank equally with Tier 1 securities) unless and until it has paid two consecutive interest payments in full on the Tier 1 securities.

13. INTEREST INCOME

	2021 KD 000's	2020 KD 000's
Loans and advances to customers	211,241	223,355
Due from banks and other financial institutions	31,551	31,016
Treasury bills and bonds	7,450	10,890
Investment securities	3,879	5,001
	254,121	270,262

14. INTEREST EXPENSE

	2021 KD 000's	2020 KD 000's
Deposits from customers	76,677	75,767
Due to banks	33,256	29,454
Due to other financial institutions	448	7,783
Other borrowed funds	15,566	17,239
	125,947	130,243

15. NET INVESTMENT INCOME

	2021 KD 000's	2020 KD 000's
Net gain on financial assets at fair value through profit or loss	28,764	7,224
Net gain from financial assets at fair value through other comprehensive income	371	8,642
Share of result from associates	446	(13)
	29,581	15,853

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16. TAXATION

	<i>2021</i> <i>KD 000's</i>	<i>2020</i> <i>KD 000's</i>
NLST	1,004	662
KFAS	481	350
Zakat	476	265
Taxation on overseas subsidiaries	4,747	3,025
	6,708	4,302

Components of taxation arising from overseas subsidiaries are as follows:

	<i>2021</i> <i>KD 000's</i>	<i>2020</i> <i>KD 000's</i>
Current tax	6,646	6,466
Deferred tax	(1,899)	(3,441)
	4,747	3,025

The tax rate applicable to the taxable subsidiary companies is in the range of 15% to 35% (2020: 10% to 35%) whereas the effective income tax rate for the year ended 31 December 2021 is in the range of 27% to 28% (2020: 11% to 29%). For the purpose of determining the taxable results for the year, the accounting profit of the overseas subsidiary companies were adjusted for tax purposes. Adjustments for tax purposes include items relating to both income and expense. The adjustments are based on the current understanding of the existing laws, regulations and practices of each overseas subsidiary companies jurisdiction.

17. EARNINGS PER SHARE

Basic and diluted earnings per share is computed by dividing the profit for the year attributable to equity holders of the Bank after interest payment and other movements on Tier 1 capital securities by the weighted average number of shares outstanding during the year less treasury shares.

The computation of basic and diluted earnings per share is as follows:

	<i>2021</i> <i>KD 000's</i>	<i>2020</i> <i>KD 000's</i>
Profit for the year attributable to equity holders of the Bank	45,389	33,662
Less: Interest payment and other movements on Tier 1 capital securities	(8,302)	(8,900)
Profit for the year attributable to equity holders of the Bank after interest and other movements on Tier1 capital securities	37,087	24,762
	<i>Shares</i>	<i>Shares</i>
Weighted average number of outstanding shares, net of treasury shares	2,821,606,927	2,790,294,942
Basic and diluted earnings per share (fils)	13.1	8.9

Earning per share calculations for 2020 have been adjusted to take account of the bonus shares issued in 2021.

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18. SEGMENT INFORMATION

For management purposes, the Group organises its operations by geographic territory in the first instance, primarily Domestic and International. All operations outside Kuwait are classified as International. Within its domestic operations, the Group is organised into the following business segments.

- ▶ **Corporate banking:** provides comprehensive product and services to corporate customers and financial institutions including lending, deposits, trade services, foreign exchange, advisory services and others.
- ▶ **Retail and Private banking:** provides wide range of products and services to retail and private bank customers including loans, deposits, credit and debit cards, foreign exchange, and others.
- ▶ **Treasury and investment banking:** includes treasury activities, investment services and management. It also provides products and services to banks including money markets, lending, deposits, foreign exchange and others.
- ▶ **Central office:** includes liquidity and funding management, any residual in respect of transfer pricing and other unallocated activities.

Executive Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on segment result after provisions which in certain respects are measured differently from operating profit or loss in the consolidated financial statements.

During the year, the Group has changed its reportable segment to include Central office as a new reportable segment as described above. Accordingly, net interest income, segment operating results, profit for the year, total assets and total liabilities relating to Central office which were earlier included as part of treasury and investment banking segment have been disclosed separately. The comparative information for the year ended 31 December 2020 have been restated to conform the current year's presentation.

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18. SEGMENT INFORMATION (continued)

The table below presents income and results and certain assets and liabilities information regarding the Group's operating segments.

	<i>Kuwait Operations</i>					<i>International Operations*</i>	<i>Unallocated / Intragroup Transactions</i>	<i>Group</i>
	<i>Corporate banking KD 000's</i>	<i>Retail and Private banking KD 000's</i>	<i>Treasury investment banking KD 000's</i>	<i>Central office KD 000's</i>	<i>Total KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>Total KD 000's</i>
31 December 2021								
Net interest income	55,275	35,778	431	(5,683)	85,801	52,624	(10,251)	128,174
Segment operating results	70,005	49,049	30,512	(5,188)	144,378	93,401	(3,049)	234,730
Profit (loss) for the year	31,903	3,494	25,205	(9,617)	50,985	6,727	(9,123)	48,589
Total assets	2,741,846	1,136,992	745,945	600,290	5,225,073	2,040,862	(191,020)	7,074,915
Total liabilities	1,370,803	1,150,065	397,702	1,603,385	4,521,955	1,805,309	(184,274)	6,142,990
	<i>Kuwait Operations</i>					<i>International Operations*</i>	<i>Unallocated / Intragroup Transactions</i>	<i>Group</i>
	<i>Corporate banking KD 000's</i>	<i>Retail and Private banking KD 000's</i>	<i>Treasury investment banking KD 000's</i>	<i>Central office KD 000's</i>	<i>Total KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>Total KD 000's</i>
31 December 2020								
Net interest income	61,164	35,352	2,945	(12,726)	86,735	63,287	(10,003)	140,019
Segment operating results	78,073	39,720	21,691	(14,391)	125,093	99,720	(12,043)	212,770
Profit (loss) for the year	56,516	13,412	16,216	(36,509)	49,635	2,753	(18,302)	34,086
Total assets	2,570,996	1,315,787	797,763	576,634	5,261,180	2,077,844	(232,940)	7,106,084
Total liabilities	1,052,296	1,042,338	277,165	2,254,000	4,625,799	1,835,109	(234,588)	6,226,320

*International operations include operational results of BoB which is classified as disposal group held for sale as at 31 December 2021 and 31 December 2020 (Note 9) and the loss on remeasurement of disposal group held for sale of KD nil thousand (2020: KD 688 thousand) is included in segment results before provision.

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19. TRANSACTIONS WITH RELATED PARTIES

The Group has entered into transactions with certain related parties (Parent Company, directors and key management personnel of the Group and entities controlled, jointly controlled or significantly influenced by such parties) who were customers of the Group during the year. The "Others" column in the table below mainly represent transactions with other related parties that are either controlled or significantly influenced by the Parent Company. The terms of these transactions are substantially on the same commercial basis as approved by the Group's management, including collateral. Lending to Board Members and their related parties is secured by tangible collateral in accordance with regulations of Central Bank of Kuwait. The outstanding balances and transactions are as follows:

	<i>Parent Company KD 000's</i>	<i>Others KD 000's</i>	<i>2021 KD 000s</i>	<i>2020 KD 000s</i>
Consolidated Statement of Financial Position				
Due from banks and OFIs*	-	175,970	175,970	184,879
Loans and advances to customers*	-	968,721	968,721	983,769
Investment securities	18,983	107,340	126,323	134,346
Investment securities managed by a related party	-	82,108	82,108	66,329
Other assets	-	5,867	5,867	5,283
Due to banks	-	7,429	7,429	21,448
Due to other financial institutions	-	64,509	64,509	31,716
Deposits from customers	95,188	57,946	153,134	125,274
Commitments and contingent liabilities				
Letters of credit	-	711	711	21,454
Letters of guarantee	-	69,607	69,607	81,318
Undrawn lines of credit	-	127,207	127,207	103,529
Other commitments	-	15,793	15,793	15,987
Transactions				
Interest income	40	30,872	30,912	40,488
Interest expense	(197)	(459)	(656)	(1,929)
Fee and commission income	3	801	804	1,474
Fee and commission expenses	-	(517)	(517)	(739)
Dividend income	499	-	499	1,366
Other expense	-	(10,845)	(10,845)	(3,606)
Other transactions during the year				
Purchase of property and equipments	-	1,664	1,664	-
Purchase of investment securities	-	-	-	29,571
Sale of investment securities	-	-	-	24,041
Loss on sale of investment securities	-	-	-	(19)

* As of 31 December 2021, the fair value of the total eligible collateral to the extent of the outstanding balances amounting to KD 532,224 thousand (2020: KD 494,196 thousand).

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Notes to the Consolidated Financial Statements At 31 December 2021

19. TRANSACTIONS WITH RELATED PARTIES (continued)

	<i>No. of Board members or executive staff</i>	<i>2021 KD 000's</i>	<i>2020 KD 000's</i>
Board members*			
Loans and advances to customers	4	4,995	4,452
Deposits from customers	8	978	907
Executive staff			
Loans and advances to customers	11	217	219
Deposits from customers	29	1,983	2,431
Letters of guarantee	1	18	7

*Transactions with Board members include transaction with one of the Group executive staff who is also a board member.

Key management compensation

Remuneration paid or payable in relation to "key management" (deemed for this purpose to comprise Directors in relation to their committee service, the Chief Executive Officer and other Senior Officers), was as follows:

	<i>2021 KD 000's</i>	<i>2020 KD 000's</i>
Short term employee benefits – including salary and bonus	4,759	5,070
Accrual for end of service indemnity	1,485	1,336
Accrual for cost of long term incentive rights	573	622
Accrual for committee services	490	120
	7,307	7,148

20. COMMITMENTS AND CONTINGENT LIABILITIES

	<i>2021 KD 000's</i>	<i>2020 KD 000's</i>
Acceptances	40,182	36,172
Letters of credit	209,612	259,366
Letters of guarantee	822,849	857,342
	1,072,643	1,152,880

Irrecoverable commitments to extend credit amount to KD 642,447 thousand (2020: KD 642,168 thousand). This includes commitments to extend credit which are irrecoverable over the life of the facility or are revocable only in response to a material adverse change.

The primary purpose of these instruments is to ensure that funds are available to customers as required. Acceptances, standby letters of credit and guarantees, which represent irrevocable assurances that the Group will make payments in the event that the customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are undertaken by the Group on behalf of the customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing.

Undrawn lines of credit represent unused portions of authorisations to extend cash credit. With respect to credit risk on undrawn lines of credit, the Group is potentially exposed to loss in an amount equal to the total unused lines. However, the likely amount of loss is less than the total unused lines since most of these lines will expire or terminate without being funded.

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20. COMMITMENTS AND CONTINGENT LIABILITIES (continued)

The Group makes available to its customers guarantees which may require that the Group makes payments on their behalf and enters into commitments to extend credit lines to secure their liquidity needs. Such payments are collected from customers based on the terms of the letter of credit. They expose the Group to similar risks to loans and these are mitigated by the same control processes and policies.

The Group has commitments in respect of capital expenditure amounting to KD 15,793 thousand (2020: KD 15,987 thousand).

21. DERIVATIVE FINANCIAL INSTRUMENTS

In the ordinary course of business the Group enters into various types of transactions that involve derivative financial instruments. The Group offers its clients derivatives products that are traded in the financial markets in order to service their risk management needs to hedge currency and interest rate exposures. The Group also uses derivatives for economic hedging purpose to manage its own assets and liabilities as well as to hedge certain risk exposures such as variation in future cash flows attributable to a recognised asset or liability (cash flow hedge), or hedges of net investment in foreign operation. For those derivative contracts that are designated as a hedging instrument, hedge accounting is used provided certain criteria are met.

Derivatives are initially recognised and are subsequently measured at fair value. Fair values are obtained from quoted market prices in active markets, and valuation techniques (such as discounted cash flow models and option pricing models), as appropriate. All derivatives are carried as assets when their fair value is positive and as liabilities when fair values are negative.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged.

At the inception of the transactions the Group documents the relationship between the hedging instruments and the hedged items, its risk management objective, together with the methods selected to assess hedge effectiveness. The Group also documents its assessment both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of the hedged items.

Derivative instruments that are used by the Group as part of its risk management strategies, but which do not qualify for hedge accounting under the Group's hedge accounting policies, are presented as Derivatives held for trading (non-qualifying hedges).

Derivatives held for hedging

Hedge of net investment in foreign operations

The Bank entered into forward foreign exchange contracts between TRY and USD, rolled over on a monthly basis, which has been designated as a hedge of the Bank's net investment in its Turkish subsidiary. This transaction has created a net long position in USD. Gains or losses on the retranslation of the aforesaid contracts are recorded in equity to offset any gains or losses on translation of the net investments in the Turkish subsidiary. Hedge ineffectiveness only arises to the extent the hedging instruments exceeds in nominal terms, the risk exposure from the foreign operations. No ineffectiveness from hedges of net investments in foreign operations was recognised in the consolidated statement of income during the year. The Group regularly assess the optimal hedge ratio i.e. the amount of net assets of the subsidiary to be hedged and as at 31 December 2021 has determined 40% (2020: 50%) as the optimal hedge ratio.

Cash flow hedges

One of the subsidiary of the Group applies cash flow hedge accounting using interest rate swaps to hedge its foreign currency deposits with an average maturity upto 3 months against interest rate fluctuations. The subsidiary implements effectiveness tests at the reporting dates for hedge accounting; the effective portions are accounted as part of changes in fair value of derivatives under other reserves, whereas the ineffective portion is recognised in the consolidated statement of income.

No ineffectiveness from hedges was recognised in the consolidated statement of income during the year.

Derivatives held for trading

Derivative contracts that are entered into for the purpose of servicing customers in their risk management needs as well as derivatives used by the Group for economic hedging purpose but which do not meet the qualifying criteria for hedge accounting are classified as 'Derivatives held for trading'. The risk exposures on account of derivative contracts for customers are covered by entering into positions with an opposite risk profile with other counter parties or by other risk mitigating transactions.

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Notes to the Consolidated Financial Statements At 31 December 2021

21. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Types of derivative contracts

Forward foreign exchange contracts

Forward foreign exchange contracts are contractual agreements to either buy or sell a specified currency, at a specific price and date in the future, and are customised contracts transacted in the over-the-counter market.

Swaps

Swaps are contractual agreements between two parties to exchange streams of payments over time based on specified notional amounts, in relation to movements in a specified underlying index such as an interest rate, foreign currency rate or equity index.

Interest rate swaps relate to contracts taken out by the Bank with OFIs in which the Group either receives or pays a floating rate of interest, respectively, in return for paying or receiving a fixed rate of interest. The payment flows are usually netted against each other, with the difference being paid by one party to the other. In a currency swap, the Group pays a specified amount in one currency and receives a specified amount in another currency. Currency swaps are mostly gross-settled.

Options

Options are contractual agreements that convey the right, but not the obligation, for the purchaser either to buy or sell a specified amount of a financial instrument at a fixed price, either at a fixed future date or at any time within a specified period.

The Group purchases and sells options through regulated exchanges and in the over-the-counter markets. Options purchased by the Group provide the Group with the opportunity to purchase (call options) or sell (put options) the underlying asset at an agreed-upon value either on or before the expiration of the option. The Group is exposed to credit risk on purchased options only to the extent of their carrying amount, which is their fair value.

Options written by the Group provide the purchaser the opportunity to purchase from or sell to the Group the underlying asset at an agreed-upon value either on or before the expiration of the option.

The table below shows the fair value of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts analysed by the terms of maturity. The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are indicative of neither the market risk nor the credit risk. Credit risk in respect of derivative financial instruments is limited to the positive fair value of instruments. The credit risk exposure is managed as part of the overall borrowers lending limits, together with potential exposures from market movements.

31 December 2021	Positive fair value KD 000's	Negative fair value KD 000's	Notional amount		
			Within 1 year KD 000's	Over 1 year KD 000's	Total KD 000's
Derivatives held for trading: (non-qualifying hedges)					
Forward swaps / foreign exchange contracts	26,657	(16,362)	1,518,030	121,826	1,639,856
Interest rate swaps	1,903	(2,208)	34,652	46,482	81,134
Options	1,405	(1,979)	52,556	-	52,556
	29,965	(20,549)	1,605,238	168,308	1,773,546
Derivatives held for hedging: Hedge of net investment in foreign operations:					
Forward swaps / foreign exchange contracts	6,704	-	20,931	-	20,931
Cash flow hedges:					
Interest rate swaps	36,159	(2,112)	63,399	133,043	196,442
	42,863	(2,112)	84,330	133,043	217,373

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At 31 December 2021
21. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

31 December 2020	Positive fair value KD 000's	Negative fair value KD 000's	Notional amount		Total KD 000's
			Within 1 year KD 000's	Over 1 year KD 000's	
<i>Derivatives held for trading: (non-qualifying hedges)</i>					
Forward swaps / foreign exchange contracts	16,838	(7,238)	1,155,795	492	1,156,287
Interest rate swaps	3,211	(4,392)	30,688	116,434	147,122
Options	152	(38)	33,996	-	33,996
	<u>20,201</u>	<u>(11,668)</u>	<u>1,220,479</u>	<u>116,926</u>	<u>1,337,405</u>
<i>Derivatives held for hedging: Hedge of net investment in foreign operations:</i>					
Forward swaps / foreign exchange contracts	-	(4,816)	40,914	-	40,914
<i>Cash flow hedges:</i>					
Interest rate swaps	30,143	(4,562)	62,340	111,566	173,906
	<u>30,143</u>	<u>(9,378)</u>	<u>103,254</u>	<u>111,566</u>	<u>214,820</u>

Hedging instruments are used to hedge net investment in a foreign operation and interest rate risk pertaining to hedged items. Hedged item for net investment in foreign operation pertain to the Bank's net investment in BBT and the foreign exchange translation loss recorded in OCI amounted to KD 15,981 thousand (2020: KD 10,873 thousand) for the hedged portion. Hedged item for interest rate risk include a portion of customer deposits and long term borrowings denominated in foreign currency in a subsidiary having a carrying value of KD 196,442 thousand (2020: KD 173,906 thousand). All the hedges were determined to be effective as at the yearend.

22. IMPLICATIONS OF COVID -19

COVID-19 has continued to impact the operations of the Group during the current year. Below note describes the impact on the operations, risk management and the significant estimates and judgements applied by management in assessing the values of assets and liabilities.

i) Credit risk management
Consumer and housing loan deferral in 2021

During the year, the Bank has implemented deferral of consumer and housing loans provided to the eligible Kuwaiti Citizens for a period of 6 months effective from the date of request by the customers. The customers were required to submit the request for deferral of consumer and housing loans within a period of one month from the effective date of the Law No. 3 of 2021 i.e. 18 April 2021 ("Law") to be eligible for the deferment.

The consumer and housing loans that were either past due or under legal action prior to the effective date of Law were not eligible for deferral.

The modification loss resulting from the deferral of consumer and housing loans under Law will be borne by the government of the State of Kuwait.

The instalment deferral resulted in a provisional modification loss of KD 5,679 thousand to the Bank arising from modification of the contractual cash flows of consumer and housing loans, which is recognised in consolidated statement of income.

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ii) Liquidity risk management

The Group continues to maintain a healthy liquidity profile throughout the year, and continues to keep its internal limits unchanged in a bid to maintain liquidity at healthy pre-pandemic standards and to manage the phase out of the moratorium introduced by CBK during the previous year. As a policy, Group maintains good liquidity buffers and a large portfolio of High Quality Liquid Assets, which it can sell portions of with minimal price impact if the need ever arises.

The Group's management of liquidity risk is disclosed in Note 24.

iii) Use of estimates and judgements

The Group exercises significant judgement in assessing and estimating its ECL. Given the continuing uncertainty in the forward looking information, the Group has used the approach of applying judgement overlays in the form of stage change or rating degradation, for those customers where there is an indication of long term or permanent stress.

Governance around IFRS 9 ECL models and calculations

The Bank's IFRS 9 Committee has the primary responsibility for overseeing the Group's ECL models. Given the extreme uncertainty and volatility in the current times, the Committee has further strengthened its processes, controls and governance frameworks around reviewing and monitoring the macro-economic elements that would impact the computation of ECL and recommend changes if needed.

The impact on ECL on credit facilities determined under IFRS 9 in accordance with the CBK guidelines as disclosed in note 5.

Fair value measurement of financial instruments

The Group continues to closely monitoring the markets and trades between market participants in the current scenario to adjust, if needed, the fair value of the financial assets and liabilities of the Group. The Group's existing policy on fair value measurement of financial instruments is disclosed in Note 2.

23. FAIR VALUE MEASUREMENT

Fair value of all financial instruments is not materially different from their carrying values. For financial assets and financial liabilities that are liquid or having a short-term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits, savings accounts without a specific maturity.

The fair value of investment securities is categorised as per the policy on fair value measurement in Note 2. Movement in level 3 is mainly on account of purchase, sale and change in fair value and on account of investment security acquired against recovery of debt previously written off, recorded as other income and change in fair value and reclassification under IFRS 9. During the year, a decrease of KD 5,848 thousand (2020: decrease of KD 13,186 thousand) was recorded in the other comprehensive income representing change in fair value. There were no material transfers between the levels during the year. The impact on the consolidated statement of financial position or the consolidated statment of shareholders' equity would be immaterial if the relevant risk variables used to fair value the unquoted securities were altered by 5%.

Debt securities included under level 3 consists of unquoted corporate bonds. The fair values of these bonds are estimated using discounted cash flow method. Equities and other securities included in this category mainly include strategic equity investments and managed funds which are not traded in an active market. The fair values of these investments are estimated by using valuation techniques that are appropriate in the circumstances. Valuation techniques include discounted cash flow models, observable market information of comparable companies, recent transaction information and net asset values.

Significant unobservable inputs used in valuation techniques mainly include discount rate, terminal growth rate, revenue, profit estimates and market multiples such as price to book and price to earnings. Given the diverse nature of these investments, it is not practical to disclose a range of significant unobservable inputs.

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23. FAIR VALUE MEASUREMENT (continued)

Other financial assets and liabilities are carried at amortised cost and their carrying values are not materially different from their fair values. Fair values of remaining financial assets and liabilities carried at amortised cost are estimated using valuation techniques incorporating certain assumptions such as future cashflows and credit spreads that are appropriate in the circumstances.

The impact on the consolidated statement of financial position or the consolidated statement of income or the consolidated statement of shareholders' equity would be immaterial if the relevant risk variables used for fair value estimations to fair value the unquoted securities were altered by 5%.

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23. FAIR VALUE MEASUREMENT (continued)

Fair value measurement hierarchy for financial assets and financial liabilities that are carried at fair value is as follows:

	31 December 2021				31 December 2020			
	Level 1 KD '000	Level 2 KD '000	Level 3 KD '000	Total KD '000	Level 1 KD '000	Level 2 KD '000	Level 3 KD '000	Total KD '000
Financial assets:								
Equity securities	81,462	-	87,451	168,913	88,422	-	93,243	181,665
Debt securities	274,520	-	-	274,520	245,042	-	8,000	253,042
Managed funds	-	-	82,441	82,441	-	-	66,739	66,739
Derivative financial instruments	-	72,828	-	72,828	-	50,344	-	50,344
Financial liabilities:								
Derivative financial instruments	-	22,661	-	22,661	-	21,046	-	21,046

Investment securities classified as FVOCI and amortised cost (Note 6) and other debt instruments carried at amortised cost (excluding credit facilities) are subject to expected credit losses. These financial assets are categorised under Stage 1 (2020: Stage 1). Central Bank of Kuwait bonds and Kuwait Government treasury bonds are not subject to expected credit losses.

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24. RISK MANAGEMENT

INTRODUCTION

Monitoring and controlling risks is primarily performed based on limits established by the Group. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Group is willing to accept, with additional emphasis on selected geographic and industrial sectors. In addition, the Group monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

The operations of certain subsidiaries are also subject to regulatory requirements within the jurisdictions where it operates. Such regulations not only prescribe approval and monitoring of activities, but also impose certain restrictive provisions (e.g. capital adequacy) to minimise the risk of default and insolvency on the part of the banking and insurance companies to meet unforeseen liabilities as these arise.

As part of its overall risk management, the Group uses derivatives and other instruments to manage exposures resulting from changes in interest rates and foreign currency transactions.

The risk profile is assessed before entering into hedge transactions, which are authorised by the appropriate level of seniority within the Group.

The Group classifies the risks faced as part of its day to day activities into certain categories of risks and accordingly specific responsibilities have been given to various officers for the identification, measurement, control and reporting of these identified families of risks. The categories of risks are:

Risks arising from financial instruments:

- i. Credit risk which includes default risk of clients and counterparties;
- ii. Market risk which includes interest rate, foreign exchange and equity price risks; and
- iii. Liquidity risk.

Other risks

- i. Operational risk which includes risks due to operational failures.

A. CREDIT RISK

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or group of borrowers, and to geographical and industry segments. Such risks are monitored on a regular basis and are subject to regular review. Limits on the level of credit risk by product, industry sector and by country are approved by the Board or each subsidiary.

The exposure to any one borrower, including Banks and OFIs is further restricted by sub limits covering items on the consolidated statement of financial position and commitments and contingent liabilities exposures and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily. The Group has a well-documented credit policy that complies with the CBK regulations and defines the appetite of the Group for assumption of risks in its various business groups.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

Credit risk arising from derivative financial instruments is limited to those with positive fair values, recorded in the consolidated statement of financial position.

Internal rating and PD estimation process

In managing its portfolio, the Group utilises ratings and other measures and techniques which seek to take account of all aspects of perceived risk. The Group uses industry standard rating tools for assessing ratings/scores that are leveraged for PD estimation process. The tool provides the ability to analyse a business and produce risk ratings at both the obligor and facility level. The analysis supports the usage of financial factors as well as non-financial subjective factors. The Group also uses external ratings by recognised rating agencies for externally rated portfolios.

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Notes to the Consolidated Financial Statements At 31 December 2021

24. RISK MANAGEMENT (continued)

A. CREDIT RISK (continued)

Maximum exposure to credit risk:

The table below shows the maximum exposure to credit risk across financial assets before taking into consideration the effect of any collateral and other credit enhancements i.e. credit risk mitigation.

	2021 <i>KD 000's</i>	2020 <i>KD 000's</i>
Cash and cash equivalents	762,434	701,738
Treasury bills and bonds with CBK and others	247,393	243,550
Due from banks and other financial institutions	331,324	469,517
Loans and advances to customers	4,278,709	4,345,058
Investments securities	393,333	338,950
Other assets*	166,929	152,179
Total	6,180,122	6,250,992
Commitments and contingent liabilities (note 20)	1,730,883	1,811,035
Maximum credit risk exposure before consideration of credit risk mitigation	<u>7,911,005</u>	<u>8,062,027</u>

* Other assets include accrued interest receivable, sundry debtors and other debt balances, net of ECL as shown in note 7.

The exposures set above, are based on net carrying amounts as reported in the consolidated statement of financial position, except for commitments and contingent liabilities.

Collateral and Credit risk mitigation techniques

The amount, type and valuation of collateral are based on guidelines specified in the risk management framework. The main types of collaterals accepted include real estate and marketable securities. The revaluation and custody of collaterals are performed independent of the business units.

The main credit risk mitigation techniques applied by the Group are based on eligible collaterals. The Group's management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of the collateral at regular intervals in line with regulatory guidelines.

For further details regarding the Group's use of credit risk mitigation techniques, and collateral policy, refer to Basel III – Pillar 3 Disclosures under the risk management section of the annual report.

Credit risk concentration

The top 10 largest exposures outstanding as a percentage of gross loans and advances to customers at 31 December 2021 is 24% (31 December 2020: 22%).

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24. RISK MANAGEMENT (continued)

A. CREDIT RISK (continued)

The concentration across classes within loans and advances to customers, which form part of the significant portion of assets subject to credit risk, is given in Note 5.

The Group's financial assets and commitments and contingent liabilities, before taking into account any collateral held or credit enhancements can be analysed by the following geographic regions:

	2021			2020		
	<i>Financial assets</i>	<i>Commitments and contingent liabilities</i>	<i>Total</i>	<i>Financial assets</i>	<i>Commitments and contingent liabilities</i>	<i>Total</i>
	<i>KD 000s</i>	<i>KD 000s</i>	<i>KD 000s</i>	<i>KD 000s</i>	<i>KD 000s</i>	<i>KD 000s</i>
Kuwait	3,832,757	1,373,376	5,206,133	3,736,538	1,306,155	5,042,693
Jordan	1,753	5,375	7,128	25,611	1,740	27,351
Algeria	553,023	112,579	665,602	483,735	135,219	618,954
Iraq	-	243	243	-	1,971	1,971
Tunisia	26,994	1,227	28,221	34,639	945	35,584
Turkey	885,323	157,773	1,043,096	1,038,717	271,683	1,310,400
Other Middle East	543,815	7,730	551,545	705,711	34,096	739,807
Europe	97,013	29,221	126,234	105,110	33,047	138,157
Rest of the world	239,444	43,359	282,803	120,931	26,179	147,110
	6,180,122	1,730,883	7,911,005	6,250,992	1,811,035	8,062,027

The Group's financial assets and commitments and contingent liabilities, before taking into account any collateral held or credit enhancements can be analysed by the following industry sectors:

	2021	2020
	<i>KD 000's</i>	<i>KD 000's</i>
Industry sector		
Sovereign	1,144,529	860,942
Banking	483,466	851,195
Investment	381,218	291,850
Trade and commerce	715,484	741,559
Real estate	1,238,075	1,323,619
Personal	1,573,289	1,440,764
Manufacturing	689,567	715,818
Construction	637,847	650,624
Other services	1,047,530	1,185,656
	7,911,005	8,062,027

Credit quality per class of financial assets

The Bank has a comprehensive credit policy encompassing evaluation of the customer's credit request, assessment of the purpose of request, business of the client, market, management, financials, ratings, conduct of the account and such other means to establish the credit worthiness of the counterparty and accordingly the credit exposures are classified as "High" or "Standard" based on inherent credit quality of the counterparties. Credit exposures classified as "High" quality are those where the ultimate risk of finance loss from the obligor's failure to discharge its obligation is assessed to be low. These include facilities to counterparties with financial condition, risk indicators and capacity to repay which are considered excellent. Credit exposures classified as "Standard" quality comprise all other facilities whose payment performance is compliant with the contractual conditions. The credit quality per class of financial assets for comparative period has been reclassified to conform the presentation of current year classification.

BURGAN BANK GROUP

Notes to the Consolidated Financial Statements

At 31 December 2021

24. RISK MANAGEMENT (continued)

A. CREDIT RISK (continued)

The table also shows the credit risk exposure by credit quality of financial assets by class, grade and status:

	2021					
	<i>Rated</i>			<i>Past due but not impaired*</i>	<i>Impaired financial assets*</i>	<i>Total</i>
	<i>High</i>	<i>Standard</i>	<i>Past due but not impaired*</i>			
	<i>High</i>	<i>Standard</i>	<i>Past due but not impaired*</i>	<i>Impaired financial assets*</i>	<i>Total</i>	
	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	
Sovereigns	674,516	182,757	-	-	857,273	
Banks and OFIs	279,252	253,026	-	-	532,278	
Corporates	478,073	3,184,119	149,470	64,583	3,876,245	
Retail	9,859	329,855	10,544	3,806	354,064	
Other credit exposures	326,406	233,856	-	-	560,262	
	<u>1,768,106</u>	<u>4,183,613</u>	<u>160,014</u>	<u>68,389</u>	<u>6,180,122</u>	
	2020					
	<i>Rated</i>			<i>Past due but not impaired*</i>	<i>Impaired financial assets*</i>	<i>Total</i>
	<i>High</i>	<i>Standard</i>	<i>Past due but not impaired*</i>			
	<i>High</i>	<i>Standard</i>	<i>Past due but not impaired*</i>	<i>Impaired financial assets*</i>	<i>Total</i>	
	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	
Sovereigns	706,649	162,562	-	-	869,211	
Banks and OFIs	342,198	251,916	-	-	594,114	
Corporates	549,331	2,959,971	262,721	174,525	3,946,548	
Retail	-	335,799	11,579	2,612	349,990	
Other credit exposures	272,732	218,397	-	-	491,129	
	<u>1,870,910</u>	<u>3,928,645</u>	<u>274,300</u>	<u>177,137</u>	<u>6,250,992</u>	

*Fair value of collateral to the extent of the outstanding exposure against the above mentioned past due but not impaired financial assets and impaired financial assets amounted to KD 58,005 thousand (2020: KD 99,174 thousand) and KD 65,332 thousand (2020: KD 160,596 thousand) respectively.

B. MARKET RISK

Market risk is the risk that the value of an asset will fluctuate as a result of changes in market variables such as interest rates, foreign exchange rates, and equity prices, whether those changes are caused by factors specific to the individual investment or its issuer or factors affecting all financial assets traded in the market.

Market risk is managed on the basis of pre-determined asset allocations across various asset categories, diversification of assets in terms of geographical distribution and industry concentration, a continuous appraisal of market conditions and trends and management's estimate of long and short term changes in fair value.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the fair value or cash flows of the financial instruments. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. This arises 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 manages this risk by matching the repricing of assets and liabilities through risk management strategies.

The Group is exposed to interest rate risk on its interest bearing assets and liabilities (treasury bills and bonds with CBK and others, due from banks and OFIs, loans and advances to customers, due to banks, due to OFIs, deposits from customers and other borrowed funds).

BURGAN BANK GROUP

Notes to the Consolidated Financial Statements At 31 December 2021

24. RISK MANAGEMENT (continued)

B. MARKET RISK (continued)

The table below summarises the effect on net interest income as a result of the changes in interest rate:

	<i>2021</i>	<i>2020</i>
	<i>KD 000's</i>	<i>KD 000's</i>
Increase in interest rate "Basis Points"		
50	7,328	8,049
100	14,656	16,090
Decrease in interest rate "Basis Points"		
50	(7,324)	(8,041)
100	(14,646)	(16,080)

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group takes on exposure to effects of fluctuations in the prevailing currency exchange rates on its financial position and cash flows. The Board of Directors sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily.

The table below analyses the effect on profit and equity of an assumed 5% strengthening in value of the currency rate against the Kuwaiti Dinar from levels applicable at the year end, with all other variables held constant. A negative amount in the table reflects a potential net reduction in profit or equity, where as a positive amount reflects a net potential increase.

<i>Currency</i>	<i>% Change in currency rate</i>	<i>2021</i>		<i>2020</i>	
		<i>Effect on profit KD 000's</i>	<i>Effect on equity KD 000's</i>	<i>Effect on profit KD 000's</i>	<i>Effect on equity KD 000's</i>
Algerian Dinar	+5	566	4,331	483	3,697
Iraqi Dinar	+5	238	3,157	257	2,929
Turkish Lira	+5	(4)	2,759	(436)	2,128
US Dollar	+5	358	3,519	(668)	2,820
Others	+5	14	-	174	-

Equity price risk

Equity price risk is the risk that the fair values of equities will fluctuate as a result of changes in the level of equity indices or the value of individual share prices. Equity price risk arises from the change in fair values of equity investments. The Group manages this risk through diversification of investments in terms of geographical distribution and industry concentration. The majority of the Group's quoted investments are listed on the regional stock exchanges.

The Group conducts sensitivity analysis on regular intervals in order to assess the potential impact of any major changes in fair value of equity instruments. Based on the results of the analysis conducted there are no material implication over the Group's profit or other comprehensive income for a 5% fluctuation in major stock exchanges.

Prepayment risk

Prepayment risk is the risk that the Group will incur a financial loss because its customers and counterparties repay or request repayment earlier than expected, such as fixed rate mortgages when interest rate fall. The fixed rate assets of the Group are not significant compared to the total assets. Moreover, other market conditions causing prepayment is not significant in the markets in which the Group operates. Therefore, the Group considers the effect of prepayment on net interest income is not material after taking in to account the effect of any prepayment penalties.

BURGAN BANK GROUP
Notes to the Consolidated Financial Statements
At 31 December 2021
24. RISK MANAGEMENT (continued)
C. LIQUIDITY RISK

Liquidity risk is the risk that the Group will be unable to meet its liabilities when they fall due. The Group is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs, guarantees. To limit this risk, the Group manages assets with liquidity in mind and monitors liquidity on a daily basis.

The table below shows an analysis of financial liabilities and contingent liabilities and commitments based on the remaining undiscounted contractual maturities:

	<i>Up to 3 months KD 000's</i>	<i>3 – 6 months KD 000's</i>	<i>6 – 12 months KD 000's</i>	<i>More than 12 months KD 000's</i>	<i>Total KD 000's</i>
31 December 2021					
Financial liabilities					
Due to banks	420,474	36,884	61,456	3,926	522,740
Due to other financial institutions	281,859	36,251	47,907	-	366,017
Deposits from customers	3,094,972	617,858	322,717	148,686	4,184,233
Other borrowed funds	2,616	5,260	7,904	671,125	686,905
Other liabilities	170,449	1,329	1,532	52,458	225,768
	<u>3,970,370</u>	<u>697,582</u>	<u>441,516</u>	<u>876,195</u>	<u>5,985,663</u>
Contingent liabilities and commitments	<u>487,933</u>	<u>273,591</u>	<u>512,434</u>	<u>456,925</u>	<u>1,730,883</u>
	<i>Up to 3 months KD 000's</i>	<i>3 – 6 months KD 000's</i>	<i>6 – 12 months KD 000's</i>	<i>More than 12 months KD 000's</i>	<i>Total KD 000's</i>
31 December 2020					
Financial liabilities					
Due to banks	253,117	99,698	53,822	14,729	421,366
Due to other financial institutions	486,774	80,572	44,139	-	611,485
Deposits from customers	3,262,448	307,124	395,818	149,029	4,114,419
Other borrowed funds	5,236	8,155	264,963	497,602	775,956
Other liabilities	140,687	1,905	6,962	89,146	238,700
	<u>4,148,262</u>	<u>497,454</u>	<u>765,704</u>	<u>750,506</u>	<u>6,161,926</u>
Contingent liabilities and commitments	<u>577,099</u>	<u>292,009</u>	<u>431,206</u>	<u>510,721</u>	<u>1,811,035</u>

The table below summarises the maturity profile of the Group's assets and liabilities. The maturities of assets and liabilities have been determined according to when they are expected to be recovered or settled. The maturity profile for financial assets at FVTPL and FVOCI is determined based on management's estimate of liquidation of those financial assets. The actual maturities may differ from the maturities shown below since borrowers may have the right to prepay obligations with or without prepayment penalties.

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Notes to the Consolidated Financial Statements
At 31 December 2021
24. RISK MANAGEMENT (continued)
C. LIQUIDITY RISK (continued)

	<i>Up to 3 months KD 000s</i>	<i>3 – 6 months KD 000s</i>	<i>6 – 12 months KD 000s</i>	<i>More than 12 months KD 000s</i>	<i>Total KD 000s</i>
31 December 2021					
ASSETS					
Cash and cash equivalents	821,608	-	-	-	821,608
Treasury bills and bonds with CBK and others	130,398	80,472	16,438	20,085	247,393
Due from banks and other financial institutions	233,344	70,647	27,333	-	331,324
Loans and advances to customers	1,241,226	357,755	998,775	1,680,953	4,278,709
Investment securities	35,155	7	10,004	604,100	649,266
Other assets	131,631	1,252	3,089	141,590	277,562
Property and equipment	-	-	-	150,153	150,153
Intangible assets	-	-	-	18,412	18,412
Disposal group held for sale	300,488	-	-	-	300,488
Total assets	2,893,850	510,133	1,055,639	2,615,293	7,074,915
LIABILITIES AND EQUITY					
Due to banks	417,511	36,412	60,908	3,925	518,756
Due to other financial institutions	281,726	36,052	47,051	-	364,829
Deposits from customers	3,092,313	612,461	316,897	140,060	4,161,731
Other borrowed funds	-	-	-	622,483	622,483
Other liabilities	170,449	1,329	1,532	52,458	225,768
Liability directly associated with disposal group held for sale	249,423	-	-	-	249,423
Equity	-	-	-	931,925	931,925
Total liabilities and equity	4,211,422	686,254	426,388	1,750,851	7,074,915

BURGAN BANK GROUP

Notes to the Consolidated Financial Statements At 31 December 2021

24. RISK MANAGEMENT (continued)

C. LIQUIDITY RISK (continued)

	<i>Up to 3 months KD 000s</i>	<i>3 – 6 months KD 000s</i>	<i>6 – 12 months KD 000s</i>	<i>More than 12 months KD 000s</i>	<i>Total KD 000s</i>
31 December 2020					
ASSETS					
Cash and cash equivalents	819,477	-	-	-	819,477
Treasury bills and bonds with CBK and others	129,324	70,226	9,000	35,000	243,550
Due from banks and other financial institutions	237,343	201,073	25,327	5,774	469,517
Loans and advances to customers	1,788,762	235,897	637,988	1,682,411	4,345,058
Investment securities	5,279	7,412	11,049	567,928	591,668
Other assets	99,051	2,594	2,289	111,835	215,769
Property and equipment	-	-	-	157,143	157,143
Intangible assets	-	-	-	20,344	20,344
Disposal group held for sale	243,558	-	-	-	243,558
Total assets	3,322,794	517,202	685,653	2,580,435	7,106,084
LIABILITIES AND EQUITY					
Due to banks	251,552	96,426	51,011	14,728	413,717
Due to other financial institutions	486,364	80,368	43,522	-	610,254
Deposits from customers	3,260,379	304,151	390,447	136,406	4,091,383
Other borrowed funds	-	-	251,278	427,818	679,096
Other liabilities	140,687	1,905	6,962	89,146	238,700
Liability directly associated with disposal group held for sale	193,170	-	-	-	193,170
Equity	-	-	-	879,764	879,764
Total liabilities and equity	4,332,152	482,850	743,220	1,547,862	7,106,084

D. OPERATIONAL RISK

Operational risk is the risk of loss arising from the failures in operational process, people and system that supports operational processes. The Group has a set of policies and procedures, which are approved by the Board of Directors and are applied to identify, assess and supervise operational risk in addition to other types of risks relating to the banking and financial activities of the Group. Operational risk is managed by Risk management. Risk management ensures compliance with policies and procedures to identify, assess, supervise and monitor operational risk as part of overall Global risk management.

25. CAPITAL MANAGEMENT

The primary objectives of the Group's capital management policy are to ensure that the Group complies with regulatory capital requirements and that the Group maintains strong credit ratings and health capital ratios in order to support its business and maximize shareholder value.

Capital adequacy, financial leverage and the use of various levels of regulatory capital are monitored regularly by the Group's management and are governed by guidelines of Basel Committee on Banking Supervision as adopted by the CBK.

The disclosures relating to the capital adequacy regulations issued by CBK as stipulated in CBK Circular number 2/RB, RBA/A336/2014 dated 24 June 2014 (Basel III) and the Leverage regulations as stipulated in CBK Circular number 2/BS/ 342/2014 dated 21 October 2014 under the Basel Committee framework are included under the 'Basel III qualitative and quantitative disclosures' section of the Annual Report.

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25. CAPITAL MANAGEMENT (continued)

The Group's risk weighted assets (after regulatory phase out of real estate collaterals), regulatory capital and capital adequacy ratios (Basel III), are shown below:

	<i>2021</i>	<i>2020</i>
	<i>KD 000s</i>	<i>KD 000s</i>
Risk weighted assets	6,250,981	6,305,697
Total capital required	718,863	725,155
Common Equity Tier 1 (CET1) capital	711,119	660,699
Additional Tier 1 (AT1) capital	152,913	152,895
Tier 2 capital	227,605	328,928
Total eligible capital	1,091,637	1,142,522
CET1 capital adequacy ratio	11.4%	10.5%
Tier 1 capital adequacy ratio	13.8%	12.9%
Total capital adequacy ratio	17.5%	18.1%

The Group's financial leverage ratio, calculated in accordance with CBK circular number 2/BS/ 342/2014 dated 21 October 2014, is shown below:

	<i>2021</i>	<i>2020</i>
	<i>KD 000s</i>	<i>KD 000s</i>
Tier 1 capital	864,032	813,594
Total exposure	7,684,488	7,695,871
Leverage ratio	11.2%	10.6%

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