



## **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.

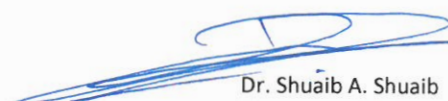
#### Report on Other Legal and Regulatory Requirements

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.



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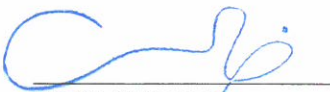
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18 February 2024




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

	Notes	2023 KD 000's	2022 KD 000's
<b>ASSETS</b>			
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
		<u>7,426,131</u>	<u>6,823,574</u>
Disposal group held for sale		-	342,386
<b>TOTAL ASSETS</b>		<u><b>7,426,131</b></u>	<u><b>7,165,960</b></u>
<b>LIABILITIES AND EQUITY</b>			
<b>LIABILITIES</b>			
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
		<u>6,425,227</u>	<u>5,937,341</u>
Liabilities directly associated with the disposal group held for sale		-	281,204
<b>TOTAL LIABILITIES</b>		<u><b>6,425,227</b></u>	<u><b>6,218,545</b></u>
<b>EQUITY</b>			
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
		<u>862,217</u>	<u>746,066</u>
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
<b>TOTAL EQUITY</b>		<u><b>1,000,904</b></u>	<u><b>947,415</b></u>
<b>TOTAL LIABILITIES AND EQUITY</b>		<u><b>7,426,131</b></u>	<u><b>7,165,960</b></u>

  
**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**

	Notes	2023 KD 000's	2022 KD 000's
Interest income	12	448,309	323,478
Interest expense	13	(313,446)	(176,014)
<b>Net interest income</b>		<b>134,863</b>	<b>147,464</b>
Fee and commission income		46,125	48,225
Fee and commission expense		(8,441)	(7,276)
<b>Net fee and commission income</b>		<b>37,684</b>	<b>40,949</b>
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
<b>Net operating income</b>		<b>221,738</b>	<b>227,900</b>
Staff expenses		(59,580)	(53,178)
Other expenses		(56,652)	(53,898)
<b>Operating profit</b>		<b>105,506</b>	<b>120,824</b>
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)
<b>Profit for the year before taxation and Board of Directors' remuneration</b>		<b>67,732</b>	<b>75,100</b>
Taxation	15	(22,527)	(16,440)
Board of directors' remuneration		(110)	(110)
<b>Profit for the year</b>		<b>45,095</b>	<b>58,550</b>
<b>Attributable to:</b>			
Equity holders of the Bank		43,547	52,130
Non-controlling interests		1,548	6,420
		<b>45,095</b>	<b>58,550</b>
<b>Basic and diluted earnings per share attributable to the equity holders of the Bank (fils)</b>	16	<b>10.0</b>	<b>12.0</b>

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 KD 000's	2022 KD 000's
<b>Profit for the year</b>	<b>45,095</b>	<b>58,550</b>
<b>Other comprehensive loss:</b>		
<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)
	<u>(10,530)</u>	<u>(20,964)</u>
<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	-
	<u>(13,878)</u>	<u>(49,949)</u>
<b>Other comprehensive loss for the year</b>		
<b>Total comprehensive income for the year</b>	<b>31,217</b>	<b>8,601</b>
<b>Attributable to:</b>		
Equity holders of the Bank	30,425	1,360
Non-controlling interests	792	7,241
	<u>31,217</u>	<u>8,601</u>

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

	Attributable to the equity holders of the Bank										
	Share capital KD 000's	Share premium KD 000's	Treasury shares KD 000's	Statutory reserve KD 000's	Voluntary reserve KD 000's	Other reserves* KD 000's	Retained earnings KD 000's	Total KD 000's	Perpetual Tier 1 capital securities KD 000's	Non- controlling interests KD 000's	Total equity 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
<b>Balance as at 31 December 2023</b>	<b>345,220</b>	<b>282,802</b>	<b>(1,742)</b>	<b>117,903</b>	<b>118,281</b>	<b>(185,941)</b>	<b>185,694</b>	<b>862,217</b>	<b>153,375</b>	<b>(14,688)</b>	<b>1,000,904</b>

\*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>Perpetual Tier 1</i>	<i>Non-</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>capital securities</i>	<i>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
<b>Balance as at 31 December 2022</b>	<b>328,781</b>	<b>282,802</b>	<b>(1,742)</b>	<b>113,234</b>	<b>113,612</b>	<b>(269,121)</b>	<b>178,500</b>	<b>746,066</b>	<b>153,150</b>	<b>48,199</b>	<b>947,415</b>

\*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
<b>Operating activities</b>			
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
<b>Operating profit before changes in operating assets and liabilities</b>		<b>155,091</b>	<b>130,023</b>
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		<b>399,400</b>	<b>(188,089)</b>
<b>Investing activities</b>			
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		<b>(66,973)</b>	<b>(110,549)</b>
<b>Financing activities</b>			
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		<b>(269,348)</b>	<b>134,316</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>		<b>63,079</b>	<b>(164,322)</b>
Cash and cash equivalents at 1 January		807,253	971,575
<b>Cash and cash equivalents at 31 December</b>	3	<b>870,332</b>	<b>807,253</b>
<b>Additional cash flow information:</b>			
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	<b>86.01%</b>	86.01%
Bank of Baghdad P.J.S.C. ("BoB")*	Banking	Iraq	-	51.79%
Tunis International Bank S.A ("TIB")	Banking	Tunisia	<b>86.70%</b>	86.70%
Burgan Bank A.S. ("BBT")**	Banking	Turkey	<b>47.55%</b>	99.71%
Burgan Bank Financial Services Limited ("BBFS")	Financial Advisory Services	UAE	<b>100.00%</b>	100.00%
<b><i>Held through BBT</i></b>				
Burgan Finansal Kiralama A.S	Leasing	Turkey	<b>47.55%</b>	99.71%
Burgan Yatirim Menkul Degerler A.S.	Brokerage	Turkey	<b>47.55%</b>	99.71%
<b><i>Special purpose vehicle ("SPV") treated as a subsidiary</i></b>				
Burgan Senior SPC Limited	Special purpose entity	UAE	<b>100.00%</b>	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:

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

Summarised financial information of BBT is as follows:

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

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 :

- 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;
- identifiable net assets and the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree; over
- 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 KD 000's	2022 KD 000's
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 KD 000's	2022 KD 000's
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 KD 000's	2022 KD 000's
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

	Banks and OFIs KD 000's	Corporate KD 000's	Retail KD 000's	Total KD 000's
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	<b>206,857</b>	185,903
Specific provision	<b>24,738</b>	19,654
	<u><b>231,595</b></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	<b>901,078</b>	<b>22,544</b>	-	<b>923,622</b>
Standard	<b>2,971,018</b>	<b>456,803</b>	-	<b>3,427,821</b>
Past due or impaired	<b>32,719</b>	<b>187,211</b>	<b>100,758</b>	<b>320,688</b>
Loans and advances to banks, OFIs and customers	<u><b>3,904,815</b></u>	<u><b>666,558</b></u>	<u><b>100,758</b></u>	<u><b>4,672,131</b></u>
Contingent liabilities*	<u><b>2,368,084</b></u>	<u><b>181,354</b></u>	<u><b>15,295</b></u>	<u><b>2,564,733</b></u>
ECL allowance for credit facilities	<u><b>24,174</b></u>	<u><b>43,286</b></u>	<u><b>51,799</b></u>	<u><b>119,259</b></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)
<b>Balance at 31 December 2023</b>	<b>24,174</b>	<b>43,286</b>	<b>51,799</b>	<b>119,259</b>

	<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)
<b>Balance at 31 December 2022</b>	<b>25,176</b>	<b>58,054</b>	<b>54,159</b>	<b>137,389</b>



## 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 assets</i> <i>KD 000's</i>	<i>Total</i> <i>KD 000's</i>
<b>Cost</b>			
At 1 January 2023	8,170	41,482	49,652
Exchange adjustment	87	489	576
<b>At 31 December 2023</b>	<b>8,257</b>	<b>41,971</b>	<b>50,228</b>
<b>Amortisation</b>			
At 1 January 2023	-	32,122	32,122
Charge for the year	-	1,368	1,368
<b>At 31 December 2023</b>	<b>-</b>	<b>33,490</b>	<b>33,490</b>
<b>Net book value</b>			
<b>At 31 December 2023</b>	<b>8,257</b>	<b>8,481</b>	<b>16,738</b>
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
<b>At 31 December 2023</b>	<b>8,257</b>	<b>8,481</b>	<b>16,738</b>

	<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	<b>3M Libor + (1.00% - 1.18%)</b>	-	152,818
Subordinated bonds – 2031*	<b>2.750%</b>	<b>152,919</b>	152,542
Medium term borrowing – unsecured (2024 to 2026)	<b>3M Libor + (1.00% - 1.40%)</b>	-	325,741
Medium term borrowing -unsecured (2025 - 2026)	<b>SOFR + (1.00% - 1.05%)</b>	<b>397,042</b>	152,291
		<b>549,961</b>	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	<b>69,772</b>	39,647
Staff benefits	<b>20,456</b>	20,513
Provision for non-cash credit facilities (note 5)	<b>25,338</b>	24,339
Clearing cheques and balances	<b>33,362</b>	29,605
Income received in advance	<b>16,432</b>	14,011
Other payable and accruals	<b>50,949</b>	49,680
Deferred tax liabilities	<b>11,073</b>	6,595
Taxation payable*	<b>21,316</b>	16,944
Other balances	<b>24,147</b>	42,557
	<b>272,845</b>	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)	<b>4,000,000,000</b>	4,000,000,000
Issued and fully paid up capital (shares of 100 fils each)	<b>3,452,203,125</b>	3,287,812,500

##### 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	<b>5,316,343</b>	5,057,911
Percentage of shares held	<b>0.15%</b>	0.15%
Cost KD 000's	<b>1,742</b>	1,742
Market value KD 000's	<b>893</b>	1,103
Weighted average market value per share (fils)	<b>197</b>	260

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:

	31 December 2023							
	Treasury shares reserve KD 000's	Fair value reserve KD 000's	Foreign currency translation reserve KD 000's	Hedge of net investment in foreign operations KD 000's	Cash flow hedge reserve KD 000's	Change in ownership in subsidiaries KD 000's	Reserve of disposal group held for sale KD 000's	Total KD 000's
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)

	31 December 2022							
	Treasury shares reserve KD 000's	Fair value reserve KD 000's	Foreign currency translation reserve KD 000's	Hedge of net investment in foreign operations KD 000's	Cash flow hedge reserve KD 000's	Change in ownership in subsidiaries KD 000's	Reserve of disposal group held for sale KD 000's	Total KD 000's
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:

	<b>2023</b> <b>KD 000's</b>	<b>2022</b> <b>KD 000's</b>
Profit for the year attributable to equity holders of the Bank	<b>43,547</b>	52,130
Less: Interest payment and other movements on Tier 1 capital securities	<b>(9,060)</b>	(10,715)
Profit for the year attributable to equity holders of the Bank after interest and other movements on Tier 1 capital securities	<b>34,487</b>	41,415
	<b>Shares</b>	<b>Shares</b>
Weighted average number of outstanding shares, net of treasury shares	<b>3,446,886,782</b>	3,446,886,782
Basic and diluted earnings per share (fils)	<b>10.0</b>	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>
<b>31 December 2023</b>							
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>
<b>31 December 2022</b>							
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>
<b>Consolidated Statement of Financial Position</b>				
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
<b>Commitments and contingent liabilities</b>				
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
<b>Transactions</b>				
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)
<b>Other transactions during the year</b>				
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>
<b>Board members</b>			
Loans and advances to customers	4	1,208	5,777
Deposits from customers	6	3,190	2,127
<b>Executive staff</b>			
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**

### **Notes to the Consolidated Financial Statements**

**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.

			Notional amount		
31 December 2023	Positive fair value KD 000's	Negative fair value KD 000's	Within 1 year KD 000's	Over 1 year KD 000's	Total KD 000's
<i>Derivatives held for trading: (non-qualifying hedges)</i>					
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
	15,443	(12,443)	1,126,071	92,310	1,218,381
<i>Derivatives held for hedging: Hedge of net investment in foreign operations:</i>					
Forward swaps / foreign exchange contracts	145	(40)	34,407	-	34,407
<i>Cash flow hedges:</i>					
Interest rate swaps	28,570	(2,477)	40,824	164,806	205,630
	28,715	(2,517)	75,231	164,806	240,037

## BURGAN BANK GROUP

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

#### 20. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

	<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>
31 December 2022					
<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:

	31 December 2023				31 December 2022			
	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	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 KD 000's	2022 KD 000's
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
<b>Total</b>	<b>6,783,189</b>	<b>6,246,555</b>
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
	<b>6,783,189</b>	<b>1,811,334</b>	<b>8,594,523</b>	<b>6,246,555</b>	<b>1,811,261</b>	<b>8,057,816</b>

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 <i>KD 000's</i>	2022 <i>KD 000's</i>
<b>Industry sector</b>		
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
	<b>8,594,523</b>	<b>8,057,816</b>

#### 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
<b>Increase in interest rate "Basis Points"</b>		
50	7,274	6,092
100	14,549	12,184
<b>Decrease in interest rate "Basis Points"</b>		
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>
<b>31 December 2023</b>					
<b>Financial liabilities</b>					
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>
<b>Contingent liabilities and commitments</b>	<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>
<b>31 December 2022</b>					
<b>Financial liabilities</b>					
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>
<b>Contingent liabilities and commitments</b>	<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>
<b>31 December 2023</b>					
<b>ASSETS</b>					
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
<b>Total assets</b>	<b>3,108,284</b>	<b>786,757</b>	<b>784,792</b>	<b>2,746,298</b>	<b>7,426,131</b>
<b>LIABILITIES AND EQUITY</b>					
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
<b>Equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,000,904</b>	<b>1,000,904</b>
<b>Total liabilities and equity</b>	<b>4,388,795</b>	<b>664,473</b>	<b>688,053</b>	<b>1,684,810</b>	<b>7,426,131</b>

## 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	<u>3,561,444</u>	<u>657,221</u>	<u>582,946</u>	<u>2,364,349</u>	<u>7,165,960</u>
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	<u>4,683,851</u>	<u>286,355</u>	<u>385,612</u>	<u>1,810,142</u>	<u>7,165,960</u>

## 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:

	2023 KD 000s	2022 KD 000s
Risk weighted assets	<b>6,358,901</b>	6,433,584
Total capital required	<b>890,246</b>	804,198
Common Equity Tier 1 (CET1) capital	<b>861,475</b>	697,290
Additional Tier 1 (AT1) capital	<b>162,335</b>	154,897
Tier 2 capital	<b>247,954</b>	231,846
Total eligible capital	<b>1,271,764</b>	1,084,033
CET1 capital adequacy ratio	<b>13.5%</b>	10.8%
Tier 1 capital adequacy ratio	<b>16.1%</b>	13.2%
Total capital adequacy ratio	<b>20.0%</b>	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:

	2023 KD 000s	2022 KD 000s
Tier 1 capital	<b>1,023,810</b>	852,187
Total exposure	<b>8,114,372</b>	7,807,156
Leverage ratio	<b>12.6%</b>	10.9%