



HH Sheikh

Mishal Al-Ahmad Al-Jaber Al-Sabah

Amir of the State of Kuwait

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Strategy In Action...



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Strategic Report



At a Glance

Our Vision

“To be the most modern and progressive bank in Kuwait, driven by our employees, customers, and community.”

Our Mission

- Deliver excellent customer experience
- Lead with innovation
- Become an employer of choice
- Contribute to our community
- Pursue opportunities for the prosperity of our stakeholders

Revenue KD 221.7 mn	Net Income* KD 43.5 mn
Total Assets KD 7.4 bn	Net Interest Margin (NIM) 2.1%
NPL Ratio 2.0%	Capital Adequacy Ratio (CAR) 20.0%

* Net Income attributable to Equity shareholders

CERTIFICATIONS



AWARDS AND RECOGNITIONS



RATING:

FitchRatings	A
S&P Global	BBB+
MOODY'S	Baa1
CI CAPITAL intelligence	A+

*Outlook Stable

Our Values

- Ownership**
“We take accountability for our individual and collective behavior”
- Transparency**
“We communicate and discuss openly”
- Teamwork**
“We act collaboratively to unleash our potential”
- Passion**
“We have a strong commitment to everything we do”

Our Presence Across Regions

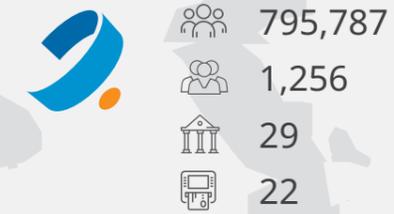
A leading regional bank diversified across MENAT region driven by client focused businesses.

Tunis International Bank



Asset Mix **2%**

Burgan Bank Turkey



Asset Mix **12%**

Gulf Bank Algeria



Asset Mix **10%**

Burgan Bank Kuwait



Asset Mix **77%**

- Customers
- Employees
- Branches
- ATMs



Message from Chairman

“2023 has been a transformational year for the Bank with a renewed strategy to stay ahead of the curve.”

Sheikh Abdullah Nasser Sabah Al Ahmad Al Sabah
Chairman of Burgan Bank Group



Dear Esteemed Shareholders,

On behalf of the entire Board of Directors, it gives me great pleasure to present to you Burgan Bank Group's Annual Report for the fiscal year 2023.

In many ways, 2023 proved to be a fundamentally transformative year for Burgan Bank, as we set the foundations for the next phase of our journey. Following three consecutive years of market volatility, complex macroeconomic dynamics and unforeseen geopolitical challenges shaping the global financial industry, it became clear that the status quo no longer served its purpose. A new progressive approach was needed to tackle the ever-evolving banking industry and fortify our resilience in the face of any impediments to growth.

Building on our solid foundations – forged more than four decades in the market – we established a new strategic

framework for Burgan Bank, focused on achieving sustainable development and dynamic growth across our entire operations. Our new strategy recognises that in today's economic climate, transformation has become a core tenet for any successful business. Change is constant and agility is the only way forward. That is why our newly revitalised vision is to position ourselves as the most progressive bank in Kuwait, seeking constant evolution and remaining ahead of industry standards.

Maintaining a solid financial core for future growth

Our responsive business model and our stable financial core have allowed us to navigate difficult operating environments and to deliver a stable performance overall. Moving forward, our transformation roadmap seeks to build on what we have achieved so far as great value to our shareholders in the long term.

In 2023, our fiscal focus remained on safeguarding our financial core that provided a strong foundation for upcoming growth plans. Despite the sale of BoB, our revenue remains stable at KD 221.7mn and delivered net income of KD 43.5mn. We also recommended distribution of a cash dividend of 6 fils per share in addition to 5% bonus shares to the shareholders.

Another clear indication of Burgan's solid financial core and its stable standing is our credit rating. The Bank continues to be rated investment grade by all the leading rating agencies with a stable outlook.

A progressive strategy deep-rooted in constant evolution

To set the groundwork for our transformative journey, it was critical for us to re-evaluate our entire operations and establish a number of decisive measures in key areas.

To that end, the Bank created the Transformation Unit, which has been positioned as a central driver of the entire strategic plan. This unit will play a pivotal role in helping Burgan Bank achieve its ambitious goals by overseeing and guiding the constant progress across three main pillars: strengthening our Kuwait business, re-allocating our Group assets and accelerating our digital transformation.

As a Group, we have long maintained a robust regional presence through our network of affiliates and subsidiaries, but today we are focused primarily on strengthening our core Kuwait business. This includes growing and diversifying our corporate client portfolio; expanding our retail market share; building the best-in-class private banking and wealth management; strengthening our liquidity and risk profile; and elevating our quality of service and products.

Our strategy also seeks to reallocate assets across our portfolio, reassessing and optimising certain aspects of our overall operations in line with the core business goals. The Bank successfully sold its stake in Bank of Baghdad in Q1'23 and also completed sale of partial stake of 52% in its subsidiary, Burgan Bank Turkey. These transactions reflect successful execution of asset reallocation strategy and shall enable future growth of the Bank in its business in core markets.

On the digital transformation front, we seek to lead with innovation and service excellence. Therefore, we continue to forge ahead with digitalisation efforts across all areas. Our expansive digital strategy is designed to reimagine our entire operational model on the one hand, and the customer journey on the other. The core goals of the digital strategy include revamping our technological infrastructure with advanced modern solutions; upgrading our IT capabilities and information security substructure; and promoting new

smart solutions and digital offerings to new segments. Our approach grows around our commitment to building a native digital banking experience that incorporates the latest digital transformation technologies in the banking industry, as well as a dynamic risk control culture that ensures the utmost safety for all data and assets.

Placing people at the heart of the transformation journey

We are a bank driven by people. A core component of our new mission is cementing Burgan Bank's position as an employer of choice for all aspiring and seasoned Kuwaiti bankers. Therefore, we remain focused on our long-term investment in human capital, with a commitment toward attracting, retaining, and promoting top national talent. Our new strategy saw us roll out an extensive organisational restructuring exercise in 2023 across the entire organisation, including a number of strategic appointments and promotions at the leadership level. Our transformation is led and driven by our people: it is a collaborative effort based on teamwork, passion and limitless potential for growth.

Continued journey towards sustainability

Beyond our organisation, we continue to contribute to our community and pursue opportunities for the prosperity of our stakeholders. Burgan Bank Group's success is never achieved in isolation from the business ecosystem or the community it serves. To this end, we have fostered an environmental, social, and governance (ESG) framework that ensures our contributions to the market and the community are in tune with the common good on all levels. After all, we continue to be a people-centric organisation living up to its ethos: "Driven by You".

On behalf of the Board of Directors, I would like to extend my sincerest gratitude to every member of the Burgan Bank team. This ambitious transformation journey we have embarked on is a collective effort – one shaped by dedication and driven by hard work.

I would also like to extend my thanks to our shareholders, our Board of Directors and our customers, as well as the Central Bank of Kuwait and the Capital Markets Authority for their unwavering support and trust in us.

Message from Group Chief Executive Officer

“ At Burgan, our focus is to build a solid business that can deliver sustainable growth and provide exceptional value to our customers and shareholders. ”

Antoine J. Daher
Group CEO of Burgan Bank Group



Dear Shareholders,

As we reflect on the past year, I am pleased to share with you a comprehensive update on Burgan Bank's performance, the strategic initiatives we have embarked upon and the impact the Bank is having on the wider community.

In 2023, the global economy faced several significant challenges including persistent high inflation, high interest rates, geopolitical tensions and new conflicts. These factors contributed to economic uncertainties and disrupted trade flows. Despite these hurdles, the global economy demonstrated resilience, adapting through monetary and fiscal policies by central Banks.

Resilient performance despite challenges

In 2023, the Bank generated KD 221.7mn in revenue, impacted by lower net interest margins and lower fee income. The operating costs were higher as the Bank continues to enhance its technology infrastructure and continues to invest in new

talent to drive the Bank's growth. The Bank's net income fell marginally to KD 43.5mn, largely impacted by the higher hyperinflation-linked monetary loss from Turkey.

However, the Bank's asset quality remained stable with NPL ratio of 2% and solid coverage ratio of 220%. The improvement in portfolio quality is also reflected in lower cost of credit of 10bps.

The Bank also increased its balance sheet size with its assets growing by 4% y-o-y and its deposits growing by 13.5% y-o-y.

In line with our strategy of strategic assets reallocation, we completed sale of Bank of Baghdad and partial stake in Burgan Bank Turkey. These transactions led to large capital benefits, boosting the Bank's regulatory capital ratios (CET1: 13.5%; CAR: 20%), paving the way for future capital deployment towards our key focus areas and creating path to long-term growth.

The Bank's results were supported by strong improvement in contribution from Burgan Bank Turkey (BBT). BBT's net

income increased by 191% to KD 13.4mn, due to improved risk metrics of new businesses such as wealth management, and commercial success of its digital platform, ON.

Burgan's other two international subsidiaries, Algeria Gulf Bank (AGB) and Tunis International Bank (TIB), produced Net Income of KD 8.8mn and KD 2.9mn respectively.

Strategic pivot to transform the Bank

FY23 was the year of strategic pivot as we undertook a comprehensive review of the Bank's strategic priorities, its market positioning and technological capabilities with a goal of achieving sustainable growth and value generation for key stakeholders. The Bank launched its new strategy with its mission to deliver excellent customer experience, lead with innovation, become an employer of choice and contribute tangibly to the community. The three key pillars identified under the new strategic framework are strengthening Kuwait business, pursuing asset reallocation and delivering digital transformation.

This year we started the process of streamlining and refining our Banking experience in line with our vision for the "Burgan way of Banking": smarter, easier, and more sustainable. Our approach remains holistic, interweaving our digital transformation with our ESG commitments to deliver the inclusive experience our customers & society deserve.

Renewed focus on modern banking experience, driving innovation

Digitalisation continues to be a core tenet of our strategy, and in 2023 we actively sought to expand and diversify our portfolio across segments with market-leading solutions. In Kuwait, we expanded our digital payment offerings, launching Google Pay and Apple Pay to enable customers to make secure contactless payments across Android and iOS platforms. We also launched Tijarati Pay, a new and unique enhancement to its Tijarati platform, designed and built to facilitate seamless payment transaction execution and management for small and medium-sized enterprises (SMEs). For our corporate customers we delivered multiple enhancements and upgrades to our cash management platform. Burgan Kuwait's app was among the highest rated app in the country – particularly on iOS store.

In Turkey, our award-winning digital platform "ON" continued its growth trajectory this year. The number of digital customers increased to 639K customers, up by 83% y-o-y. ON continued to expand its range of products and features during the year, ensuring superior customer engagement. ON was awarded "Best Integrated Consumer Banking Site" for Europe & Turkey in the Global Finance's "World Best Digital Bank Awards 2023".

Empowering people and communities to create lasting value

Our philosophy remains people-centric and people-driven. Ultimately, we are on a mission to deliver opportunities for the

prosperity of our stakeholders: employees, customers, and community at large.

For over four decades, Burgan Bank has grown and matured into the progressive institution that it is today, thanks to its people. We recognise that our strategy requires that we continue to invest in our people's competencies and capabilities.

Our investment in our human capital continues to be the underlying foundation for every phase of our development. We have dedicated significant resources to the development of our employees to ensure that they think, innovate, and act in accordance with our vision for change. This includes fostering a culture of enabling talents who can provide innovative thinking and can enable seamless execution to deliver tangible results.

In 2023, we proudly became the first Bank in Kuwait to be officially certified as a "Great Place to Work", in addition to being named one of the 20 Best Workplaces in Kuwait and being ranked 27th on the 'Large Organisations' list of Best Workplaces in Asia™ 2023.

Burgan remains committed to building an inclusive and sustainable future

As part of our new strategy, we are committed to embed ESG principles at the core of our business, decision-making, operations and culture.

Given the strategic importance of our sustainable business ambitions and commitment in managing the impacts arising from climate change and broader social issues, the Bank set up a cross-functional ESG management team, to lead the Bank's ESG-related initiatives. The Bank's efforts in this space over the last two years led to improvement in its MSCI ESG rating score from 2.6 to 3.6 and ESG rating upgrade to "BB".

The Bank has taken concrete steps this year to measure its carbon footprint and will be disclosing its key GHG emissions for the first time. We continue to create positive social impact by serving our community through our CSR activities in health, education, culture and sports.

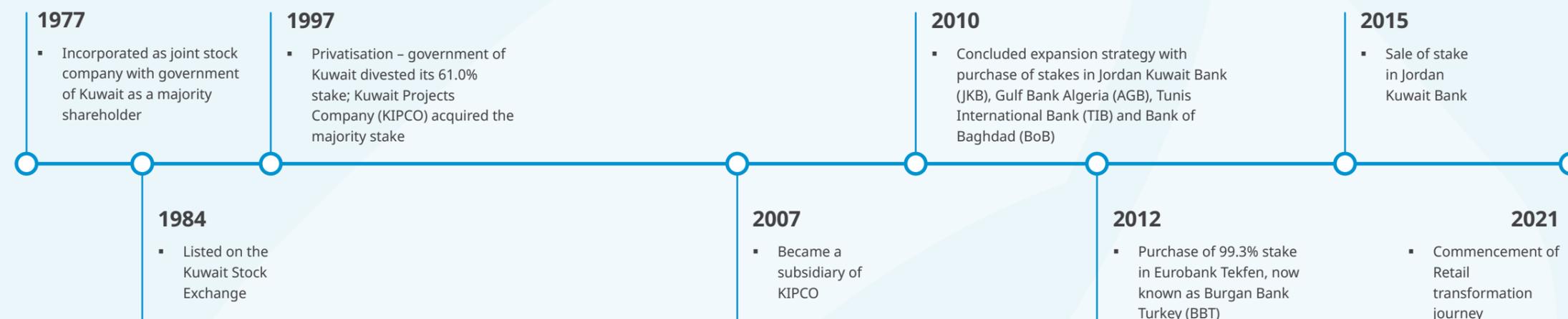
In conclusion, I would like to thank each and every member of the Burgan Bank team: from our Board of Directors for their trust in us, to my fellow executives who continue to lead with innovation, and to our entire workforce for their tireless dedication.

I would also like to thank our valued shareholders, the Central Bank of Kuwait and the Capital Markets Authority for their continued support and guidance.

Evolution



Over 45 years of operations



2023 Key Highlights



Market Overview Global Markets

US

The US economy has proven resilient in the face of significant policy tightening that took place in 2022-23. Consumer demand has held up particularly well, boosted by the drawdown of pent-up savings, and solid growth in real disposable income. The federal budget deficit increased from 5.4% of GDP in FY 2022 to 6.3% of GDP in FY 2023.

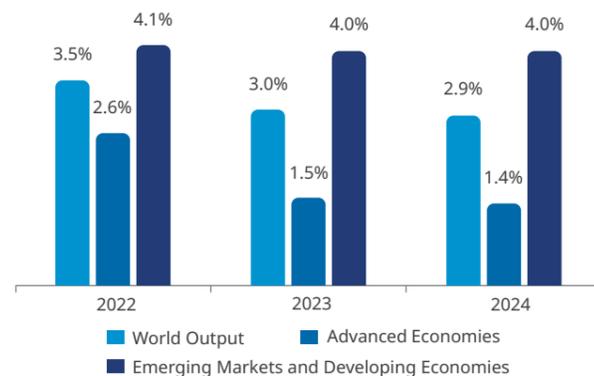
Monetary policy has been assertively tightened. Interest rates have risen by 525bps since March 2022 to 5.50%. 2023's bank failures reflect the challenge of sizable unrealised losses on assets in the rising interest rate environment.

CHINA

In 2023, GDP was supported by improved demand, after a series of stimulus policies were adopted to avoid a hard landing. Growth is still a risk as real estate tensions, large local government debt and other structural problems (middle income trap, ageing, etc.) remain in place. Inflation remained close to zero but is forecasted to converge to 2% on more supportive policies and some confidence improvement.

The monetary easing measures in 2023 include two Reserve Ratio Requirement (RRR) cuts and two Loan Prime Rate (LPR) cuts, but the room for LPR cut will be limited due to the concerns of exchange rate depreciation and capital outflows.

Global Growth Outlook (% y-o-y)



Source: IMF, Burgan Estimates



EURO AREA

The Eurozone economy has shown remarkable resilience in the aftermath of Russia's invasion of Ukraine and the largest in terms of trade shock in several decades, thanks to a swift policy response and a strong rebound in contact-intensive services. However, economic activity weakened significantly in the second half of 2022 and slipped into a mild technical recession in early 2023 as financial conditions tightened, real wages declined, and consumer confidence fell. Growth picked up gradually throughout 2023, supported by a recovery in real incomes, a further easing of supply constraints, and a firmer external demand.

While headline inflation fell sharply after reaching record high levels, core inflation proved more persistent. The fiscal deficit has reduced from 3.6% in 2022 to 3.5% in 2023. The Euro Area is projected to experience a growth of 1.2% in 2024, with an inflation expectation of 2.9%.

Oil Price (ICE Brent, USD/bbl)

Demand - In 2023, the global demand for crude stood at 102.1 mb/d witnessing a growth of 2.5% y-o-y from 2022.

Supply - The global crude oil supply stood at 95.4 mb/d resulting in a supply deficit which supported the oil prices.

Outlook - Gradual recovery in 2024 along with forecasted decline in interest rates is expected to boost oil demand to 104.4 mb/d. Reduced output from OPEC+ may result in supply deficit and would support the prices.

Brent Oil Prices



Market Overview

Key Markets



GDP GROWTH AND FISCAL POLICY

KUWAIT

- Oil GDP shrank by 2.7% due to OPEC+ production cuts, while non-oil GDP grew by 3.7% driven by higher government spending and increased expat jobs. This led to a projected decline in overall GDP by 0.6% in 2023, compared to a growth of 8.9% in 2022.
- The fiscal surplus rose to 23.4% of GDP in 2022-23, thanks to higher oil income and controlled expenditure.



INFLATION AND MONETARY POLICY

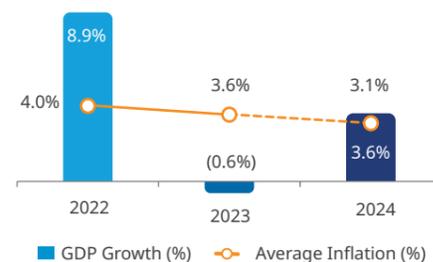
- Inflation averaged 3.6% in 2023, fueled by robust consumer demand and rising rents. It is projected at 3.1% in 2024 due to subsidies on necessities, capped gasoline prices, and tighter monetary policy.
- The CBK raised its discount rate by 25bps to 4.25% in 2023, the highest since September 2008.
- Higher oil revenue resulted in the current account surplus estimated at 33.8% of GDP in 2022 and expected to be high in 2023.



OUTLOOK

- Near-term economic prospects are favorable supported by solid private consumption, lower inflation expectations, and ample fiscal and external buffers.
- Production cuts are expected to unwind towards the latter half of 2024 supporting the growth of oil GDP.

Cautious growth outlook for 2024; softer demand for oil coupled with expected rate cuts will put pressure on earnings in 2024



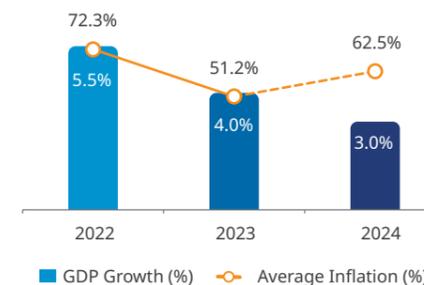
Source: IMF, Burgan Estimates

TURKEY

- GDP growth is estimated at 4.0% in 2023, due to weakened exports and the earthquake in Southern Türkiye.
- Additional tax hikes were implemented in a supplementary budget, with corporate tax rate being raised by 5% in July 2023. The value-added tax was also raised by 2%, to 20% for goods and services.

- The CBRT has raised the rate by 3,400bps since June 2023 to 42.5% in December 2023. The move was seen as a continuation of the CBRT's attempt to combat high inflation and a falling TRY.
- Inflation is expected to decline due to factors like diminishing exchange rate passthrough, favorable base effects, and expected reductions in commodity prices along with the increase in interest rates.

- With policies turning appropriately less accommodative, growth and average inflation are forecasted to come down.
- By 2025, if investor confidence recovers fully, a cycle of inflows and a stronger exchange rate could bring down inflation faster than expected, while boosting growth.

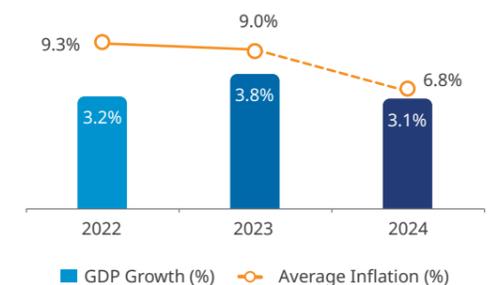


ALGERIA

- Algeria, being a net exporter of energy, is estimated to grow by 3.8% in 2023, primarily driven by surge in energy prices.
- The government adopted a corrective budget for 2023 that boosts spending by over DZD1tn.
- The increased government spending also helped consumer demand, as higher wage package for civil servants is spent in the economy.

- Inflation remained high, driven by rising prices of fresh food products. Algeria reported 9.0% inflation in 2023.
- Despite the high inflationary environment, there were no adjustments to the policy rate which remained steady at 3%.
- Given the lower oil output, the central bank may allow the nominal exchange rate to depreciate to moderate import demand, reduce pressure on reserves, and maintain export competitiveness.

- Policymakers focus strongly on boosting output in the non-oil economy with a view to diversifying the economy as hydrocarbon reserves dwindle.
- Strong demand through the government and consumption channels is the main driver for GDP growth.



Business Model Dynamic, Robust, Agile

KEY CAPABILITIES

Banking Infrastructure

- Maintaining the right combination of physical and digital channels.
- Strengthening digital capabilities.
- Maintaining state-of-the-art data privacy and cyber security infrastructure.

Financial Resources

- Total deposits: KD 4,463mn.
- Total regulatory capital: KD 1,272mn.

Human Resources

- Employee base: 3,311.
- Continued skills training and capability building.
- Driving employee engagement initiatives.

Stakeholders Relationships

- Customers across platforms and product classes.
- Prioritised Corporate Social Responsibility (CSR) activities.

Strong Intellectual Capital

- Cyber security and data privacy.
- Simple & easy processes for improved customer experience.
- Risk management framework.

HOW DO WE CREATE VALUE?

Retail Banking

- Full range of customer-centric solutions for various customer segments.
- Regular enhancement of products and customer experience.

Corporate Banking

- Full range of products and services for large and mid-sized corporates along with SMEs.
- Participation in financing infrastructure projects.

Key Subsidiaries

Burgan Bank Turkey

- Key segments are corporate and commercial while making inroads in retail banking space through "ON" digital platform.
- Corporate banking specialisation with group retail & private franchises.
- One of the best digital platforms in Turkey.

Private Banking

- Bespoke solutions tailored to HNWIs and UHNWIs.
- High-quality service with easy access to RM's and support staff.

Treasury & Investment Banking

- Liquidity management to support asset growth and compliance.
- Proprietary investment portfolio management.

Gulf Bank of Algeria

- Trade driven corporate banking business.
- Expanding retail franchise.

Tunis International Bank

- Comprehensive offerings across commercial banking, private banking, and trade financing.



FINANCIAL OUTCOMES



Customer Loans
KD 4,237mn



Revenue
KD 221.7mn



Operating Profit
KD 105.5mn



Net Income
KD 43.5mn



ROE
4.6%

Business Strategy Supports Our Vision & Mission

STRATEGIC PILLARS

KEY INITIATIVES

2023 PROGRESS

DRIVEN BY



Strengthen Kuwait Business

- Grow & diversify the corporate portfolio
- Double market share in retail
- Build best-in-class private bank & wealth management
- Strengthen liquidity and risk profile
- Improve quality of service, cross-sell and share of wallet
- Embed best-practices, including ESG

- Retail growth supported by execution of strategic actions such as product refresh, focus on affluent segment etc.
- Private banking received three new licenses from Capital Markets Authority (CMA)
 - These licenses shall enhance our client offerings
- Launched Tijarati Pay for SME and commercial clients



Culture Transformation



Asset Re-Allocation

- Pursue sale of non-core assets
- Re-Invest in new markets
- Seek growth opportunities in new segments

- Successfully completed sale of the Bank's stake in Bank of Baghdad (BoB)
 - BoB's sale ensured protection of Burgan's NPL ratio by 60bps, along with an increase in capital ratios by 70bps
- Successfully concluded the structured sale of 52% stake in Burgan Bank Turkey (BBT)
 - The transaction resulted in 200bps increase in capital ratios while reducing future volatility in Burgan's equity and income statement



Brand Equity



Digital Transformation

- Revamp IT infrastructure with modern technology
- Upgrade IT capabilities and IT security
- Promote digital offerings for new segments

- The digital platform "ON" is even stronger with new features such as investment account opening, FX platform and much more
 - Reached 639k customers in Turkey, representing 82% y-o-y growth
- Burgan Kuwait's iOS app continues to be amongst top-3 banking apps in Kuwait
 - Burgan's digital customers increased by 15% y-o-y to 69k in 2023



Risk and Control



Best Practices

Strategy in Action

Retail Transformation Progressing Well



Burgan Bank continued its focus on strengthening its retail business in Kuwait in 2023 through:

- introducing new customer segmentation to better serve the customers;
- improving retail products & services offered by the Bank; and
- enhancing digital propositions for improved customer experience.

These initiatives have resulted in strong customer engagement and new customer acquisition.

Launch of Elite Banking - New customer segment

Burgan introduced “Elite Banking” services for its affluent customers, offering them an array of benefits including a dedicated relationship manager, special pricing for products, special credit card for the segment, family banking and personalised concierge services among many other lifestyle privileges.

Enhanced product offering

- Burgan revamped its flagship products, “KANZ” and “Al Rateb”, with enhanced features to make them more relevant and competitive. The overall prize money offered to its customers increased to over KD 2.6mn with the introduction of a new half yearly prize of KD 500k while continuing the annual prize draw of KD 1.5mn.



- The Bank continued its focus on “Al Rateb” salary account with a comprehensive suite of features, including an account opening cash gift of up to KD 2,000 upon salary transfer and loan up to KD 95,000. The Bank also introduced customised salary account offers for employees of select corporates and the ministries.
- In 2023, the Bank launched the highest cashback credit card in the market designed for customer convenience with varying needs. The credit card allows customers to enjoy up to 15% cash back when using Mastercard World, 10% when using Mastercard Platinum and 5% when using Mastercard Prepaid for “daily spends”. Merchant categories where cash back is made selectively available include restaurants, health clubs, communications, health & beauty, and subscriptions & utilities, whether locally or internationally.

Improved customer experience

- With digitalisation as a focus, Burgan also launched ‘Virtual Cards’ option for credit, debit, and prepaid cards. In addition to the customary functions of Burgan’s banking card, the virtual card offers even more convenience, with instant issuance and activation through the Bank’s mobile application. Usage on this card is enabled through the “tap & go” feature.
- The Bank continued to streamline customer journey processes and roll out additional functionalities on its mobile banking app to facilitate online banking.



These initiatives have resulted in strong customer engagement and new customer acquisition. Overall, Retail Banking segment reported a very strong volume growth in 2023.

Retail Loans (KD)
450mn } 12%

Retail Deposits (KD)
1,069mn } 26%

Number of Cards
62,000 } 19%

New Customers Acquired in 2023
15,000 } 14%

Strategy in Action

BBT: Execution of Transformative Strategy

Macro headwinds amplified weakness in operating model

Critical Challenges

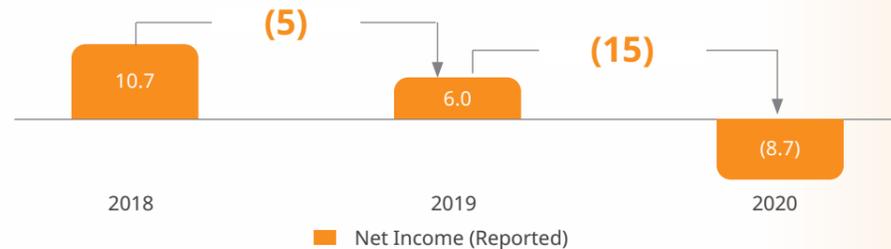
- × Significant Turkish Lira devaluation starting from 2018 onwards
- × High inflation due to unorthodox monetary policies
- × Significant foreign currency exposures
- × Low cross-sell to clients due to limited products
- × Weak asset quality
- × Inadequate technology capability

Strategic shift in operating model to navigate macro uncertainties

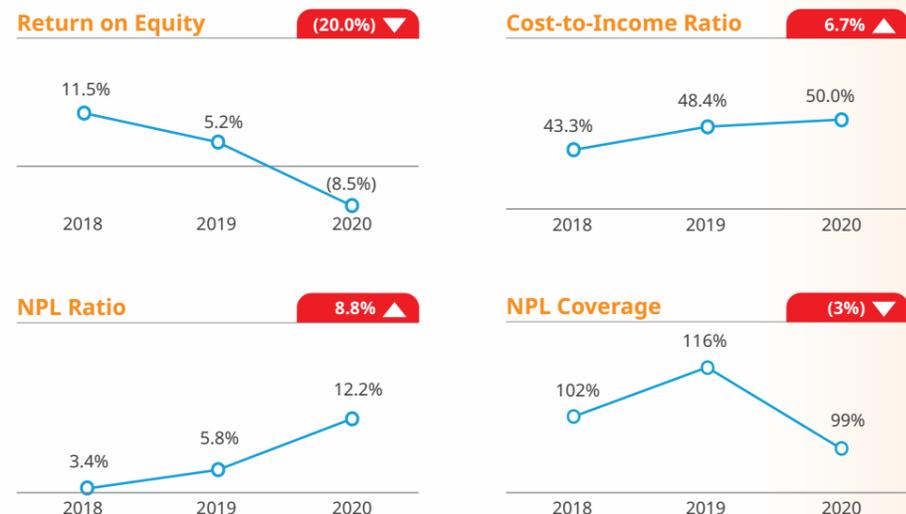
Strategic Actions

- ✓ Improved risk framework through greater Group monitoring
- ✓ Developed and created new product capabilities
- ✓ Significant improvement in operational efficiency
- ✓ Increased short term local currency assets
- ✓ Monitored and controlled growth of foreign currency exposure
- ✓ Focus on delivering market leading digital platform with launch of "ON"

Adverse Impact on Net Income (KD mn)

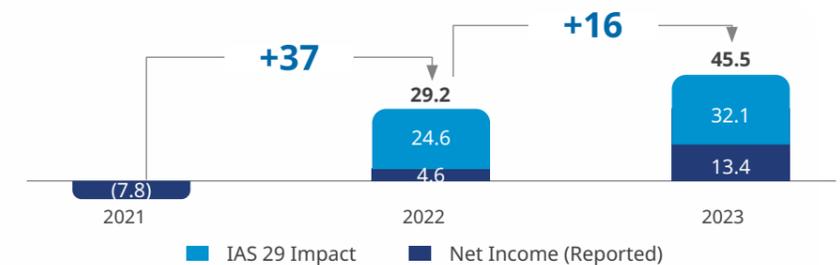


Deterioration in Other Key Metrics

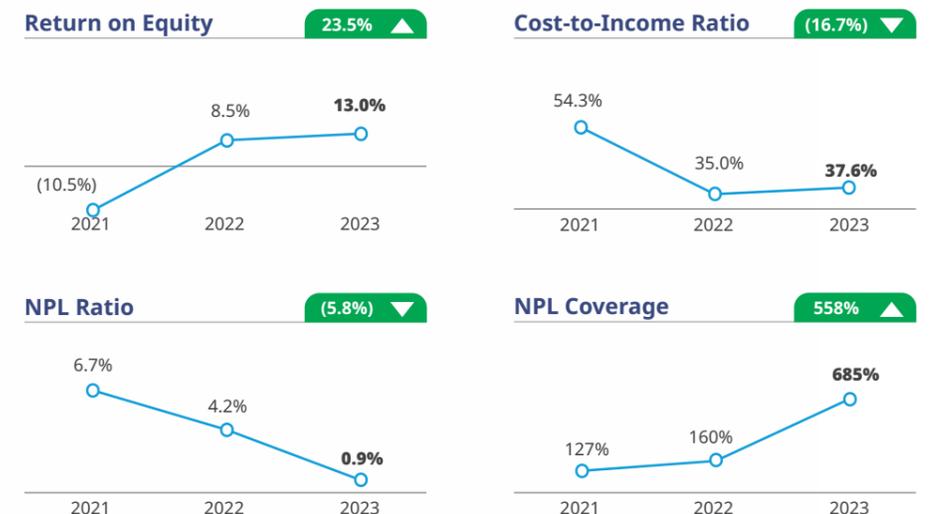


* Delta represents the change between 2018 to 2020 As per CBK Reporting

Strong Rebound in Net Income (KD mn)



Significant Improvement in Other Key Metrics



* Delta represents the change between 2021 to 2023 As per CBK Reporting

Strategy in Action Banking Powered by Digitalisation

UNLOCKING THE POTENTIAL OF TECHNOLOGY DRIVEN BANKING

Burgan has a bold aspiration for its digital business and is building a strong suite of technological solutions. These solutions are aimed at providing our clients with easy-to-use, simple yet elevated experience



Transforming customer experience in Kuwait

- During 2023, the Bank launched seamless payment solutions such as Apple Pay & Google Pay. It also optimised its Mobile Onboarding Experience through quick account opening process (less than 45 seconds to open flagship KANZ & Al-Rateb accounts) along with SMS onboarding service, offering uncompromised efficiency to its customers.
- Burgan took another leap into the future with launch of Virtual Cards. Burgan also launched "Digital Card Controls", providing its customers instant control over their cards in various digital wallets. Apart from the above, the Bank delivered multiple upgrades to its mobile app further enhancing its user interface (UI) and user experience (UX).
- For corporate clients, the Bank continued to further enhance its digital cash management (CMS) offerings by reducing the transaction execution time and introducing new features such as online alerts and notifications, transaction initiation on mobile app, etc. During 2023, the customer base on CMS platform increased by 65% y-o-y while the value and number of transactions executed on the platform increased by 31% and 47%, respectively.

- For its SME customer, the Bank introduced "Tijarati Pay" a new and unique enhancement to its Tijarati platform. This first of its kind feature in the region, allows its customers to accept and collect payments, create payment links, enables real-time monitoring and payment requests and transactions.

KUWAIT

69K +15% 
Active Digital Users

49.4mn +23% 
Number of Activities

4.6
App Rating (Apple Store)

A DIGITAL FUTURE POWERED BY "ON"



At ON, we offer a transformative mobile banking experience to our customers in an end-to-end digital environment with next-gen features. Our unwavering commitment of delivering bespoke products in a digital world ensures that our customers enjoy unparalleled, seamless, and intuitive experiences.

ON: Growth beyond expectations

- ON's pursuit of emerging as a growth and profitability engine is trending in the right direction. 2023 saw the franchise's revenue and profitability increasing ~5x and ~6.5x, respectively, while its loan book grew strongly by 133% y-o-y and deposit collections increased by 87% y-o-y. ON also produced a strong risk adjusted return on capital.

ON: New products and services to further enhance customer experience

- ON continued to develop and improve user experience in its mobile application and internet banking.
- Some of the new products introduced in 2023 were Investment Account Opening, ON FX, ON ROBO, Fund Universe, Fund Deposit Account, etc.
- Key enhancements in 2023 were facelift of "Dashboard" and "Accounts" Menu, facelift of Bills and Bill Payment Order Menus, etc.

ON: Continues to be award winning

- ON continues to lead the digital banking space in Turkey. It won the award for "Best Integrated Consumer Banking Site" for Europe & Turkey in the Global Finance's "World Best Digital Bank Awards 2023".
- ON was also awarded "Best Digital Banking Platform Turkey 2023" by World Business Outlook Awards and W3 Awards for "Mobile - Mobile Apps & Sites" category.



TURKEY

639K +83% 
Active Digital Users

TRY9.1bn +87% 
Digital Deposit Volumes

TRY4.0bn +133% 
Digital Loan Volumes

ESG Highlights Key Pillars and Achievements in 2023

Endorsing Ethical Practices & Transparency



Focus areas

- Diversity and equal opportunity
- Non-discrimination
- Business integrity
- Anti-corruption
- Regulatory compliance

Highlights

- Well-diversified workforce with women comprising 48% of staff.
- Signatory to Women Empowerment principles with several initiatives to encourage women representation in workforce. Women comprised 46% of our new hires, 54% of staff promotions and 53% of our leadership programs.
- Active efforts to integrate persons with special needs through participation and sponsorship of events directed to inclusion for this segment of our community.
- A compliance awareness campaign was launched through an e-learning course.
- In 2023, an internal audit of Conduct, Culture and Ethics was conducted to assess the design and operating effectiveness of key controls including the relevant technology aspects.
- In 2023, the Bank's AFC operations were assessed for risks related to corruption. We provide specialised and tailored awareness program for different roles within the Bank.



Responsible Banking and Financing



Focus areas

- Economic performance
- E-Banking
- Responsible lending and investing
- Data security and privacy
- Financial literacy

Highlights

- The Bank has undertaken a project to integrate climate risk in our lending and financing activities with formulation of environmental risk credit assessment criteria matrix, environmental key risk indicators, climate related risk reporting pack, and others.
- Corporate Banking financed projects worth KD 3.7mn related to ESG in 2023.
- As part of the Bank's commitment towards financial inclusion, the Bank has provided a total of 191,536 and 200,752 B-Dinar accounts (low income) and cards, respectively, as of 31 December 2023.
- Digital innovation for our merchant community through the Tjarati App which provides real time, complete overview of business anywhere & anytime.
- Debt collection policy expected to be rolled out soon aiming to foster customer confidence and long-term relationships.
- Loan modification options are provided when a customer's salary is amended, by offering various options to reschedule as per the CBK guidelines.
- Management Product & Pricing Committee (MPPC) in place to review and approve new products, changes to existing products, and their pricing.



Minimising Environmental Impact



Focus areas

- Energy consumption
- Supplier environment assessment
- Waste management

Highlights

- Introduction of digital products, such as virtual cards and e-wallets that aim to reduce carbon footprint.
- Reduction in usage of single-use plastic through issuance of new cards on ecofriendly re-cyclable plastic and reducing the use of disposables such as single use plastic bottles at our business sites.
- E-waste recycling drive for employees to encourage safe and environment-friendly approach to disposal of used electronics.
- Installation of EV chargers and solar panels at head office to promote green energy.
- Both direct and indirect GHG emissions are being captured with carbon footprint mapping of scope 1, 2 & 3 emissions for 2022 & 2023.
- Going paperless; all customer & merchant statements are provided via electronic channel leading to cost reduction and increased data safety.
- In-App provisioning with Apple, Google and Samsung to digitalise cards to reduce carbon footprint as well as reduction in plastic utilisations.
- Enhance services through digital channels such as account opening customer certifications, cardless withdrawal, etc.



Positive Community Impact



Focus areas

- Kuwaitisation
- Customer experience
- Training and education
- Employee satisfaction
- Corporate social responsibility
- Supplier social assessment

Highlights

- In line with Vision 2030, the Bank worked towards further improving Kuwaitisation. The workforce comprises of 83% Kuwaiti employees with 96% of our new recruits and 69% of total staff promoted were Kuwaitis.
- Launched Digital Academies to empower employees through tailored learning opportunities.
- Launched HR chatbot designed to improve HR-related communication.
- Launched anti-attrition campaign for retail customers.
- Employee engagement by launching easy to use learning tools such as videos and information snippets to start a shift in thinking towards ESG priorities.
- ESG awareness training for all the staff.
- Launched "Smiling" campaign to boost positive employee morale and translate it into enhanced customer experiences. Customer satisfaction surveys revealed a notable increase in positive feedback, particularly regarding employee friendliness and helpfulness.



ESG Highlights Focus Areas

Burgan Bank recognises the tremendous impact that we as financial institutions can have on our local and global communities. As trusted financial partners for our clients, we are deeply committed to integrating Environmental, Social, and Governance (ESG) principles into our core business processes. Our commitment to ESG reflects our belief that responsible banking is not only about financial gain, but also about creating a positive social impact. By prioritising sustainable practices, ethical governance, and community engagement, we aim to create sustainable value for our stakeholders and play a key role in creating a sustainable and inclusive future for Kuwait.

ESG is a strategic priority at Burgan Bank and we continue to make progress on our ESG commitments through consistent actions across the four sustainability pillars of the Bank.

While conducting all the ESG activities, we continue to be guided by international standards such as the Global Reporting Initiative (GRI) and Sustainability Accounting Standards Board (SASB), aligning with the United Nations Sustainable Development Goals (UNSDGs), Kuwait Vision 2035, and Boursa Kuwait priorities.

Burgan Bank has in place a cross-functional ESG management team, known as the Management Environmental, Social, and Governance Committee (MESGC) to oversee ESG integration and monitor ESG performance with Board oversight. The Bank has also developed an ESG Policy to articulate its ESG commitments, guidelines, primary management and control objectives.



BB

MSCI Rating



15,726 tCO₂e
(Scope 1, 2 and 3)

GHG Emissions

WAY AHEAD

Climate change presents a significant global environmental challenge which impacts the Middle East as well. In alignment with the global agenda to control global warming and the goals set under the Paris Agreement, Kuwait has pledged to achieve Net Zero emission by 2060. Burgan Bank engages in efforts to address climate change through several initiatives such as process to integrate climate risk in its lending and financing activities through Climate Risk project.

To reinforce this commitment towards the national goal, Burgan Bank has embarked on a decarbonisation journey through a comprehensive Greenhouse Gas (GHG) accounting exercise covering direct emissions (Scope 1), indirect emissions (Scope 2), and other indirect emissions (Scope 3), in alignment with 'The GHG Protocol'.

Burgan will continue to provide an enhanced experience for our customers and focus our social efforts on areas such as improving financial literacy and giving back to our communities.

People

Burgan’s philosophy is to build our people in line with our vision - “to be the most progressive bank in Kuwait, driven by our employees, customers and community”.

Organisation culture

We believe that our people are our greatest asset, who will contribute to our success by delivering an excellent customer experience and creating value for all our stakeholders. In Burgan, HR is leading the change to build the culture and ensure that our employees take ownership and align their individual and collective behaviours to our values. Excellent participation from our employees in an independent organisational survey led to Burgan being certified as “Great Place to Work”. This endorses our work culture based on the principles of trust, excellence and collaboration, and focussed on building passion among all levels of employees as one of our core values. Burgan invested in creating “The Rock” at our head office, aimed at enhancing work life balance for our employees and fostering a vibrant Burgan community. Our employees now have a dedicated space for networking, collaboration and creativity.

Kuwaitisation

Burgan Bank is cognizant of the fact that attracting and retaining top national talent is crucial to the development of our economy. Our workforce comprises of 83% Kuwaiti employees which is the result of a targeted strategy of hiring local talent at all levels as well as dedicated leadership and development programs for our nationals. 96% of our new recruits in 2023 were Kuwaitis. 69% of total staff promoted to higher jobs in 2023 were Kuwaitis with a significant improvement of 8% Kuwaitis in our mid-management level. The Human Resources Group runs several programmes to provide our Kuwaiti employees with diverse and fulfilling



- careers, as well as progression opportunities for high potential employees. Initiatives include:
- Campus recruitment drives and participation in career fairs to attract young talent;
 - Direct collaboration with global ivy league universities delivering leadership and management programmes;
 - Collaborating with the Kuwait Foundation for the Advancement of Sciences (KFAS) to put forward Kuwaiti employees for leadership, strategy, management and technical programmes;
 - Participation in the Institute of Banking Studies’ KAFAA programme for our Kuwaiti talent, which includes Harvard Business School’s Executive Programme, Cyber Security Leaders Programme, Risk Management Leaders Programme, and the Kuwaiti Graduates Development Programme, among others;
 - Partnership with American University of Kuwait’s Center for Continuing Education including targeted technical and leadership programmes for Kuwaitis; and
 - Dedicated personalised, one-to-one coaching with internal certified coaches for the Bank’s talent in the Ro2ya programme.



83%
Kuwaitisation



Our key commitment is to invest in developing and supporting our people as they build their careers with us, while maintaining a work environment that fosters ownership, transparency, teamwork and passion.

Talent development and succession planning

Learning and Talent Development (LTD)'s strategic approach reflects the Bank's unwavering commitment to foster a culture of continuous learning. LTD has actively diversified the learning approach to accommodate employees' varying schedules and daily workloads by providing accessible learning opportunities. Burgan's focus is on cultivating a learning ecosystem and building skillsets required to satisfy the Bank's future demands as well as boosting employees' progression. In 2023, Digital Academies was launched as a specialised form of e-learning with long-term skill building courses.

Emphasising on the importance of succession planning, the Bank has strategically nurtured its leadership pipeline through diverse avenues, with emphasis on partnerships with renowned global business schools such as Harvard, INSEAD, HEC Paris, Kellogg, Northwestern University, Said Business School and University of Oxford among others. Furthermore, Burgan continues to grow its management cadre under Ro2ya, our flagship leadership talent development program across all level of employees in the Bank. The Bank has successfully put 80 employees through the Ro2ya program with 68.5% of these promoted.

 **43,063**
Total Training Hours

Diversity and inclusion

In the pursuit of fostering diversity and inclusion, Burgan Bank has demonstrated its commitment to women's empowerment through programs that encapsulate learning, certification, coaching and leadership opportunities.

A total of 21,602 hours were devoted by women employees to engage in diverse learning initiatives within the Bank. The noteworthy achievements underscore the Bank's dedication, with 41 distinct female staff members completing certifications across 42 different topics.

Moreover, the Bank facilitated personalised professional development through one-on-one coaching sessions, with 29 female employees benefitting from dedicated coaching.

In a testament to Burgan Bank's commitment to cultivating female leadership, 78 women actively participated in various leadership opportunities, underscoring the institution's role in providing a conducive environment for the advancement and empowerment of women in the workplace.

This robust initiative reflects not only the Bank's recognition of the intrinsic value of diversity but also its proactive measures to ensure that women are afforded equal opportunities to thrive and contribute significantly to the organisational landscape.

Through such endeavors, Burgan Bank not only champions diversity and inclusion but also establishes itself as a catalyst for women's empowerment within the financial sector.



48%
Female Employees

Performance and recognition

Our approach to performance and recognition is grounded in a pay-for-performance model, aiming to acknowledge and reward exceptional contributions with competitive compensation. Burgan Bank actively engages in periodic salary surveys facilitated by the Kuwait Banking Association, taking strategic steps to align our remuneration practices with the industry's best standards.

In alignment with our strategic goal of attracting and retaining top-tier talent, the Bank has consistently upheld a "lead" market positioning compared to its peers in terms of total rewards. Integral to cultivating a performance-driven culture is our employee performance review process designed to provide comprehensive, timely, and actionable feedback to employees that supports professional development. This year, a midyear review system was introduced to further enhance the timeliness and effectiveness of our performance evaluation system.

Employee wellbeing

Burgan is committed to create new and different opportunities for our employees to lead healthier and more fulfilling lives. Besides the positive impact that these initiatives have on their personal lives, they reflect very clearly on their professional performance and sense of well being. HR conducted several well-being programs during the year which included a full body changing campaign for 4 to 6 weeks covering sessions with dietitian, fitness classes, and yoga sessions to encourage employees to take small steps toward replacing unhealthy habits with healthier ones. Talk sessions were also held by specialists to guide working parents to create quality time with their family.



Stakeholder Engagement Our Interactions

“Driven by You”

Our key stakeholder groups are considered highly significant to the success of everything that Burgan Bank Group does and stands for.

OUR EMPLOYEES



Mode of engagement

- Bank-wide internal communications.
- Dedicated employee app “Burgani”.
- Engagement via employee-focused social media.
- Open door policy as defined and practiced by Executive Management.

How often we engage

- Annual town halls.
- Social media.
- Staff days with families.

Key parameters

- Annual goal setting at start of the year.
- Annual performance appraisal at the end of the year.
- Individuals’, teams’ and Bank’s performance reviews.

Value creation

- Build and foster a culture of trust and integrity.
- Make employees feel valued.
- Lateral and vertical growth of employees.

OUR CUSTOMERS



Mode of engagement

- Primarily at branches, via our staff and relationship managers.
- Increasing usage through our digital channels, be it mobile app or online platform.
- 24/7 access to our call centres.
- Customer events throughout the year, e.g., Kanz celebration event.

How often we engage

- We are at customers’ service whenever they need us.
- We also collect feedback from our customers on a quarterly basis.
- Dedicated team to address customer complaints.

Key parameters

- Mobile app rating.
- Resolution and response to customers’ concerns and complaints.
- Customer retention and longevity of relationships.

Value creation

- Enable servicing of customers’ needs and wants.
- Deliver competitive offerings.
- Customised solutions for our corporate clients and HNWI customers.

OUR INVESTORS



Mode of engagement

- Interactive and highly informative investor relations (IR) webpage with enhanced reporting tools.
- Annual general meetings.
- Investor conferences.
- Investor calls.

How often we engage

- Quarterly investor calls on latest results.
- Participation in key investor conferences.
- One-on-one calls with investors, when requested.

Key parameters

- Timely and accurate information dissemination.
- Effectively communicate strategic priorities and key business drivers.
- Provide Bank’s outlook as accurately as possible.

Value creation

- Build a relationship of trust with investor community.
- Deliver transparency.

OUR COMMUNITY



Mode of engagement

- Multiple events throughout the year.
- Partnerships.

How often we engage

- Every quarter, across the year.

Key parameters

- Increase in awareness of social issues.
- Drive engagement across key entities.

Value creation

- Positive impact on society.
- Awareness of critical societal issues and potential solutions.
- Uplifting of weaker sections of society.

Business Review

Burgan Bank Kuwait

“ In 2023, BBK focused on strategic consolidation and continued digital innovation, laying a solid foundation to strengthen our business proposition for sustainable growth. ”



Fadel Mahmoud Abdullah
Chief Executive Officer
Kuwait

Revenue
KD
111.7mn

Operating Profit
KD
51.5mn

Net Income
KD
36.2mn

Total Assets
KD
6.0bn

Overview

Kuwait remains the focus area for the Group. In 2023, BBK focused on growing its retail operations along with corporate banking backed by strong digital platform to provide simple and easy-to-use customer experience. BBK remains committed to sustainable and inclusive growth.

Performance

BBK continues to be the flagship franchise of Burgan Bank Group, representing 77% of the Group's assets and 48% of the Group's revenues in 2023.

In 2023, the revenue remained stable at KD 111.7mn on account of stable net interest income at KD 93.1mn. The non-interest income was impacted by lower security gain, fee & commission and stood at KD 18.6mn.

Further, BBK recorded strong recoveries from written-off portfolio. The recoveries increased from KD 4.2mn in 2022 to KD 33.9mn in 2023 resulting in decline in cost of credit by 3bps to 0.4% in 2023. Overall, BBK reported net income of KD 36.2mn in 2023.

During 2023, BBK grew its balance sheet with loans growing by 3.9% to KD 3.3bn and customer deposits growing by 25.8% to KD 3.4bn. In 2023, BBK's asset quality remained stable with a low NPL ratio of 1.8% and a high NPL coverage ratio (excluding collateral) of 236.6%.

Reimagining the Retail Banking experience

BBK strengthened its offerings by introducing bespoke products. During 2023, the Bank launched a new series of cashback cards with the highest cashback rate in Kuwait, revamped Kanz Draw Account with a higher reward amount and introduced Elite Banking with tailored services and great customer experience. All these initiatives resulted in strong performance in retail operations with loan book growth of 12% and revenue growth of 10.1% in 2023.

Continued focus on Digitalisation

BBK continues to pursue its philosophy of 'Digital to the Core', BBK has embedded digital transformation and the digital-first mindset in the work philosophy that guides our entire team. The focus on digitalisation has started to yield results for the BBK with around 70,000 of total customers onboarded digitally. BBK saw 11.2 million of the transactions being executed via mobile app. During 2023, we have witnessed pick up in business volumes through digital channels rather than mere transactional volumes. Burgan app continues to be rated 4.6 on Play and App Store and is amongst top-3 banks in Kuwait.



Building Human Capital

Our investment in business begins with our own human capital and we have long recognised cultural transformation as a primary enabler of growth. Hence, we continue to entrench the core tenet of innovation, sustainability, social consciousness and business ingenuity into our way of work.

Sustainability for better future

To uphold our commitment to the ESG principles, BBK promotes welfare and prosperity within the socio-economic ecosystem that we operate in. We have instituted a roadmap for implementing our ESG efforts and in 2023, we took major steps forward in the implementation of that framework. We launched Leadership in Energy and Environmental Design (LEED) certification for Burgan's head office building in Kuwait which is expected to be completed by Q2 2024. We also undertook a number of other market leading initiatives, and these are expected to be embedded in the franchise in 2024.

Outlook

We have embarked on a mission to become the most modern and progressive Bank in Kuwait. In 2024, the Bank will continue to pursue a prudent growth strategy while mitigating the emerging risks with a clear objective of meeting customers' aspirations and enhancing returns for our shareholders'.

Business Review

Burgan Bank Turkey

“ In the year marked with several challenges including earthquake in Turkey and ongoing hyperinflation, BBT demonstrated remarkable resilience and adaptability. The focus of the Bank continues to be on balance sheet management, digital innovation, and sustainable finance. ”

Ali Murat Dinç
Chief Executive Officer
Burgan Bank Turkey



Revenue

KD

75.4mn

Operating Profit

KD

47.0mn

Net Income

KD

13.4mn

Total Assets

KD

914mn

Overview

In Feb 2023, Turkey was struck by two severe earthquakes impacting social and economic life in 11 provinces. BBT supported employees, customers and citizens affected by the earthquake. The presidential and parliamentary elections in May marked a critical turning point for the Turkish Banking sector’s operating environment. Post election, the focus shifted to normalisation in economic policies by taming high inflation, exchange rate stabilisation and reducing the regulatory burden on the sector. Despite the challenges, BBT once again demonstrated resilience and dynamism delivering a strong financial performance for shareholders.

Performance

In 2023, BBT contributed 12% of Burgan Bank Group’s assets and 32% of the Group’s revenues.

During 2023, BBT’s revenue increased by 30.5%, through agile balance sheet management, an ability to generate strong non-interest income, and asset liquidations along with increased customer penetration.

High inflation and TRY weakness resulted in 263bps increase in cost to income ratio to 37.6% in 2023. Operating profit grew by 25.2% y-o-y to KD 47.0mn.

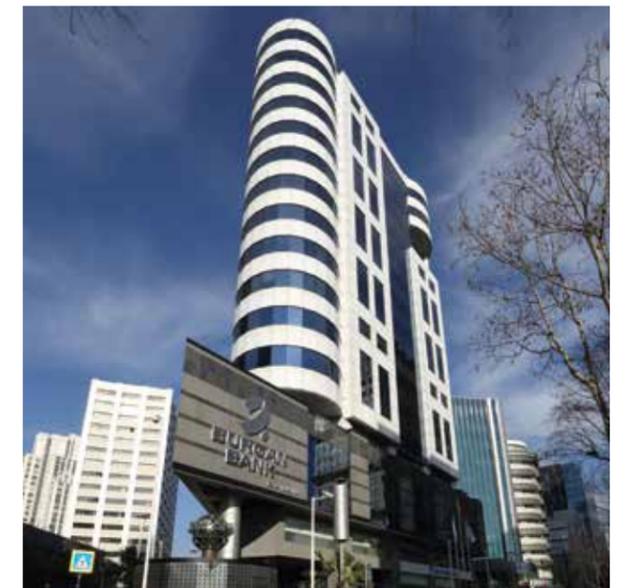
Even after accounting for the IAS 29 (hyperinflation) impact of KD 32.1mn (KD 24.6mn last year), BBT’s net income increased to KD 13.4mn in 2023, up from KD 4.6mn in 2022. Furthermore, BBT holds a substantial precautionary provision in its balance sheet for macroeconomic volatility or any event risk.

In 2023, BBT’s loan book grew by 25.3% in LC term maintaining a focus on expanding the TRY portfolio despite regulatory limitations on monthly loan growth. The share of retail deposits in the total deposit base continues to expand with a significant contribution from digital banking. This has improved CASA ratio from 10% in 2022 to 14% in 2023.

BBT’s asset quality significantly improved in 2023 with its NPL ratio falling from 4.2% in 2022 to 0.9% by 2023 due to low new NPLs and strong collection performance.

Digitalisation

BBT’s digital banking brand “ON” reached 600,000+ customers in its second year, while aiming to reach 1 million customers in 2024 and 5 million customers within 5 years. BBT will continue to invest in mobile banking application as a growth engine of the Bank.



Awards

ON digital banking was awarded as “Best Integrated Consumer Site” both in Europe and Turkey at the “Best Digital Banking” award organised by the Global Finance Magazine in 2023. Burgan Leasing is also awarded as “Turkey’s 3rd Most Admired Leasing Company in 2023” by leading economy magazine Capital.

Sustainability

Developing its sustainability performance in environmental, social and governance areas, BBT aims to transition to a low carbon world by adopting sustainable finance. In 2023, the Bank continues its sustainability journey started in 2022 with four working groups. These working groups operate in areas such as human rights, sustainability training, gender equality, environmental and social risk management in lending processes, digital product and service development.

Outlook

For 2024, apart from its continued focus on digitalisation to grow loan book, BBT will also focus on generating new wealth management/investment banking products, trade finance & cash management, launching factoring business to increase new customer penetration especially in SME and expand the wallet share on existing customers. Burgan Leasing will maintain and grow its blue-chip operational lease portfolio with higher income generation on vehicle sales. Burgan Securities will enhance the international market platform which was activated in 2023.

Business Review Algeria Gulf Bank

“ AGB continues its innovation journey with the introduction of new offerings aiming to simplify day-to-day banking operations and enhance customer experience. ”



Rabih Soukarieh
Chief Executive Officer
Gulf Bank Algeria

Revenue
KD
38.0mn

Operating Profit
KD
18mn

Net Income
KD
8.8mn

Total Assets
KD
772mn

Performance

In 2023, AGB contributed 10% of Burgan Bank Group's assets and 16% of the Group's revenues.

Despite macroeconomic headwinds, AGB demonstrated resilient financial performance as witnessed by 8.4% revenue growth to KD 38.0mn in 2023, supported by higher non-interest income of KD 10.0mn (+42.5% y-o-y led by increase in trade volumes). Appreciation in DZD along with inflationary pressures drove operating expenses to KD 20.0mn in 2023. Overall, AGB reported net income of KD 8.8mn.

During 2023, AGB maintained balance sheet growth momentum with customer loans increasing by 2.1% to KD 432.9mn and customer deposits by 7.9% to KD 623.0mn. In 2023, AGB reported NPL ratio of 4.0%.

Digitalisation

AGB continues to focus on streamlining and amplifying banking experience to strengthen its competitive position. During the year, AGB launched 'AGBy Pack', an integrated range of products and services around the checking account at a fixed monthly rate. It also launched 'Welcome AGB' to enhance operational effectiveness and provide seamless customer experience. AGB continued to launch bespoke products such as automatic debit on postal account and Visa USD card to further augment its value proposition.

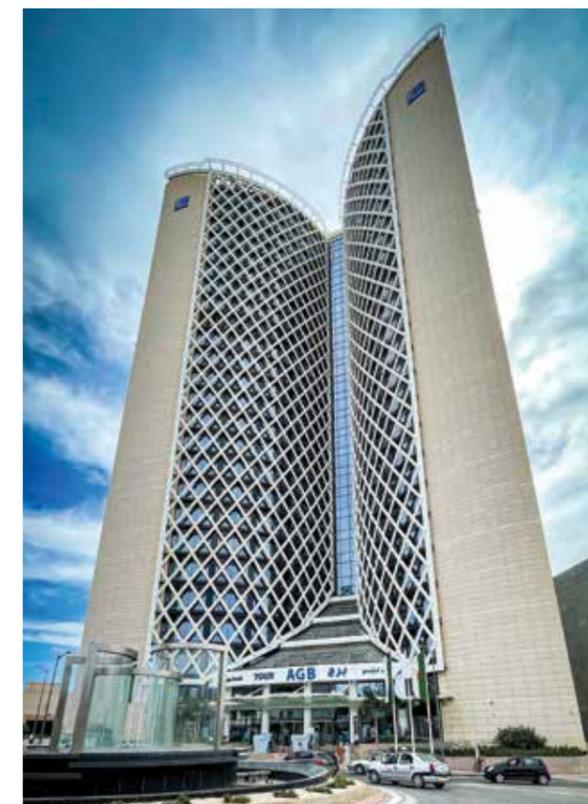
Continues to strengthen Risk and Controls

Risk and controls continue to remain an intrinsic part of AGB's operations and culture. Its compliance division has been chosen, as a member of the task force to represent the banking sector, to enhance Algerian AML framework and regulations, a clear testimony of AGB's superior capabilities.

CSR Initiatives

AGB has always believed in giving back to society through direct and indirect contribution. Some of the noteworthy CSR activities in 2023 are mentioned below:

- Sponsored international conference on Civilised Behavior organised by the Supreme Islamic Council;
- Partnered with several charities to buy and distribute food to needy families and hospitalised patients during Ramadan;
- Organised a blood drive on the occasion of World Blood Donor Day for the fourth consecutive year;
- Revitalised its recycling system by implementing waste sorting points at strategic locations across the office.



Outlook

AGB is well poised to maintain its market leading position amongst private sector banks in Algeria and deliver sustainable growth through strategic focus on digitalisation initiatives.

Business Review

Tunis International Bank

“ Another year of strong operating performance demonstrating the resilience of our business model and confirming our leading role in the Tunisian Non-Resident Banking sector. TIB continues to focus on delivering superior customer experience through tailor-made offerings. ”



Mohamed Fekih
Chief Executive Officer
Tunis International Bank

Revenue KD 9.4 mn	Operating Profit KD 7.0 mn	Net Income KD 2.9 mn	Total Assets KD 154 mn
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Performance

In 2023, TIB contributed 2% of Burgan Bank Group's assets and 4% of the Group's revenues.

TIB continues to benefit from higher volumes and yields on its portfolio along with higher dividends from its investment portfolio. In 2023, TIB reported significantly higher revenue levels of KD 9.4mn (+39.4% y-o-y) driven by 83.6% increase in net interest income to KD 5.7mn and 1.9% growth in non-interest income to KD 3.7mn. NIM improved to 4.4% in 2023 (vs. 2.5% in 2022).

Despite an increase in operating expense and provision charges by 8.6% y-o-y and 375.0% y-o-y, respectively, TIB reported a strong bottom-line of KD 2.9mn (+16.7% y-o-y). In 2023, TIB maintained loan book (including OFI's) at KD 55.6mn while its deposits base improved by 3.9% to KD 67.3mn.

During 2023, TIB's asset quality remains very strong with NPL ratio of 0.7% and NPL coverage of 6.5x.

Digitalisation

To boost the operational efficiency, TIB has automated several processes while continuing to focus on maintaining adequate security. TIB has also started a project to implement the use of data analytics and predictive systems.

ESG

Over the year, TIB served as a true community partner and engaged corporate citizens through the support of noble causes. TIB supported education, cultural, sport and philanthropic activities. As part of our commitment to 'Financing Responsibly', TIB funded projects that reduce the carbon footprint such as photovoltaic systems installation.

Outlook

TIB continues to focus on delivering consistent shareholder returns through strategic focus on syndicated loan and investment portfolios while maintaining a robust risk profile.

Business Review

Group Financial Review

“ The Group demonstrated financial resilience despite headwinds, reflecting strong business fundamentals. Recent strategic stake sale in Turkey has added strong capital buffers to restart its growth in core markets. ”

Khalid Fahed Al Zouman
Chief Financial Officer



Revenue
KD
221.7mn

Operating Profit
KD
105.5mn

Net Income
KD
43.5mn

Total Assets
KD
7.4bn

Performance

Throughout the year, global dynamics were shaped by significant events, including war in Ukraine and the geopolitical tensions in Middle East, continued high inflation led to worldwide monetary tightening. Oil prices also remained firm due to the sanctions on Russia and production cuts announced by OPEC+.

These events along with other challenges such as hyperinflation in Turkey, slow growth in Kuwait created headwinds for Burgan.

In FY23, Group's normalised underlying net income (adjusted for BoB's income, and IAS 29 impact of Turkey hyperinflation) stood at KD 76mn as compared to KD 73mn of normalised underlying net income reported in 2022 i.e, up +4.1% y-o-y. But Burgan's reported net income (attributable to shareholders) reduced from KD 52.1mn in 2022 to KD 43.5mn in 2023 due to loss of income from BoB (due to its sale in Q1'23) and IAS 29 impact of Turkey hyperinflation.

In 2023, Group's net interest income was recorded at KD 134.9mn which was lower compared to the last year due to lower margins in Turkey (negative spreads on the TRY portfolio & FX devaluation) and Algeria. Group's non-interest income improved by 8.0% y-o-y to KD 86.9mn.

Operating expenses of the Group increased 8.6% y-o-y in FY23 mainly attributable due to continued investments in the digital banking platform / other digital and IT infrastructure and higher staff expenses on account of hiring and inflation-linked increments.

Loan loss provision charge adjusted for recoveries declined significantly from KD 21.1mn in 2022 to KD 4.8mn in 2023, resulting in 37bps y-o-y improvement in cost of credit to 10bps in 2023. But the hyperinflationary-related (IAS 29) monetary losses from Turkish operations rose by 30% from KD 24.6mn in 2022 to KD 32.1mn in 2023.

Group's International operations (BBT, AGB and TIB) continue to perform very well, contributing 52% to the Burgan Bank Group's revenue and 41% to the Group's net income. BBT, in particular, continued its growth trajectory and delivered strong financial results. BBT's continued improvement in KPIs is a testament of successful execution of our strategy of lower loan growth, tighter underwriting & focused efforts on recoveries.

The Group revitalised its growth in FY23 by ensuring prudent growth in Kuwait while maintaining a cautious approach in international businesses. Its total assets increased by 4% y-o-y to KD 7.4bn. Kuwait's loan book contributed 78% to the Group's total loan book and grew by 4% y-o-y to KD 3.3bn in FY23.

In FY23, the asset quality of the Group continued to be strong with non-performing loan (NPL) ratio of 2% while NPL coverage ratio remained strong at 220%. The inherited strength of the credit portfolio is further reflected in 10bps of cost of credit for the year.

Following the sale of our stake in BBT, the Group's capital ratios have further improved and remained well above the required regulatory levels. Burgan's Common Equity Tier 1 ratio increased significantly to 13.5%, and its Capital Adequacy Ratio grew to 20.0%, as compared to the regulatory minimum ratios of 10.5% and 14.0% respectively.

The Group continues to maintain strong liquidity levels with a liquid coverage ratio (LCR) and net stable funding ratio (NSFR) of 151% and 117% respectively as of 31 December 2023, well above the minimum regulatory requirements of 100%.

Outlook

After a muted 2023, MENA growth is expected to rebound in 2024 driven by higher oil prices and expansionary budgetary stance.

Looking ahead, the Group expects to redeploy capital selectively in key businesses to ensure consistent predictable long-term growth of the Bank. We also expect Group's margins to improve in 2024 on the back of continued monetary policy normalisation in Turkey.

Digitalisation would continue to be a key focus area for the Group, and we shall continue our investment in IT and digital infrastructure.

We remain optimistic to deliver our strategic goal of building a modern and progressive bank.



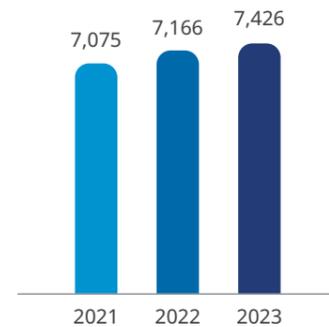
Key Performance Indicators (KPIs) Strategy Supports Our Ambition

Total Assets

KD
7,426mn

Commentary

Burgan's total assets grew by 3.6% y-o-y supported by strong loan growth in Kuwait (+3.9% y-o-y), partially offset by sale of BoB and TRY depreciation.



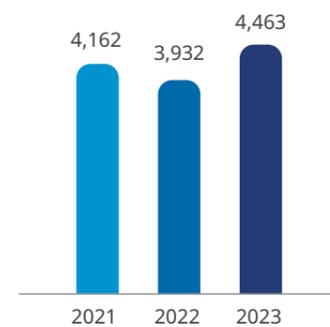
Outlook

Burgan expects to grow its balance sheet in Kuwait and Turkey while growing cautiously in Algeria & Tunisia. In Kuwait, we expect balance sheet growth of 5%.

Deposits

KD
4,463mn

Burgan's deposits grew by 13.5% y-o-y driven by strong growth in Kuwait (+25.8% y-o-y), led by retail franchise, partially offset by TRY depreciation.

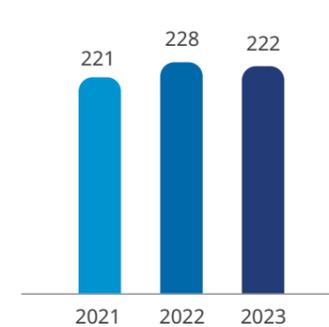


Burgan shall focus on tactical deposit growth while ensuring optimal funding cost.

Revenue

KD
222mn

Burgan's revenue levels remained stable despite the impact of BoB sale. The decline in revenue in Kuwait (-5% y-o-y) was partially offset by strong growth in subsidiaries – Turkey (+30.5% y-o-y), Algeria (+8.4% y-o-y) and Tunisia (+39.4% y-o-y).

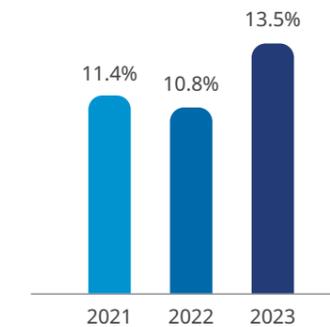


Burgan's core revenue is expected to grow in 2024 led by improvement in margins, especially from Turkey. Additionally, Kuwait franchise's stable NIM and balance sheet growth should drive revenue.

Common Equity Tier 1 (CET1)

13.5%

Burgan's tactical partial sale of its Turkish subsidiary and complete sale of BoB has resulted in strong improvement in CET1 ratio, up by an impressive 271bps y-o-y. CAR also improved from 16.8% in 2022 to 20.0% in 2023.

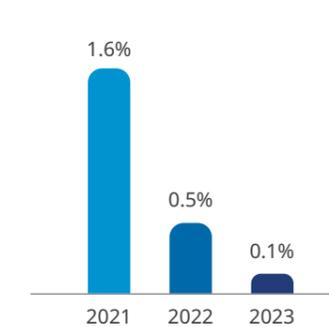


Burgan's CET1 ratio is expected to stay strong in the near future, enabling franchise growth over the next 3 to 5 years.

Cost of Credit

0.1%

Burgan's cost of credit improved by 37bps y-o-y driven by strong recoveries from written-off portfolio in Kuwait and Turkey. Total recoveries increased from KD 4.2mn in 2022 to KD 43mn in 2023.

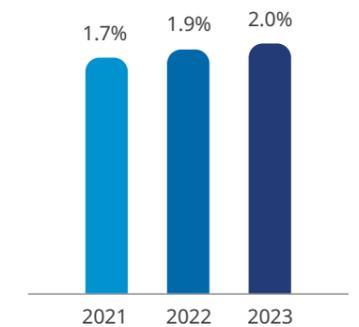


Burgan expects cost of credit (excluding recoveries) to be around 50 to 60 bps, under normal scenario.

Non-Performing Loans Ratio (NPL)

2.0%

Burgan's NPL ratio remained stable at 2.0% supported by exceptional performance by BBT with 322bps y-o-y improvement in NPL ratio (<1.0%).



Burgan's NPL ratio is expected to remain stable in near-term, however, the ongoing geopolitical challenges and global slowdown might negatively impact the asset quality.

Risk Management

Risk Management Framework

Burgan Bank's Risk Management Framework is an intrinsic part of its operations and culture. It is fully aligned with the Bank's vision to deliver value for stakeholders and to meet the needs of its customers. The Bank has an independent Risk Management Group (RMG) which is headed by the Chief Risk Officer (CRO) who reports directly to the Board Risk Committee (BRC). The risk management team implemented several initiatives while upgrading its risk management & controls framework and integrated additional functions and departments such as Financial Analysis Unit and Fraud Risk with Risk Management. The Bank continuously conducts programs and workshops to enhance the risk culture among the employees and embed it into the ordinary business and control activities.



Board of Directors

RESPONSIBLE

The Board has ultimate responsibility for supervising the execution of the Bank's business strategy which supports risk strategy and risk appetite.

Board Risk Committee

OVERSIGHT

The Board Risk Committee is responsible for:

- Advising the Board on the Bank's overall current and future risks;
- Overseeing Senior Management's implementation of the Risk Appetite Statements;
- Reporting on the state of risk culture in the Bank; and
- Interacting with and overseeing the CRO and the Risk Management Group.

1st Line of Defence: Business Units

OWNERSHIP

The business units and support areas of the Bank (including Finance, HR, IT, and Operations) own, identify, assess, control, and mitigate the risks faced by the Bank. The 1st Line of Defence has policies, procedures and control governing processes in place that are compliant with applicable laws and regulations, to manage the risks that the Bank faces.

2nd Line of Defence: Group Risk Management, Group Compliance and Anti-Financial Crime

INDEPENDENT MONITORING

Group Risk Management independently monitor, report, provide oversight, escalate breaches, and advice the 1st Line of Defence (Business and Support Functions) on risks. It also monitors that the 1st Line of Defence's controls are properly designed, firmly in place and are operating as intended

3rd Line of Defence: Internal Audit

ASSURANCE

The Internal Audit function provides Senior Management, the Board Audit Committee and the Board independent assurance to the effectiveness of risk governance, risk management and internal controls.

Risk Management

Principal Risk and Mitigants

The Bank has a comprehensive risk management architecture encompassing the following main categories:

Credit Risks



Covers default risk of clients and counterparties.

Mitigants

- Robust counterparty risk assessment standards.
- Credit enhancements through availability and acceptability of collaterals.
- Continuous improvement in credit risk monitoring framework.
- Initiatives such as stress testing list of the collateral levels.
- Periodic collateral valuations and annual review/renewal of the obligors.
- Periodical review and update of the credit policy and procedures and handbook including suitable ESG-related lending guideline.

Achievements in 2023

- ✓ Implemented electronic file sharing to transition to paperless credit approval process.
- ✓ CreditLens Essentials and CreditLens Rating Workflow projects executed.
- ✓ Completed revision of the wholesale lending authority delegation matrix for simplification and operational ease.
- ✓ Continued subsidiaries' oversight while completing onsite credit portfolio review of subsidiaries in Algeria, Turkey, and Tunisia.

Market Risks



Covers interest rate, foreign exchange, liquidity, and asset price risks.

Mitigants

- Variable interest rate transactions to minimise mismatches.
- Regular reviews of risk models to adapt to changes in macroeconomic data.
- Independent monitoring and reporting of exposures against limits and against possible what-if scenarios.

Achievements in 2023

- ✓ Recalibrated retail IFRS9 ECL calculation, corporate model and credit card application scorecard.
- ✓ Developed ESG Risk Assessment Framework to find the impact on capital adequacy.
- ✓ Incorporated internal ECL tool into credit risk stress testing.
- ✓ Continuous development and optimisation of the ICAAP process according to changing market environment.

Non-Financial Risks



Covers all the other risks that the Bank is facing such as operational risk, fraud risk, ESG, third party risks, business continuity and resilience

Mitigants

- Constant development of risk indicators that help to measure and monitor the non-financial risks across the Bank.
- Employee training to ensure the effectiveness of the operational and Business Continuity risk management programme.
- Regular reporting of pertinent information to Management to oversee and control the level of non-financial risks.
- Effective implementation of internal controls to identify/control the key operational risks across the businesses.
- Consistent and organised approach to identify, capture, analyse and report the operational losses.

Achievements in 2023

- ✓ Finalised the Risk Control Self-Assessment (RCSA) workshop exercise across the Bank and updated the Risk Register.
- ✓ Move to the upgraded Operational Risk system and got access to the External Operational Risk events database.
- ✓ Completed Business Continuity and Call Tree tests.

Information and Cyber Security Risks



Covers risks of misappropriation of information and data

Mitigants

- Comprehensive Cyber Threat and Risk Management (FRM) programme.
- Cyber security incidents response team to enable the practice of cyber crisis simulation.
- Multiple cyber compliance tools, which give a comprehensive view of the cyber compliance programme.
- Constant development of cyber defenses, led by robust controls to mitigate advanced cyber threats.
- Employee training and awareness, conducted regular training programme to enhance employee awareness of cyber threats and best practices, fostering a culture of cybersecurity throughout the Bank.

Achievements in 2023

- ✓ Obtained ISO/IEC 27001:2022 Information Security Management Systems (ISMS) and ISO/IEC 27001:2019 Privacy Information Management System (PIMS) certification.
- ✓ Obtained Payment Card Industry Data Security Standard (PCI DSS) Version 3.2.1.
- ✓ Implemented Threat Intelligence detection advanced Zero-Day active security threats.
- ✓ 24x7 External Monitoring Monitor External Customers facing services in the worldwide web.
- ✓ Cyber Compliance Management Solution to facilitate compliance mandates lifecycle management.
- ✓ Obtained Payment Card Industry Data Security Standard (PCI DSS) Version 4.0.

Governance



Corporate Governance Report

Corporate Governance and Sustainability are the framework of success and prosperity. Instilling these principles within our core values creates safe and positive work environment.

Corporate Governance

Burgan Bank Group has enhanced its administrative efficiency by following and applying the best practices in modern corporate governance methods, which contribute to reducing the risks that may be exposed to and increasing the degree of transparency.

Good practice of the rules of corporate governance requires controlling the practices and culture of the administration and adhering to all the laws and instructions issued by the regulatory authorities while following the internal policies and systems of work as it provides a good environment for self-monitoring of its activities which contributes to reducing risks.

Following the conduct of the correct approach in dealing with related parties (internally or externally) and avoiding all improper practices that may lead to conflict of interest.

Board of Directors

The Bank is steered by an effective and unitary Board which assumes responsibility for its leadership and control and is collectively responsible for promoting Bank's long-term success by directing and supervising its affairs. The Directors are responsible for ensuring that the Board makes decisions objectively in fulfilling the Bank's public and corporate responsibilities. The Board has overall responsibility for the Bank, including approving and overseeing the implementation of the Bank's strategic objectives, risk strategy, corporate governance and corporate values. The Board is also responsible for providing oversight of the Executive Management. Furthermore, sound corporate governance practices are fundamental to earning the trust of stakeholders, which is critical to sustaining performance and preserving shareholder value. The Board members' collective experience and expertise provide a balanced mix of attributes for it to fulfil its duties and responsibilities.

Board Composition

With the exit of two members in April 2023, Burgan Bank held the 59th Ordinary Annual General Assembly meeting to elect two supplementary members of the Board of Directors (one independent member and one non-executive member) for the remainder of the current term of Board of Directors (2022, 2023, 2024): "a maximum of seven ordinary members, and a minimum of four independent members." In compliance with the Central Bank of Kuwait's mandate on independent Board membership, Burgan Bank's shareholders have elected five independent board members with proven leadership and extensive expertise.

This included the addition of Mr. Abdulaziz Al Rashed, as an Independent Board Member and Mr. Jamal Dashti as a non-executive Board member, in order to suffice with the Central Bank of Kuwait requirements.

The Board comprises of eleven Non-Executive Directors, as elected by the General Assembly. The Board will ensure independence in actions and decisions at all times, and shall comprise of sufficient number of members to allow it to form the required number of Board Committees. Election and renewal of the Board membership shall be done in compliance with the applicable rules and regulations. The changes related to the number of Board members of the Bank shall be suitably reflected through amendments in the Articles of Association to correspond to the implementation of the rules, regulations and instructions. Each member of the Board shall serve a term of three years, at the end of which the Board shall be formed again and it shall be permissible to appoint the members whose term has expired. The Board is structured to ensure that the directors provide the Group with the appropriate balance of skills, experience and knowledge as well as independence.

BOARD MEMBERS



Sheikh Abdullah Nasser Sabah Al Ahmad Al Sabah

Chairman

Sheikh Abdullah Nasser Sabah Al Ahmad Al Sabah has been appointed as the Chairman of the Board in June 2022. He also holds several positions including Vice Chairman of Kamco Investment Co. K.S.C.P ("Kamco Invest"), Board member for Kuwait Projects Company Holding (KIPCO) and a Board member at United Gulf Bank, Bahrain.

He is an alumnus of the Royal Military Academy, Sandhurst, UK and has a BSc in Business Administration from New York Institute of Technology, USA.



Mr. Faisal M. Sarkhou

Vice Chairman

Mr. Sarkhou has been appointed as the Vice Chairman of the Board in June 2022. He has been the Chief Executive Officer of Kamco Invest since 2014 and has led the company to become one of the key players in the regional financial services sector. He enjoys a wealth of experience in investment services, namely investment banking and asset management.

He joined Kamco Invest in 2000 and has held several managerial positions including head of Corporate Finance and head of Financial Services & Investments. He sits on the board of several reputable companies, member of advisory boards and executive committees. Previously, he has worked with the Corporate Finance team at KPMG in Kuwait.

He holds a BSc in Economics from the University of Birmingham, UK and an EMBA from HEC Paris, France.



H.E. Abdulkareem El-Kabariti

Board Member

Mr. Kabariti has been the Board member of the Bank since 2004 and has over 30+ years of diversified experience in the banking, finance, investment, and political sectors. He is currently the Chairman of Algeria Gulf Bank - Algeria, a Board member of FIMBank - Malta, a Board member at Burgan Bank - Turkey and a Board member at Jordan Dairy Company. Previously, he has held several high ranking political and legislative positions in Jordan. Mr. Kabariti was the Chairman of Jordan Kuwait Bank - Jordan for 24 years. Mr. Kabariti was a member of the Jordanian Senate - Head of the Economics and Finance Committee Education (2005-2007), Member of the Jordanian Senate First Deputy to the Speaker (2000-2002), Chief of the Royal Court (1999-2000), Prime Minister, Minister of Foreign Affairs and Minister of Defense (1996-1997), Minister of Foreign Affairs (1995-1996), Head of the Economics and Finance Committee (1993-1995), Member of the Jordanian Parliament (1989-1993) and (1993-1997), Minister of Labor (1991-1993), and Minister of Tourism (1989-1991).

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

BOARD MEMBERS

**Mr. Fouad Husni Douglas****Board Member (Independent)**

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

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

**Mr. Mazen Issam Hawwa****Board Member**

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

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

**Dr. Amani Khalid Bouresli****Board Member (Independent)**

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

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

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

BOARD MEMBERS

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

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

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

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

Mr. Accad joined the Board in June 2022. He is the Executive General Manager (Group Chief Executive Officer) of BankMed and has over 30 years of diversified experience in the banking and investment sectors. Previously, he served as the Chief Executive Officer of Ahli Bank of Kuwait (2014 to 2019), as CEO for Gulf Bank of Kuwait (2009 to 2014) and oversaw its turnaround following the 2008 crisis and as the Assistant CEO for Arab Bank PLC (2006 to 2009). He is a 27-year veteran of Citigroup, which he joined in 1979. His last post was as Managing Director and CEO for the Middle East and North Africa Division; before that, he was the Country Head for Egypt and Regional Head for North & West Africa; and from the mid-1980s to 2000, he held various CEO and Country Head positions, including for Nigeria. Mr. Accad is a Board member of BankMed (2019-2020); Chairman of BankMed Suisse and T-Bank (from 2020) and was a Board member of ABK-Egypt and Al-Ahli Capital Investment Company (2014-2020) and was Board member of Europe Arab Bank (2006-2009); Arab Tunisian Bank (2006-2007, and its chairman in 2008); and Arab Invest (2006-2008).

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

**Mr. Abdullah Mohammed AlSharekh****Board Member**

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

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

BOARD MEMBERS



Mr. Abdulaziz Saad Al Rashed

Board Member (Independent)

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

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



Mr. Jamal Abdullah Dashti

Board Member

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

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

BOARD SECRETARIAT AND CORPORATE GOVERNANCE

Burgan Bank has set a robust corporate governance framework in line with the supervisory and regulatory requirements that meets with the needs and aspiration of all stakeholders, taking into consideration international leading practices and recommendations. Burgan seeks to instill the principles of corporate governance as an institutional culture, cascaded into its day-to-day business operations.

Some of the key responsibilities of the Board Secretary is to ensure effective operations and communication between the Chairman and Board members, as well as having custody of all board related documents. Most importantly, they are the focal point with regards to Board and Committee meeting, and coordinated between the Board of Directors and the Executive Management and continuously keeping the Board abreast of relevant changes in legislation and governance best practices.

Delegation of authority

The Board retains effective control through its governance framework that provides for delegation of authority. In discharging its duties, the Board delegates some authorities to relevant Board Committees with clearly defined mandates and authorities, although the Board retains its accountability. Board Committees facilitate the discharge of Board responsibilities and provide in-depth focus on specific areas.

Board Committees

The Board has established the Board Committees in order to enhance its supervision effectiveness over operations of the Bank. Each committee member's expertise, skills and background were considered while forming the committees to assure the best supervision of the committee over the Bank's operation according to each committee responsibilities.

Board Training

Burgan Bank ensures that the Board of directors is up to date with all the latest banking trends and updates in international regulations through training. Through out the year, the board had several training sessions, on Fraud and Anti-Money laundry, Cybersecurity and Social and Environmental Governance. These trainings have played an influential role on the Banks latest strategy.



Mr. Abdullah Alostha

Deputy General Manager- Board Secretariat & Corporate Governance

Mr. Alostha joined Burgan Bank as Board Secretary & Corporate Governance Officer in 2017. He possesses extensive expertise in corporate governance best practices in addition to over 30 years of experience in banking, local and international Investments, management, and Board affairs, enabling him with the combination of skills and high-level expertise required for this responsibility.

He holds a Bachelor's Degree in Business from Grand View College, USA.

Board and Committee meetings attendance:

Board of Directors Member	Committee membership	BOD	Board Corporate Governance Committee	Board Audit Committee	Board Risk Committee	Board Nomination and Remuneration Committee	Board Credit and Investment Committee
Sheikh Abdullah Al Sabah	Chairman of the Board	10	4				
	Chairman of BCGC						
Mr. Faisal Sarkhou	Vice Chairman of the Board	12				9	39
	Member of BNRC						
Mr. Jamal Dashti	Chairman of BCIC				2		
	Member of BCGC	4	2				
Mr. Abdulaziz Al Rashed	Member of BRC						
	Member of BAC	5		2			
Mr. Abdullah Al Sharekh	Member of BCGC	12	4	2			32
	Member of BAC						
	Member of BCIC						
Mr. Michel Accad	Member of BRC	12			1		31
	Member of BCIC						
Mr. Sager Al Sharhan	Member of BCIC	11					41
Dr. Amani Boresli	Member of BCGC	11	3		4	9	
	Chairman of BRC						
	Chairman of BNRC						
Mr. Mazen Hawwa	Member of BAC	12		6	4	9	
	Member of BRC						
	Member of BNRC						
Mr. Fouad Douglas	Chairman of BAC	12		6	4		
	Member of BRC						
H.E Kabariti	Member of BAC	9		5			
Total Meetings		12	4	6	4	9	43

* This number shows the total number of board and committee meetings with the previous board member. Attendance reflects new board cycle members only.

BOARD COMMITTEES

	Members				Committee's role
Board Corporate Governance Committee (BCGC)	Sheikh Abdullah Al Sabah (Chairman)	Mr. Abdullah Al Sharekh	Dr. Amani Boresli	Mr. Jamal Dashti	Responsible for assisting the Board of Directors in setting the Bank's corporate governance policies, following up on their execution and their periodic review to ensure their effectiveness
Board Audit Committee (BAC)	Mr. Fouad Douglas (Chairman)	H.E Kabariti	Mr. Mazen Hawwa	Mr. Abdulaziz Al Rashed	Responsible for setting and overseeing the sufficiency of internal control and the audit functions of the Bank, along with ensuring compliance with applicable laws, regulations, policies and codes of business conduct and ethics.
Board Risk Committee (BRC)	Dr. Amani Boresli (Chairman)	Mr. Fouad Douglas	Mr. Mazen Hawwa	Mr. Jamal Dashti	Responsible for reviewing and providing reports to the Board of Directors on the current and future risk strategy and tolerance of the Bank; supervising the implementation of this strategy by Executive Management; and ensuring the existence of effective systems for risk management in the Bank and the independence of the Risk Management function.
Board Nomination and Remuneration Committee (BNRC)	Dr. Amani Boresli (Chairman)	Mr. Mazen Hawwa	Mr. Faisal Sarkhou		Responsible for presenting recommendations to the Board of Directors regarding Board Member nominations; reviewing the Board's structure on an annual basis; undertaking performance evaluations of the Board and its individual Members on an annual basis; and developing a Bank-wide reward policy in line with applicable laws and regulations. In addition, BNRC is responsible for the appointment of individuals to key Executive Management posts, ensuring that they are occupied by qualified staff; and for setting performance standards and succession plans for Executive Management.
Board Credit and Investment Committee (BCIC)	Mr. Faisal Sarkhou (Chairman)	Mr. Michel Accad	Mr. Abdullah Al Sharekh	Mr. Sager Al Sharhan	Responsible for overseeing the Bank's lending, credit recovery and investment activities, making recommendations to the Board of Directors within its delegated authorities, and implementing decisions made by the Board of Directors.

BOARD AND COMMITTEE ACCOMPLISHMENTS

This section will provide example of some, but not limited to, of the key accomplishments achieved by the Board and Committee throughout the year.

Board of Directors

Key accomplishments

- Approved the Budget for the year 2023, the Interim Financial Information, the audited balance sheet, profit & loss account of the Banks and dividends for the financial year ended on 31/12/2023.
- Discussed the risk appetite and its impact on the Group's strategy.
- Reviewed the results of the Internal Capital Adequacy Assessment Process ("ICAAP"), financial stress testing as per the regulatory requirement of Basel (3).
- Discussed and approved general and specific provisions for the local and international loan portfolio.
- Followed the progress of the Banks operations, through bimonthly reports prepared by the Executive Management and discussed the results of the Banks business.
- Reviewed and evaluated the effectiveness of the Board and its Committees, in addition to conducting individual self-assessments of the Board and Committee members.
- Reviewed the remuneration framework, the mechanism of linking rewards to performance the level of risk exposure and updated the remuneration policy at Group level.
- Oversaw the implementation of the Corporate Governance Framework and ensured compliance with local regulations.
- Reviewed, developed and approved the policies related to Corporate Governance and charters of the Board of Directors and its committees, organisational structure, and to keep up with applicable international and leading Corporate Governance practices.
- Reviewed the results of the annual independent evaluation of the Internal Control Review conducted by the external auditors.
- Approved opening the nomination for supplementary members for the current tenor of the Bank's Board of Directors.
- Reviewed the updated regulations, legislations and provisions related to Bank's activities issued by Central Bank of Kuwait, Capital Markets Authority and other regulatory authorities.

Board Corporate Governance Committee

Key accomplishments

- Reviewed the implementation of Corporate Governance rules and regulations within BBK.
- Reviewed the Board and its Committee's charters, as well as Corporate Governance policies, accordingly to be in line with regulatory instructions.
- Reviewed the related parties' transactions report, the conflict of interest report, the whistleblowing cases, and discussed the effectiveness of the existing mechanisms.
- Supervised the progress of Corporate Governance.
- Reviewed and discussed the annual compliance report.
- Reviewed the disclosures related to Corporate Governance which are presented in the annual report.
- Reviewed the new instructions issued by the regulatory authorities in Kuwait and the procedures taken to comply with these instructions.

Board Audit Committee

Key accomplishments

- Reviewed and approved the Group's internal audit annual plan for 2023. Also reviewed the updated internal audit policy and procedures and presented them to the Board for approval.
- Co-ordinated with external auditors and reviewed the interim and annual financial statements of the Bank, and submitted recommendations to the Board of Directors.
- Reviewed and discussed the periodical reports of the Internal Audit Department.
- Reviewed and discussed the internal audit summary and considered what has been achieved in the internal audit plan, in comparison to performance during the previous year.
- Reviewed and approved the scope of the external auditor's plan related to Internal Control Review and discussed the results of the report.
- Reviewed the Committee charter and amendments, and submitted recommendations to the Board of Directors.
- Reviewed the efficiency and independence of the internal audit function, infrastructure and the overall annual assessment of the function's performance with the Chief Internal Auditor.
- Discussed aspects of internal audit that related to information technology and IT security.
- Discussed external audit results related to the internal audit department.
- Reviewed and discussed the internal audit reports for Kuwait, overseas branches and subsidiaries.

Board Risk Committee

Key accomplishments

- Reviewed and discussed the strategy and challenges of Risk Management, the set of periodic risk management reports and the key risk indicators.
- Reviewed a report on the most important activities and achievements of the Risk Management.
- Reviewed and discussed the periodic market risk report, Internal Capital Adequacy Assessment Process ("ICAAP"), liquidity ratios, the stress testing scenarios and the methods.
- Reviewed and discussed the risk limit ratios, compared the ratios to the Group's approved risk appetite and the exposure levels of countries in which the Group operates, and discussed those ratios and the changes compared to previous periods and credit concentrations for companies, countries and sectors.
- Reviewed the reports of operational risk, market risk, compliance risk and compliance plan at Group level.
- Evaluated the Chief Risk Officer annual performance and determined their remunerations.
- Reviewed and approved the new Organisational Structures of Risk Management and made recommendation to Board for approval.
- Pursued the development of the cybersecurity function.

Board Nominations and Remunerations Committee

Key accomplishments

- Supervised the process of the annual assessment of the Board of Directors' performance for the Board, its committees, and the self-assessment of each member of the Board of Directors for the year 2022.
- Reviewed the proposed annual training plan for the year 2023 for the Board members.
- Reviewed the remuneration policy and presented it for approval to the Board of Directors.
- Reviewed and approved the rewards and incentives for 2023 based on the key performance indicators and key risk indicators, and discussed claw back cases for 2023 and put forward recommendations to the Board.
- Reviewed and discussed the succession plan prepared by Group Human Resources and recommended it to the Board for approval.
- Reviewed nominations regarding the selection of two supplementary member for Board of directors and make recommendation to the Board of Directors.
- Reviewed nominations for Board of Director's membership of Subsidiaries.

Board Credit and Investment Committee

Key accomplishments

- Reviewed and approved the Bank's lending, credit recovery and investment activities, within the authority matrix delegated by the Board of Directors.

Board Members Remuneration

Information on Board of Directors Remuneration is disclosed in the "Income Statement" as well as in the notes to the financial statement "Note 18 – Transactions with related parties" in the Annual Financials. The Proposed Board of Directors' remuneration for 2023 amounted KWD 389,800.

Transactions with Related Parties

For information on related party transactions, please refer to Note 18 "Transactions with related parties" in the Annual Financial Statements.

Code of Conduct

Burgan Bank's Code of Conduct describes the values and minimum standards for ethical business conduct that we expect all of our employees and Directors to follow. These values and standards govern employee interactions with our clients, competitors, business partners, government and regulatory authorities, and shareholders, as well as with other employees. In addition, it forms the cornerstone of our policies, which provide guidance on compliance with applicable laws and regulations. Burgan Bank's Directors, Executive Management and employees are committed to the highest degree of adherence to the code of conduct policies.

Conflicts of Interest

In accordance with the CBK corporate governance instructions, Board Members are required to disclose to the Board any interest they may have that might cause a conflict of interest. Any Board Member with a material personal interest in a matter being considered by the Board shall not attend nor vote on the matter being considered. Board Secretary maintains a record of Board Members interests that is being presented to the Board of Directors on annual basis and is being updated as and when changes occur.

Relations with Investors

The Chairman is responsible for ensuring effective communication with shareholders. The Bank communicates with shareholders through the Annual Report and Financial statements and by providing information in advance of the Annual General Meeting.

Internal Audit

Group Internal Audit provides independent, objective assurance to key stakeholders on the effectiveness of the Group's risk management, internal control framework on areas of significant risk. The risk-based reviews cover Group businesses, operations, technology and other support. Findings are communicated to senior management and other key stakeholders, with remediation plans monitored for progress against agreed completion dates. Management is responsible for ensuring that issues raised by Internal Audit are addressed within the agreed appropriate time. The Board Audit Committee receives Internal Audit reports on a range of matters following completion of its independent, risk-based assignments, investigations, or ad hoc reviews, and meets regularly with the Chief Internal Audit Officer. Internal Audit's responsibilities are carried out independently under the oversight of the Board Audit Committee. The Chief Internal Audit Officer reports functionally to the Chairman of the Burgan Bank Board Audit Committee and administratively to the GCEO of Burgan Bank. Internal Audit's employees, which include professionals with a broad range of audit and industry experience, accordingly report to the Group Chief Internal Auditor.

COMPLIANCE

The Compliance Department is an essential focus of the Burgan Bank Group to ensure that all tasks assigned to the bank's activity and businesses are carried out in accordance with the laws and instructions of the regulatory authorities and the relevant internal policies, as the Compliance Department reports directly and independently to the Governance Committee emanating from the Board of Directors.

At Burgan Bank, we believe that compliance is a comprehensive and multi-faceted responsibility, including but not limited to:

- Compliance implementing all the instructions of regulatory authorities such as the Central Bank of Kuwait, the Capital Markets Authority, and Boursa Kuwait.
- The supervisory role is represented through the department's work as a link between the bank and the regulatory authorities on one hand, and providing support to the Board of Directors and the executive management through the vital role in achieving the bank's vision, mission and goals, maintaining the highest quality standards and applying best practices on the other.
- The advisory role is represented by assisting all the bank's departments in providing clarifications, interpretations, and correct understanding of the instructions of the regulatory authorities to ensure correct implementation. This role is highlighted by consolidating frameworks of communication and cooperation with all departments at the bank level.
- Ensure compliance with the requirements and rules of disclosure and transparency in accordance with the instructions of the Central Bank of Kuwait, the Capital Markets Authority, and the rules of Boursa Kuwait.

During the year 2023, the Compliance Department spread a firm culture of compliance among Burgan Bank Group and emerged in a proactive and vital role in implementing and monitoring the bank's compliance program within the framework of a system that works to raise awareness and act the role of guidance, training and direction for the bank's group of new and current employees regarding the relevant compliance rules relevant to their responsibilities at the bank.

REPORT ON INTERNAL CONTROL SYSTEMS

The Board of Directors has the ultimate responsibility for the Bank's Internal Control System, and it discharges its duties in this area by:

- Providing oversight activities through the Board and Management Committees
 - Ascertaining that Executive Management implements effective systems of controls for effectiveness and efficiency of operations;
 - Reliability of processes of internal and external reporting;
 - Adherence with applicable laws, regulations and internal policies;
 - Adherence to operational risk appetite of the bank; and
 - Fulfillment of individual and collective responsibilities and link accountability.

Group Internal Control (GIC)'s mission is to support Executive Management in ensuring that the Bank maintains an effective internal control environment.

In line with its mission, GIC will enable the Bank's Executive Management in achieving the following strategic objectives:

- Ensure that the bank has an agile immune system for managing operational risk within defined appetite by:
 - Identifying key operational and compliance risks, continuously assessing effectiveness of related controls and implementing mitigation plans where required;
 - Empowering businesses to review and manage their control environment through effective tools and information;
 - Performing an ongoing analysis of the existing risks as well as identifying new or emerging risks, through the Bank's Management Control Self-Assessment process;
 - Designing controls to mitigate identified risks and avoid recurrence of incidents;
 - Establishing and reporting key risk indicators; and
 - Producing comprehensive Internal Control reporting
- Nurture a learning organisation in the management of risks and controls by:
 - Embedding an operational risk and controls culture affirmed through performance management processes.
 - Enabling effective monitoring and improvements to the control environment.
 - Promote Internal Control Culture.

- Minimise regulatory observations and control gaps, fraud and loss events through focused mitigation plans and continuous controls enhancement efforts.
 - Optimise organisational effort and costs in the management of controls.
 - Review of Controls Design.
 - Control Performance Reviews / Testing.
 - Advise, Monitor and Validate Action Plan Implementation.

Based on Management directives, GIC role has been enhanced with the establishment of a Fraud Detection and Analytics function within the department, with the aim of detecting Early Warning Signs of frauds, through a detailed analysis of data extracted from bank's multiple systems.

A Management Committee provides oversight for operational risk and internal control matters, across the Bank. This Committee, with appropriate representation and participation of business and independent control functions, deliberates on matters which support in managing, minimising and mitigating risks in order to foster a robust internal control environment across the Bank.

In accordance with the CBK requirements on evaluation of internal controls system within Burgan Bank Group, the Bank arranges an annual review of the internal control systems via an independent external audit firm, approved by CBK. The opinion furnished by the external auditor in the Internal Control Review (ICR) report for the previous year does not refer to any significant control deficiency. GIC provides support to the Bank's Subsidiaries and implement mitigation actions for identified control deficiencies and weaknesses, including those raised as part of the ICR exercise.

This ICR report was also reviewed by the Board of Directors. Overall, the ICR report rating of Burgan Bank Group internal control environment was satisfactory. Based on the evaluations conducted by the Executive Management and the Board of Directors during the year, there are no material control deficiencies identified which may need to be reported in the Annual Financial Statements for the year ended 31 December 2023.

RISK MANAGEMENT

The Bank's risk management framework is based on a clear understanding of various risks, disciplined risk assessment, measurement procedures and continuous monitoring. The Risk Management Group is headed by the Chief Risk Officer, who reports directly to the Board Risk Committee to ensure the independence of the function. The Risk Management Group does not have any business targets in terms of either level of business or income/profits to be achieved, to ensure that the Bank's risks are managed prudently and efficiently. One of the main focuses of the Risk Management Group is to drive the risk management framework and the risk culture within the Bank. The Bank has implemented a Risk Appetite Framework in line with internationally accepted best practices, which establishes the Risk Thresholds across Burgan Bank Group and its subsidiaries. It has implemented a Risk Culture Program over the past two years in order to raise the risk awareness across the Bank. The Bank has a comprehensive Risk Policy that stipulates the need to identify, measure, manage and mitigate risks taken by the Bank.

Among the families of risks are:

- i. Credit Risk is the risk that a financial loss will be incurred if a counterparty does not fulfil its financial or contractual obligations.
- ii. Market Risk is the risk that the Bank's earnings or capital may fall as a result of changes in market rates (interest rates, foreign exchange rates) or market prices (commodity or equity prices).
- iii. Non-Financial Risks that includes Operational, Business Continuity, Environmental, Social, and Governance (ESG), Third-Party, End-User Computing, Fraud and other risks.
- iv. Information Security Risk that covers the Cyber risk.

The Group Risk Function is organised into, among others, four major divisions each responsible for the aforementioned risks, and a Shared Services Unit that provides services to individual Risk functions including reporting, data management, stress testing, model validation, and quantitative analytics. Together these departments ensure that the Bank's risk exposures are measured and monitored effectively. Risk Management Policies are in place to monitor, report and recommend mitigation of the adverse effects of all risk elements in the Bank's operations. Risk Management reports are aimed at ensuring the timely reporting of the Group's risk profile to Senior Management, Board and to the relevant Committees for appropriate action. All subsidiaries have an independent risk management function reporting to the respective Board Risk Committee, as per their local regulatory guidelines. The overall framework for Risk Governance and management is robust and is supported by a variety of qualitative and quantitative tools that are implemented. The Bank has established forward-looking credit & market loss estimation models. The Bank also has a

robust Internal Capital Adequacy Assessment Process (ICAAP) and Stress Testing framework which ensures that the Bank maintains the capital commensurate with the overall risks that it is exposed to or may be exposed to in hypothetical extreme scenarios. The framework also ensures that there are enough capital buffers to cover Pillar 2 risks which are not addressed in Pillar 1 capital requirements.

Challenges at Bank Level: Cyber security risk

In common with other financial institutions based in the GCC and elsewhere in the world, the threat to the security of the Bank's information and customer data from cyber-attacks is real and continues to grow at pace. Activists, rogue states and cyber criminals are among those targeting computer systems around the world. Given the increasing sophistication and scope of potential cyber-attacks, it is possible that future attacks may lead to significant breaches of security.

Burgan Bank has a multi-faceted and pro-active risk-management approach to identify and address Cybersecurity risks. We have implemented a layered approach with overlapping controls to defend against Cybersecurity attacks and threats on networks, end-user devices, servers, applications and Internet solutions. Burgan Bank has taken initiatives to bring about enhancements in areas such as identity and access management, data security, application security, network security and endpoint security.

Group Anti-Financial Crimes Department

The Group Anti-Financial Crime ("GAFC") Department is an independent function within Burgan Bank Group. The Department detects, prevents, and report all suspicious Financial Crimes activities that involves but not limited to Money Laundering, Terrorism Financing and breaches of local and international Sanctions' programs to the relevant competent authorities. The GAFC implements a Risk-Based Approach program that complies with the State of Kuwait Combating Money Laundering and Terrorist Financing laws and regulations, international laws and guidelines, and the international best practices in relation to combating financial crimes.

The Group Anti-Financial Crime Department performs the following ongoing activities:

- Updating and implementing Anti-Financial Crime policies and procedures
- Strengthening Know Your Customer (KYC) procedures and forms
- Raising awareness through training and guidance across the Group
- Adopting Anti-Financial Crimes best practices and international standards
- Investigating and reporting suspicion transactions
- Substantiating and enhancing Correspondent banks' relations
- Implementing all applicable legal and regulatory requirements related to sanctions
- Conducting AML/CFT and sanctions Risk Assessment across the Group

HUMAN RESOURCES AND DEVELOPMENT

Remuneration Policy

The remuneration policy aims at enabling the Bank to attract, retain, motivate and reward qualified workforce while ensuring fairness, consistency and equality in remuneration practices, as well as being appropriately risk balanced. The policy reflects the Bank's objectives for good corporate governance as well as sustained and long-term value creation for all stakeholders. The Remuneration policies and practices form part of the Bank's overall obligation to have robust governance arrangements in place. Employees are entitled to different remuneration components targeting an appropriate and balanced remuneration package based on the employee job grade taking into consideration the employees' skills, experience, and his role in the Bank as well as market practice.

The remuneration components consist of all forms of payments or benefits in exchange for the services provided by the employee and can be divided into:

- Fixed remuneration comprises of the basic salary and allowances as determined in the incumbents' individual employment contracts or as amended during their tenure at the Bank.
- Variable remuneration depending on employee performance Variable remuneration may be paid in cash and may be subject to a vesting or deferral period. Remuneration amounts are based on the bonus pools approved by the Board for the purpose of rewarding employee performance. The total amount of performance related remuneration is based on a combination of the assessment of the overall results of the Bank, of the performance of the business unit and of the individual concerned. When assessing individual performance, financial and non-financial targets and metrics are taken into account. The payout of the variable remuneration may be deferred as approved by the Board annually in line with the approved policy over a period of time


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not exceeding five years. The variable remuneration, including the deferred portion, is paid or vests only if it is sustainable according to the financial situation of the Bank as a whole, and justified according to the performance of the Bank, the business unit and the individual concerned. The Board Nominations and Remuneration Committee (BNRC) is responsible for presenting recommendations to the Board on the Bank-wide reward policy in line with applicable laws and regulations. The composition and responsibility of BNRC is further detailed under the Board Committees section of the Corporate Governance Report. The Bank ensures conducting an annual audit review on its remuneration policy and practices to evaluate its compliance with the applicable Corporate Governance guidelines issued by the Central Bank of Kuwait (CBK) (Pillar V- Systems and Policies of Granting Rewards) Bearing in mind that BNRC members did not receive any additional remunerations other than the amount disclosed under Board Members Remuneration section mentioned above.

Shareholder Composition

Main shareholders who own 5% or more of the Bank's shares (2022 and 2023):

Shareholder	Nationality	No. of shares 31/12/2022	%	No. of Shares 31/12/2023	%
Kuwait Projects Company Holding K.S.C. (Closed)	Kuwaiti	1,161,663,465	35.33%	1,156,221,639	33.49%
United Gulf Holding Company B.S.C.	Bahraini	493,367,599	15.01%	518,035,978	15.01%
Public Institution for Social Security	Kuwaiti	245,010,446	7.45%	256,923,910	7.44%
Kuwait United Consulting Company	Kuwaiti	183,771,598	5.59%	256,485,177	7.43%

Remuneration Disclosure by Employee Category 2023

Category	No. of employees	Annual Remuneration Packages (KD)		
		Fixed	Variable**	Total Remuneration
Group 1: CEO and his deputies: CEO and his deputies and assistants and the main executive managers whose appointment is subject to the approval of supervisory parties (Senior Management)	16	2,986,766	791,631	3,778,397
Group 2: Financial Risk & Control responsibilities Employees who handle financial supervision duties and risk supervision	6	516,421	192,326	708,747
Group 3: Material Risk Takers Employees participating in activities with risks	1	128,584	22,082	150,666
Grand Total	23	3,631,771	1,006,038	4,637,809

Notes:

- All remunerations are paid in cash.
- Variable remuneration is on estimate basis for 2023.
- Remuneration for five of the major executives who received the highest remuneration from the Bank, in addition to all the functions as required by the Corporate Governance guidelines (as a group): KD 2,629,206.

Independent Reasonable Assurance Report on Internal Controls to the Board of Directors OF BURGAN BANK K.P.S.C

Report on Internal Control

In accordance with our letter of engagement dated 6 April 2023, we have been engaged by Burgan Bank K.P.S.C ("the Bank") to provide a reasonable assurance report on the effectiveness of the internal controls in the processes stated below (the "in-scope internal controls") for the Bank and its subsidiaries (together referred to as the "Group") for the year ended 31 December 2022 based on the requirements of the CBK Instructions.

We covered the following within the Bank.

- Corporate Governance
- Internal Control, Client Complaints & Protection Unit
- Group Strategy, Capital Management and Investor Relations
- Investment Banking and Treasury
- Information Technology
- Retail Banking Group
- Strategic Financial Planning & Control Private Banking & Wealth Management Group
- Group International Operations Office
- Marketing & Communication Strategic
- Planning & Monitoring Group Corporate Banking Group
- Group Digital Transformation Operations Group
- Center of Excellence
- Human Resources and Development
- General Services Administration
- Legal Counsel
- Compliance
- Financial Securities
- Confidentiality of Customer's Information
- Internal Audit
- Anti-Financial Crimes
- Fraud Prevention
- Risk Management

In addition to the above, we have also covered the following subsidiaries of the Bank.

- Burgan Bank AS, Turkey
- Gulf Bank Algeria
- Burgan Bank Financial Services Limited, Dubai
- Tunis International Bank



Report on Internal Control (Continued)

Our examination has been carried out in accordance with the requirements of the Central Bank of Kuwait ("CBK") circular dated 10 January 2023, considering the requirements contained in the following, together referred to as "CBK Instructions":

- Manual of General Directives concerning Internal Control Reviews issued by the CBK on 14 November 1996;
- Pillar IV of corporate governance instructions in respect of risk management and internal controls at Kuwaiti Banks issued by the CBK on 20 June 2012 and its amendments on 10 September 2019;
- CBK instructions dated 14 May 2019 concerning Combating Money Laundering Operations and Financing of terrorism; and
- CBK instruction dated 09 February 2012 on maintaining confidentiality of customer information.

Management's Responsibility for Internal Controls

As members of the Board of Directors of the Bank, you are responsible for establishing and maintaining adequate accounting and other records and internal control systems, taking into consideration the expected benefits and relative costs of establishing such systems and complying with the requirements contained in the CBK Instructions.

Independent Auditor's Responsibilities

Our responsibility is to express an opinion on the effectiveness of the internal controls in the processes stated above based on our procedures.

We conducted our engagement in accordance with International Standard on Assurance Engagements (ISAE) 3000, Assurance Engagements other than Audits or Reviews of Historical Financial Information, issued by the International Auditing and Assurance Standards Board. This standard requires that we comply with ethical requirements and plan and perform our procedures to obtain reasonable assurance about whether the Group has maintained, in all material respects, effective internal control in accordance with the requirements of the CBK instructions, for the year ended 31 December 2022

A reasonable assurance engagement includes obtaining an understanding of internal control, identifying and assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control, based on the assessed risk and performing such other procedures as considered necessary in the circumstances. We believe that the evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the international Ethics Standards Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior

The firm applies International Standard on Quality Management 1 and, accordingly, maintains a comprehensive system quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Definition and Limitations of Internal Controls

A Group's internal controls are designed to (1) provide reasonable assurance that assets are safeguarded against loss from unauthorized use or disposition; (2) provide reasonable assurance that banking risks are properly monitored and evaluated; and (3) provide reasonable assurance that transactions are executed in accordance with established authorisation procedures and are recorded properly.



Report on Internal Control (Continued)

Definition and Limitations of Internal Controls (Continued)

Because of its inherent limitations, internal control may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Use of Report

This report is intended solely for the use of Burgan Bank K.P.S.C's Management, and Board of Directors in accordance with the requirements of the CBK instructions. This report is not intended for the benefit of any other third party and we accept no responsibility or liability to any party other than the Group's Management and Board of Directors in respect of the report. Should any third party take decisions based on the contents of the report, the responsibility for such decisions shall remain with those third parties.

Opinion

Having regard to the nature and volumes of the Bank's operations during the year ended 31 December 2022, and the materiality and risk rating of our findings set out in Appendix II, and the status of prior year findings set out in Appendix III, in our opinion the in-scope internal controls of the Bank were established and maintained in accordance with the requirements of the CBK instructions.

Yours faithfully,

Ali B. Al-Wazzan
Deloitte & Touche - Al-Wazzan & Co.
License No. 246A Office Managing Partner

Kuwait
 20 June 2023

EXECUTIVE MANAGEMENT

**Mr. Antoine J. Daher****Group Chief Executive Officer**

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

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

**Mr. Fadel Mahmoud Abdullah****Chief Executive Officer - Kuwait**

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

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

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

**Mr. Khalid Fahed Al Zouman****Chief Financial Officer**

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

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

EXECUTIVE MANAGEMENT

**Mr. Andrew Christopher Singh****Chief Risk Officer**

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

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

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

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

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

**Mr. Venkatakrisnan Menon****Chief Operating Services Officer**

Mr. Menon joined Burgan Bank in 2005 and has over 38 years of experience. He has held several leadership positions at the Bank, including Group Chief Operations and Technology Officer, Chief Retail Banking Officer, Chief Operations Officer, led the Bank's digital transformation initiative & the Centre of Excellence function. He is responsible for leading the Information Technology, Operations, Digital Transformation & General Services Administration Departments at the Bank. Previously, he has held several senior management roles in organisations such as Qatar National Bank, BNP Paribas, Standard Chartered Bank and HDFC Bank. He holds a Master's Degree in Business Administration and a Bachelor's Degree in Science from the University of Mumbai, India.

EXECUTIVE MANAGEMENT



Mr. Mahmoud Mohamed Ezzat Moursi

General Manager- Legal Group

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

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



Mr. Mohamed Najeb AL Zanki

General Manager - Corporate Banking

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

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



Mr. Naser Mohammad Al Qaisi

General Manager - Retail Banking

Mr. Al Qaisi joined Burgan Bank in 2009 and has over 33 years of experience in the banking and financial sector. He is currently responsible for guiding, directing, formulating, and overseeing the implementation of the Retail Banking Group's overall strategy for Burgan Bank. He has held various leadership roles at the Bank showcasing his abilities in managing operations, customer service, sales, and business development.

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

EXECUTIVE MANAGEMENT



Mr. Abdullah Abdelmajeed Marafie

General Manager - Treasury

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

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



Mr. Meshari Abduljalil Shehab

General Manager - Private Banking & Wealth Management

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

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



Mr. Manaf Khaled AlMenaifi

General Manager - Strategic Planning & Monitoring

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

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

EXECUTIVE MANAGEMENT



Mr. Mohammad Abdullah Al Zayed

General Manager - Operations

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

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



Mr. Barrak Jassem AlMattar

General Manager - Information Technology

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

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



Mrs. Huda Fahad Al Shemmari

General Manager - International Banks Office

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

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

EXECUTIVE MANAGEMENT



Mr. Kenneth Ashleigh Wainwright

Chief Internal Audit Officer

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

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



Ms. Reham Essa Sultan

Deputy General Manager - Compliance Group

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

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



Mr. Hamad Abdulhadi Mohammad

Deputy General Manager - Anti Financial Crimes Group

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

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

EXECUTIVE MANAGEMENT



Ms. Kholoud AbdulRedha AlFeeli

Deputy General Manager - Marketing & Communication

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

Previously, she has worked with several companies including Equate, Zain Kuwait and Zain International Group, Wataniya Telecom, Turkapital Investment (KFH), Kuwait International Bank (KIB) and Kuwait News Agency. She holds a Bachelor of Arts in Political Science from Kuwait University and is a winner of the Dame Violet Dickson Award from the British Council.



Mr. Saud Abdulaziz Al Hadbah

Deputy General Manager - General Services Administration

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

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

Financial Statements

Basel III – Pillar III Qualitative and Quantitative Disclosures & Financial Statements



Basel III – Pillar III Qualitative and Quantitative Disclosures

INTRODUCTION

In June 2014, Central Bank of Kuwait (CBK) issued directives on the adoption of the Capital Adequacy Standards (Basel III) under the Basel Committee framework applicable to licensed banks in Kuwait, effectively replacing and superseding the earlier requirements under the circular issued in 2005 Basel framework (Basel II). These instructions cover comprehensively the calculation of the Capital Adequacy Ratio (CAR) under Pillar 1 of Basel III, the supervisory oversight under Pillar 2, the disclosure of information under Pillar 3, and additional liquidity and leverage controls. Given below are the necessary disclosures pertaining to the Bank's Capital Structure, Risk Management objectives and policies, information relating to the Credit Exposure, Credit Risk Mitigation, Market Risk, Operational Risk, and additional Capital Disclosure Requirements as required under the CBK Basel III regulations. In arriving at the CAR, in accordance with the regulations, the standardised approach has been used for the computation of Risk Weighted Assets (RWA).

SUBSIDIARIES AND SIGNIFICANT INVESTMENTS

i. The CBK regulations apply to:

BURGAN BANK K.P.S.C

ii. Basis of Consolidation

The Bank has three commercial banking subsidiaries as on 31 December 2023. These are the following commercial banking entities acquired during the years 2009 – 2012 whose financials are consolidated in the Bank's financial statements. The reporting date of the subsidiaries is a date not earlier than one month from the Bank's reporting date.

Name	Country of Incorporation	Paid-up Capital	Effective holding %	Date of becoming a Subsidiary
Algeria Gulf Bank S.P.A ("AGB")	Algeria	Algerian Dinars 20 billion	86.01%	30 April 2009
Tunis International Bank S.A ("TIB")	Tunisia	United States Dollars 50 million	86.70%	27 June 2010
Burgan Bank A.S. ("BBT")	Turkey	Turkish Lira 2,655 million	47.55%	21 December 2012

The practices in all the group entities are not uniform due to banking practices and regulatory requirements in the respective countries of operation. However, a level of unification has already been put in place for the purpose of meaningful consolidation of the financial position & performance and reporting in accordance with Basel and IFRS standards. Also, under the Group mandate standardization of Risk frameworks and processes are being implemented in all the entities.

iii. Restriction/Impediments on Fund Transfers

Transfer of funds or regulatory capital within the group entities is subject to the applicable rules and regulations in the respective jurisdictions. While some of the countries of incorporation of the subsidiaries have liberalized foreign exchange regimes others have exchange control regulations governing cross-border transfer of funds. Any transfer of regulatory capital among the group entities is subject to the applicable laws and regulations and the receipt of necessary approvals from the respective authorities

CAPITAL STRUCTURE

i. Main features of Capital Instruments

The Bank's paid up capital entirely consists of ordinary shares which have proportionate voting rights. These are listed on the Kuwait Stock Exchange and are actively traded thereon.

As at 31 December 2023, the share capital comprised of 3,452,203,125 issued and fully paid equity shares (31 December 2022: 3,287,812,500) of 100 fils each and the bank's capital structure was as follows:

CAPITAL STRUCTURE OF THE BANK

	Amounts in KD'000s	
	31-12-2023	31-12-2022
Share capital	345,220	328,781
Share premium	282,802	282,802
Statutory reserve	117,903	113,234
Voluntary reserve	118,281	113,612
Other disclosed reserves	(185,941)	(243,163)
Retained earnings	187,818	156,791
Eligible minority interest in consolidated subsidiaries	46,262	10,427
Less: Regulatory adjustments		
- Treasury shares	(1,742)	(1,742)
- Goodwill	(9,028)	(8,941)
- Other intangibles	(8,481)	(9,360)
- Cash flow hedge reserve	(10,938)	(18,889)
- Proposed dividends	(20,681)	(26,262)
- Deductions from Capital Base arising from Investments in FIs where ownership is < 10%	-	-
COMMON EQUITY TIER 1 (CET1) CAPITAL	861,475	697,290
Perpetual Tier 1 capital securities	153,375	153,150
Eligible minority interest in consolidated subsidiaries	8,960	1,747
Deductions from Capital Base arising from Investments in FIs where ownership is < 10%	-	-
ADDITIONAL TIER 1 (AT1) CAPITAL	162,335	154,897
TIER 1 CAPITAL (CET1 + AT1)	1,023,810	852,187
Capital Eligible as Tier 2	153,375	153,150
General provision subject to 1.25% of the credit RWA's	75,579	76,325
Eligible minority interest in consolidated subsidiaries	19,000	2,371
Deductions from Capital Base arising from Investments in FIs where ownership is < 10%	-	-
TIER 2 CAPITAL	247,954	231,846
TOTAL ELIGIBLE CAPITAL	1,271,764	1,084,033

CAPITAL ADEQUACY

i. Bank's Approach to Capital Adequacy Assessment

The Bank has in place a system under which capital adequacy is calculated at regular intervals, based on CBK's circular instructions dated 24/06/2014. During 2020, as a temporary relief to mitigate the impact of the Covid-19 pandemic on Kuwait's domestic economy and the banking sector, the CBK reduced the minimum capital adequacy requirement from 14.0% to 10.5%. Capital adequacy requirement have changed to 11.5% from 1 January 2022 and returned to 14.0% from 1 January 2023.

In addition, the Bank has in place a policy for the Internal Capital Adequacy Assessment Process (ICAAP) that is compliant with CBK instructions in regard to Pillar 2 of Basel III and has been duly approved by the Board Risk Committee and ratified by the Board of Directors. The ICAAP policy covers additional risks in addition to credit, market and operational risks covered under Pillar 1, and assesses additional capital requirements for all these risks (including credit, market and operational risks) over and above the minimum level stipulated by the CBK. Additionally, the Bank conducts stress tests in order to assess the effect on profits and CAR under certain extreme but plausible scenarios.

When calculating CAR, the Bank considers all its future business plans to ensure that the level of eligible capital is sufficient to meet the expected increase in business and the corresponding level of RWAs. The Bank takes into consideration developments locally and in the region as well as the expected changes in the banking environment while examining the level of capital buffer that it would like to maintain.

Basel III – Pillar III Qualitative and Quantitative Disclosures... continued

As regards to the subsidiaries, the respective banking regulations in regard to capital adequacy are different in each of the jurisdictions. While the authorities in Turkey have mandated the transition to Basel III standards, certain other jurisdictions are yet to finalize the regulations in this regard. All subsidiaries are using the standardised approach.

The relevant CBK regulations on Basel III have however been applied for the consolidated financial position of the Bank and its subsidiaries. The capital requirement for each standard portfolio stated below considers complete phase-out of real estate as an eligible collateral in line with CBK's Basel III regulation.

CAPITAL REQUIREMENT FOR EACH STANDARD PORTFOLIO

	Amounts in KD'000s	
	31-12-2023	31-12-2022
Claims on sovereigns	54,377	35,446
Claims on public sector entities	530	357
Claims on multilateral development banks (MDBs)	219	180
Claims on banks	39,246	23,397
Claims on corporates	443,808	392,521
Regulatory retail exposures	73,277	57,485
Claims on central counterparties	123	30
Past due exposures	9,397	8,037
Other exposures	165,045	184,735
Total	786,022	702,188
Less: General provision in excess of 1.25% of RWA's	(17,066)	(12,602)
Total Credit risk weighted exposure	768,956	689,586
Market risk exposure under standardised approach	4,464	3,648
Operational risk exposure	52,237	46,628
Additional Capital Requirement - Domestic Systemically Important Bank (DSIB) Buffer	63,589	64,336
Total Capital Requirement	890,246	804,198
Capital Adequacy Ratio (%)	20.0%	16.8%
Tier 1 Ratio (%)	16.1%	13.2%
Common Equity Tier 1 Ratio (%)	13.5%	10.8%

The CET1, Tier1 & total capital ratios of the banking subsidiaries were as follows:

31-12-2023

Subsidiary Banks	CET1*	Tier 1*	Total capital ratio*
Algeria Gulf Bank S.P.A ("AGB")	12.5%	12.5%	13.4%
Tunis International Bank S.A ("TIB")	29.3%	29.3%	30.1%
Burgan Bank A.S ("BBT")	12.8%	14.4%	20.6%

31-12-2022

Subsidiary Banks	CET1*	Tier 1*	Total capital ratio*
Algeria Gulf Bank S.P.A ("AGB")	12.7%	12.7%	13.5%
Tunis International Bank S.A ("TIB")	31.3%	31.3%	31.9%
Burgan Bank A.S ("BBT")	10.6%	12.2%	18.2%

* Ratios computed under Basel III regulations as adopted in the state of Kuwait. All subsidiaries are in compliance with their local capital adequacy requirements.

RISK MANAGEMENT

The Bank has set up an independent Risk Management Group (RMG) headed by the Chief Risk Officer (CRO) who reports directly to the Board Risk Committee (BRC). RMG does not have any business targets in terms of either levels of business or income/profits to be achieved, with a view to ensuring its objectivity in analyzing various risks. The mission of RMG is to identify, measure and control various risks and report to the top management and BRC of the Bank on the effects and, where possible, mitigations. The Bank has comprehensive Risk Policy that classifies the risks faced by it in its activities into certain families 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. Among the families of risks are:

- Credit Risk which includes default risk of clients and counterparties
- Market Risk which includes interest rate, foreign exchange, liquidity and equity risks
- Non-Financial Risks which includes risks such as Operational Risk, Business Continuity, Third-Party Risk, Environmental, Social, and Governance (ESG), Fraud risk etc.
- Information and Cyber Security Department

The Risk Management Group is organised into, among others, four departments each responsible for one of the above risk areas, viz. Credit, Market and Non-Financial, and Information and Cyber security Risk departments.

All subsidiaries have an independent risk management function reporting directly to its respective Board Risk Committee. ICAAP is undertaken at both the Group and individual subsidiary levels.

In addition, a stress-testing framework that is commensurate with the Bank's size, locations and nature of activities is in place. Sensitivity and Scenario-based approaches to stress testing are used to assess the Bank's vulnerability and possible impact of negative economic events on its capital. The stress-testing framework is forward-looking and subject to change based on experience and evolving techniques. At least three stress-testing scenarios are applied to arrive at the stressed capital ratios, with a view to ensure that the Bank remains adequately capitalized under stressed conditions during economic down-turns. Adequate stress-testing procedures are in place for Credit, Market (trading book), Interest Rate (Banking book), Liquidity and Operational Risks. All the other risks covered under Internal Capital Adequacy Assessment Plan (ICAAP) have built-in mechanism to account for the forward-looking stressed conditions. Stress testing is carried out on semi-annual basis. However, in the event of imminent adverse changes in the overall economy, stress testing may be conducted more frequently.

A. Credit Risk

i. Strategies and Processes

The Bank has a well-documented Credit Policy that complies with CBK regulations and outlines the risk appetite of the Bank in its various business groups viz. the Corporate Banking, Consumer Banking, Retail Banking and Financial Institutions groups. The Credit Policy has been developed by the Risk Management Group in line with the industry best practices, consultation with the business groups and under the guidance and approval of the Board. Subject to the guidelines of the Policy, each business group may draw up its own business strategy. The Policy defines lending principles, credit granting & approval process and the types of products that the various business groups can market to their clients and counterparties. Any new product is required to undergo a specific validation process before its launch.

The Bank's subsidiaries also have their respective credit policies based on their local market practices and regulations that govern the credit granting to clients segmented suitably, subject to the respective local business environments and the specific requirements applicable in each jurisdiction, the policies of the subsidiaries have a similar coverage.

ii. Structure and Organisation

The Credit Risk Department is headed by Deputy General Manager – Risk Department who leads supervision of all credit risk activities within the risk department. The Credit risk function primarily undertakes an independent review of credit proposals submitted by business units by providing their views/recommendations on credit proposals. These proposals are approved in accordance with the delegation of powers approved by the Board. The Bank's structure of delegation of powers envisages that a credit approval requires, in addition to the recommendation of the concerned business group, an independent enabling opinion of the Risk Management Group. This ensures that the approval process has an in-built mechanism of checks and balances with the concurrence of an independent functionary before a credit proposal can be approved. To be noted that under the Corporate Governance Code, Risk Management personnel do not have any signing power or approving authority, but can give their independent opinion on the proposal. Other key functions include ongoing portfolio monitoring, through various post fact reports and an oversight on provision adequacy and write offs.

The subsidiaries also have similar structures and organisations, subject to their respective local conditions and business environments.

iii. Scope and Nature of Reporting Systems

After the approval of the credit proposal, the Credit Control Department is entrusted with the responsibility of checking and ensuring that the conditions precedent for the draw-down of the credit facilities as approved are fulfilled before the disbursement of funds to the client/counterparty. This unit, which is under the oversight of Risk Management department and independent of

Basel III – Pillar III Qualitative and Quantitative Disclosures... continued

Business Units also follows up on the conduct of the accounts by the client/counterparty in accordance with the terms of approval and reports any irregularities for necessary corrective action. This unit is also responsible to ensure that the relevant details for measurement of the risk and allocation of the appropriate risk weights to the exposures are made available in the system or otherwise, so that the computation of the RWAs can be made appropriately.

To keep pace with the changing business environment and regulatory developments, the bank has implemented Credit Lens for rating its Corporate, Non-Banking Financial Institutions and private banking customer portfolio.

The key subsidiaries have also implemented the same rating system for rating their wholesale banking customers.

iv. Hedges and Mitigants

The Credit Policy of the Bank also stipulates guidelines for credit enhancements through availability of collaterals to mitigate the risk. This primarily covers the minimum required coverage ratio of acceptable collaterals to the loan granted/ to be granted and the threshold levels for top-up of security. The policy and procedures of the Bank also stipulate the frequency of valuation of the different collaterals so as to determine the necessity for top-up by the client and/or procedure for liquidation in line with market best practices and regulatory guidelines prescribed in this regard. Since there are limited avenues for other types of hedges such as Credit Default Swaps etc. in the Kuwaiti banking environment, the key mitigants considered are eligible collaterals and/or guarantee of acceptable third parties.

The collaterals accepted by the bank normally consist of cash in the form of deposits with the Bank, shares, bonds and units of mutual funds, various forms of real estate such as vacant lands, investment and commercial buildings, projects under construction etc. The scope to obtain any other type of collateral such as movables etc. is limited since the law does not recognize a hypothecation charge or a chattel mortgage. For the purposes of credit risk mitigation, only collaterals permitted by the CBK and where the conditions stipulated are fully met are considered.

As regards shares, bonds etc., the Bank fulfills the stipulated regulatory requirements for their periodic valuation, application of haircuts etc. With regard to real estate assets, as per CBK regulations, the Bank is required to obtain two independent valuations of which KFH/KIB has to be one for Kuwait based assets. The periodicity of the valuation is in line with the regulatory requirements.

The amount of a secured facility that a borrower can avail of is generally based on the valuation of security and minimum required collateral coverage to be maintained thereon. Additional consideration is also given to the expected cash flows of the customer and income from the assets mortgaged.

The respective credit policies of the subsidiaries also define the collaterals acceptable for their respective credit facilities with the ratios for coverage, top-up and liquidation. However, unlike the laws of Kuwait, the laws in the jurisdictions of some of the subsidiaries permit hypothecation of immoveable properties of clients in favor of a bank and where this is permitted, such collateral is also obtained, subject to the conditions stipulated in the respective legal provisions. Based on their respective local regulatory requirements and banking practices, the collaterals are valued by independent sources.

B. Market Risk

The primary objective of Burgan Bank's market risk management function is to provide a coherent policy and operating framework for a strong Bank-wide management of market and liquidity risks.

i. Strategies and Processes

The operations of the Bank's Investment Banking and Treasury Groups (together referred as IBT) give rise to the market risks assumed by the Bank. The Bank has a well-defined, Board approved and CBK compliant treasury, liquidity and investment policies that outline the framework that governs trading and investing activities which give rise to market risk. These policies cover rules concerning the positions that the Bank assumes in the course of its trading in foreign exchange, equities and fixed-income securities as well as the interest rate risk exposures in the banking book in terms of mismatches in maturity and/or re-pricing periods.

Every year, during the annual budget exercise, IBT decides upon and proposes its expected strategy and business plan for the coming year. These business and strategy forecasts are discussed during Asset Liability Committee (ALCO) meetings throughout the year and when necessary corrective actions are decided. The ALCO discusses and deliberates on all aspects of market and liquidity risks.

Liquidity management policy and limits ensure that liquidity is maintained at sufficient levels to support operations and meet payment demands even under stressed conditions that might arise with a sudden change in the market environment. The Bank has also in place a comprehensive stress testing policy and liquidity contingency funding plan.

The subsidiaries have their respective well defined ALCO and Market Risk policies with a similar content of topics, but suited to their respective business environments. These policies have been framed with due consideration for the respective local regulations that have an effect on the market and liquidity risks assumed by each of them. The respective Board of Directors of each subsidiary approves the market risk appetite, in terms of limits, for market and liquidity risks including foreign currency risk, interest rate risk, liquidity risk and equity risk. These limits are based on notional amount/MTM/ sensitivity and/or VaR (Value at Risk).

IBT in consultation with Risk Management, proposes various limits and rules under which front-office traders and dealers are allowed to take positions. These limits are based on notional amount, sensitivity and stop-loss. These limits are approved by the Board Executive Committee and where so required under regulations, by CBK. These limits relate to intra-day and overnight positions as well as positions under different maturity buckets, tenor limits, counterparty exposure limits, stop-loss levels etc. While the adherence to these limits is monitored by IBT, they are also independently monitored by Middle Office whose reporting lines are independent of IBT.

While quantifying market risks, the Bank considers risks arising from movements in interest rates (for each of the currencies in which it holds significant positions), foreign exchange and price of traded equity securities. At present, the Bank does not assume positions in commodities. Based on the composition of the risk assets that give rise to these risks, the Bank applies various rules to measure market risk. These are in line with the applicable regulatory guidelines and are considered commensurate with the positions assumed by the Bank. Securities held in Trading Book are carried at the fair value as prescribed by the regulatory guidelines.

IBT is responsible for managing day-to-day funding activities within the established liquidity risk management policies and limits. It is responsible for establishing appropriate procedures and effective communication channels with operational and business areas to alert the funding desks of imminent funding requirements including loan drawdowns, deposit withdrawals and off-balance sheet commitments. It monitors market developments, understands their implications for the Bank's liquidity risk exposure and recommends appropriate risk management measures to ALCO.

Market Risk periodically reviews liquidity risk policies and procedures, performs liquidity stress testing independently and reports their findings and recommendations to the management as well as BRC. It is also responsible for monitoring adherence to the various liquidity ratios and limits, both internal and regulatory.

For subsidiaries, dealing and trading activities are governed by the applicable local regulations and prescribed limits. In addition to these regulatory limits, internal limits are applied where deemed appropriate and these are monitored and reported upon by the relevant local units that are independent of the business units. For Subsidiaries that are active in Capital markets trading (mainly via back-to-back deals with customers), P&L and risk sensitivity reports are sent to Group Market Risk more frequently.

ii. Structure and Organisation

Market and Liquidity risks are overseen by the Asset Liability Committee (ALCO). ALCO deals with Bank-wide market risk issues as well as Treasury specific issues. ALCO meets on a regular basis to discuss the risk exposures vis-à-vis the prevailing market conditions and sets guidelines to manage these risks within the risk appetite limits set by the Board.

Middle Office responsible for ensuring that all Treasury related internal controls are functioning effectively and all non-adherences are brought to management's attention on a timely basis

iii. Scope and Nature of Reporting Systems

The Bank has in place systems that allow independent, on-line monitoring of key Market Risk positions assumed by the Front-Office. Various P&L and risk reports covering trading activities and their impact on key Market and liquidity metrics are sent daily to Senior Management. Stress testing for interest rate risk, foreign exchange risk and liquidity risk is conducted on a regular basis and results are presented to ALCO for review. Detailed market risk reviews are submitted to the Board Risk Committee on a quarterly basis. These reviews highlight major changes in the Group's market and liquidity risk profiles as well as compositions of the investment portfolio.

Basel III – Pillar III Qualitative and Quantitative Disclosures... continued

iv. Hedges and Mitigants

A major part of the banking and trading books of the Bank is in Kuwaiti Dinars (KD's) and the other important internationally actively traded currencies. Due to the limited scope for hedging interest rate positions in KD's arising from a limited range of hedging products, the Bank enters into, where reasonably possible, variable interest rate transactions structured to enable it to minimize maturity/re-pricing mismatches.

Open positions in other currencies are also subject to internal limits and, when hedging is required, the Bank makes use of interest rate and currency swaps. Subsidiaries that deal in derivatives (such as Burgan Bank Turkey) do so to meet client requests on a fully matched basis as well as to manage their respective Asset Liability mismatch, and dealing only in vanilla derivatives and does not deal in exotic derivatives or structured derivatives. The Bank has implemented a policy to hedge its net currency exposure in its major subsidiary in compliance with the International Accounting Standards. The Bank mainly uses currency swaps to hedge the specific positions in foreign currencies, when necessary. Effectiveness of all hedges is regularly monitored throughout their term.

With the exception of BBT, subsidiaries have modest dealing operations. The range of products offered by them to their clients is limited, due to the market environment and where applicable, exchange control regulations.

BBT deals in foreign exchange and interest rate derivatives to cover client needs on a back to back basis and for Asset Liability Management activities. All derivatives activities are regulated through various limits approved by the BOD and monitored through P&L and risk systems.

C. Non-Financial Risks

The Non-Financial Risks Department covers risks such as Operational Risk, Business Continuity, Third-Party Risk, Environmental, Social, and Governance (ESG), Fraud risk etc.

Operational Risk Management is a second line of defense function which is aligned to provide support to Management in the identification, capture, and mitigation of risk of loss resulting from inadequate or failed processes, people, technology and external events across the business.

Burgan Bank has placed an increased focus on the depth of the coverage in this area to ensure effective oversight over the operational risks that are being faced.

The Operational Risk Department provides oversight across the Bank in order to identify, measure, monitor and control its inherent risk exposures across the Bank's Operational Business areas at all levels by using different tools such as Risk and Control Assessment, Incident Management, and Key Risk Indicators. The department plays an important role by enabling the Bank to evaluate the key controls, based on the identified inherent risks, and to measure the residual risks which remain after the assessment of the effectiveness of these key controls. The Operational Risk Management Policy of the Bank classifies the various areas of operational risks and identifies who are primarily responsible for rectifying these risks according to the three lines of defense model.

Burgan Bank has implemented an Operational Risk Management Framework (ORMF) that sets out the approach for the management of operational risks, which has been approved by the Board of Directors. The function is also supported by an automated system that manages the process of collecting, storing, analyzing, tracking and reporting on information relevant to operational losses, risk and control assessments, and management of key risk indicators.

Operational Risk Key Management processes include but are not limited to the following:

- Governance – incorporates the direction and review by senior management of operational risk within the bank.
- Risk and Control Assessment process is to identify, assess the key operational risks and its associated controls across the businesses.
- Key Risk Indicators (KRIs) - KRIs are a tool to measure and monitor operational risks across the bank in a consistent format, and provide an 'early warning indicator' of potential process failures and/or control issues.
- Operational Loss Events - A key component of the Operational Risk Management process is the collection and tracking of operational loss events. The objective of the loss event collection process is to provide a consistent and organized approach to identify, capture, analyze and report the operational losses. The loss event collection will encourage root cause analysis which can be used to drive improvement action, and identify control gaps, highlighting correlations between risk and controls.

- Reporting – allows the above processes (i.e. management and control self-assessment, incident management & key indicators) to be brought together in a coherent manner for use by all levels of management to oversee and control the level of operational risk.

The goal of the Operational Risk Management framework is to provide management with the information needed to be able to make proper decisions regarding the level of operational risks that they are running. Burgan Bank will continue to develop and improve methods and processes for managing operational risk by ensuring a common language for operational risks and controls classification and categorization.

The Business Continuity (BC) Risk function is responsible for coordination the BC and Disaster Recovery (DR) activities across the bank enhancing the bank's resilience. It conducts the annual Business Impact Analysis exercise with the Business to assess the criticality of the processes run by the individual departments, the systems and people needed for the continuation of the critical processes during crisis situation.

The Business Continuity policy provides an overview of the roles and responsibilities across the three lines of defense for BC/DR readiness and the Business Continuity Plan details the crisis scenarios that the bank is considering in planning for the BC related emergencies.

A crisis management team is available at the group level for high-level coordination and communication internally and externally. In addition, business continuity plans are in place for business-critical operations and services that are critical for society.

The Emerging Risk department looks into the ESG, Third Party, End User Computing Applications and Resilience risks faced by the bank.

The Fraud Unit that will be established by the end of the year within the Non-financial Risk department is going to work on the implementation of the Fraud Risk Management Framework, coordinating the fraud investigations and monitoring the fraud occurrences and attempts across the bank.

D. Information and Cyber Security

Effective management of information, whether internal or external, is crucial for any organization. Burgan has a robust prevention, detection, and response plan in place across the organization. For banks, where money is a primary asset, reliable information becomes even more critical. Therefore, Information Security is vital to safeguard the interests of the Bank.

Burgan Bank has implemented an Information Security Management System (ISMS) Framework with the primary objective of developing strong information security through suitable policies and procedures. The framework aims to protect information by ensuring its confidentiality, integrity, and availability. The bank proactively works to protect all types of assets, including personnel, through technical, organizational, and administrative measures.

Burgan Bank's Information Security management complies with international standards, best practices, and regulatory mandates of CBK including SWIFT Customer Security Program (CSP), Payment Card Industry Standards (PCI), Information Security Management Systems (ISMS) and Privacy Information Management Systems (PIMS). The bank has also established a Cyber Crisis Management Team (CCMT) headed by the CEO - Kuwait, in line with CBK- Cyber Crisis Strategy.

The Cyber crisis management team - CCMT provides support for the effective management of cyber crisis incidents with highest support. Additionally, the bank has set up a Cyber Security Incident Response Team (CSIRT) comprising experts across domains operations and business. The Team upon identifying es, isolates, and escalates cyber-attacks with the required response.

As per the risk treatment life cycle, untreated risks are transferred through insurance policies. Cyber risk has dedicated insurance coverage as part of it. Burgan Bank takes a proactive approach to information security management on its assets and interests.

Basel III – Pillar III Qualitative and Quantitative Disclosures... continued

Credit Exposures

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

Impairment of financial assets other than credit facilities:

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

Expected Credit Losses under IFRS 9 as per 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. ECLs are estimated based on 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 profit rate of the financing 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 collaterals.

Staging of credit facilities

The Group continuously monitors all financial assets classified as credit facilities and applies a series of absolute thresholds and other criteria to determine the staging. All financial assets classified as credit facilities that are more than 30 days past due are deemed to have significant increase in credit risk since initial recognition and are classified under Stage 2. All rescheduled credit facilities are classified under the Stage 2 unless it qualifies for Stage 3. The Group also applies other criteria to determine a significant increase in credit risk for financial assets, such as:

- Deterioration in the customer rating of the borrower indicating default;
- A material decrease in the underlying collateral value where the recovery of the loan is expected from the sale of the collateral;
- A material deterioration in the customer's financial position in the opinion of the Group causing concerns on the repayment ability;
- A material covenant breach in a committed facility;

- Filing for bankruptcy or liquidation;
- Downgrade in the facility's credit rating by 2 grades for the facilities with Investment Grade rating and by 1 grade for those with Non-Investment Grade rating.

Except for consumer and instalment financing, 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 and after necessary CBK approvals.

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;
- Other indicators such as breach of covenants, customer being deceased etc;

The Group assess whether objective evidence of impairment exists on an individual basis for each individually significant asset and collectively for others not deemed individually significant.

Measurement of ECLs

ECLs are probability weighted estimates of credit losses and are measured as the present value of all cash shortfalls discounted at the effective interest rate of the financial instrument. Cash shortfall represent the difference between cashflows due to the Group in accordance with the contract and the cashflows that the Group expects to receive. The key elements in the measurement of ECL includes exposure at default, probability of default and loss given default.

The Exposure at Default ("EAD") is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including expected drawdowns on committed facilities, repayments of principal and interest, whether scheduled by contract or otherwise. In addition, Group also complies with the CBK guidelines with respect to application of Credit Conversion Factors.

The Probability of Default ("PD") is an estimate of the likelihood of default over a given time horizon. For credit facilities other than retail, Through-The-Cycle PD (TTC PD) are generated from the rating tool based on internal / external credit ratings. The Group converts the TTC PD to Point In Time (PIT) PD term structure using appropriate models and techniques. The Group assesses the PD for its Retail portfolio through behavioral scorecards using logistic regression techniques. In addition, Group also complies with the CBK guidelines with respect to minimum PD.

The Loss Given Default ("LGD") is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD. In addition, Group also complies with the CBK guidelines with respect to eligible collaterals 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.

Basel III – Pillar III Qualitative and Quantitative Disclosures... continued

Renegotiated credit facilities

In the event of a default, the Group seeks to restructure financing to customers rather than take possession of collateral. This may involve extending the payment arrangements and the agreement of new financing conditions. When the financing to customers has been renegotiated or modified but not derecognised, any impairment is measured using the original effective interest method as calculated before the modification of terms. Management continually reviews renegotiated financing 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.

Provisions for credit losses in accordance with CBK instructions

The Group is required to calculate provisions for credit losses on credit facilities in accordance with the instructions of 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 financing receivable is classified as past due and impaired when the profit or a principal instalment is past due for more than 90 days and if the carrying amount of the facility is greater than its estimated recoverable value. Past due and impaired loans and advances to customers are managed and monitored as irregular facilities and are classified into the following four categories which are then used to determine the provisions:

Category	Criteria	Specific provisions
Watch list	Irregular for a period of up to 90 days	-
Substandard	Irregular for a period of 91- 180 days	20%
Doubtful	Irregular for a period of 181- 365 days	50%
Bad	Irregular for a period exceeding 365 days	100%

However, based on the circumstances of a particular exposure, if and when the Bank considers it necessary, a higher level of provisioning is made even if these default periods are not attained.

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

After implementation of IFRS9 rules the ECLs are computed for Stage 1, Stage 2 and Stage 3 classified clients in accordance with the prescribed CBK guidelines.

Higher provision charges amongst the two approaches are considered thereafter.

In all cases of non-performing exposures, the Bank does not recognize any accrued income. Interest/commission on such exposure is recognized as income only on actual receipt.

The Provision Committee of the Bank examines, at regular intervals, all the delinquent accounts to determine if a specific provision needs to be made for any particular account. The Committee is chaired by the Group Chief Executive Officer or his nominee to ensure an objective assessment of the concerned exposure without taking into consideration the performance of the Bank or its profits/profitability.

The subsidiaries follow their respective applicable regulations in regard to impaired assets and provisioning requirements. However, at the time of consolidation of the accounts, The Bank applies the CBK rules in regard to provisioning on the consolidated basis. Any shortfall arising on account of the difference between the respective regulatory requirements of a subsidiary and the CBK regulatory requirements are covered by the Bank at the consolidated level.

ii. Credit Risk Management Policy

The Bank has developed a comprehensive credit policy encompassing evaluation of the customer request, assessment of the purpose of request, business of the client, market, management, financials, conduct of the account and such other means to establish the credit worthiness of the counterparty.

The Bank performs independent credit risk evaluation every time when it extends or renews credit to its borrowers and also when it amends any approval terms and conditions to ensure that the risk is within the acceptable level.

The availability or otherwise of acceptable collateral, the standing and reputation of the client/counterparty, market reports, the exposures assumed by other banks on the same client/counterparty etc. are some of the considerations that are examined before approving credit facilities. All credit exposures are reviewed at least once in a year. In the case of locally incorporated unlisted companies and partnerships with limited liability, the personal guarantees of the main promoters of the enterprise are normally also required.

Since the Bank is at present required to follow the Standardised Approach for credit risk, it does not follow any statistical methods to estimate either the probability of default or exposure at default or loss given default. However, the bank has since implemented Moody's PD model for its wholesale banking portfolio. Based on the public ratings given to the clients/counterparties by recognized and approved External Credit Assessment Institutions (ECAIs), the exposures are risk weighted in accordance with the CBK regulations.

iii. ECAIs and Mapping Process

An exercise to map these ratings to the exposure of the Bank where applicable is carried out. Where a general issuer rating is available in the public domain, the same is used for the relevant exposure of the rated client/counterparty. Where only an issue rating is available in the public domain and if the rated issue has comparable characteristics to the Bank's exposure both in terms of the tenor and other features such as availability of credit enhancement etc. such rating is considered. CBK at present considers Moody's, Standard and Poor's and Fitch as the Approved ECAIs and only those clients/counterparties who have a solicited rating from one or more of these ECAIs, are considered to be rated. Based on the ratings declared by the ECAIs as made available by the respective clients or established public domains, the ratings are classified into Investment Grade and Non-Investment Grade ratings. Those who are not rated by any of these three ECAIs are considered to be unrated. In order to ensure that the ratings are not considered selectively, if a current rating from one of these ECAIs available in respect of any client/counterparty, it is always taken into account and in such cases, the client/counterparty is not considered as unrated.

31-12-2023

	Gross credit exposure Amounts in KD 000s		Gross average credit exposure* Amounts in KD 000s	
	Funded	Unfunded	Funded	Unfunded
Claims on sovereigns	1,257,029	-	667,154	-
Claims on public sector entities	60,318	14,400	68,451	10,800
Claims on MDBs	50,617	-	36,373	-
Claims on banks	812,842	1,669,968	686,876	663,088
Claims on corporates	3,403,555	1,481,267	3,351,944	1,309,210
Cash items	74,472	-	32,880	-
Regulatory retail exposures	557,341	117,313	626,681	98,860
Claims on central counterparties	-	47,205	-	32,231
Past due exposures	82,058	1,049	56,366	450
Other exposures	1,268,464	128,708	997,772	113,913
Total	7,566,696	3,459,910	6,524,497	2,228,552

Basel III – Pillar III Qualitative and Quantitative Disclosures... continued

31-12-2022

	Gross credit exposure Amounts in KD 000s		Gross average credit exposure* Amounts in KD 000s	
	Funded	Unfunded	Funded	Unfunded
Claims on sovereigns	1,036,571	-	665,868	-
Claims on public sector entities	72,004	7,200	89,374	4,950
Claims on MDBs	50,741	-	49,073	-
Claims on banks	497,486	2,274,823	453,587	834,048
Claims on corporates	3,468,057	1,647,684	3,490,402	1,372,567
Cash items	72,243	-	37,171	-
Regulatory retail exposures	495,853	101,498	558,241	96,724
Claims on central counterparties	-	13,136	-	19,131
Past due exposures	81,558	2,683	102,526	2,341
Other exposures	1,512,285	102,842	1,009,487	129,806
Total	7,286,798	4,149,866	6,455,729	2,459,567

* Average exposure represents daily average outstanding except in the case of past due exposures, which show quarterly averages since the classification of past due exposures is done quarterly

GEOGRAPHIC DISTRIBUTION OF GROSS CREDIT EXPOSURE

31-12-2023

Amounts in KD 000s

	Kuwait	Jordan	Algeria	Iraq	Tunisia	Turkey	Other Middle East	Europe	Rest of the world	Total
Claims on sovereigns	573,232	1,212	215,639	-	13,354	201,772	147,809	28,059	75,952	1,257,029
Claims on public sector entities	54,333	-	-	-	-	-	4,212	9,057	7,116	74,718
Claims on MDBs	-	-	-	-	-	-	7,564	11,440	31,613	50,617
Claims on banks	238,496	25,195	9,161	1,518	12,174	237,105	1,154,404	715,976	88,781	2,482,810
Claims on corporates	3,553,539	-	567,525	-	8,657	515,431	227,329	6,376	5,965	4,884,822
Cash items	38,387	-	24,805	-	143	9,149	-	-	1,988	74,472
Regulatory retail exposures	502,454	-	30,116	-	39	142,024	-	21	-	674,654
Claims on central counterparties	-	-	-	-	-	47,205	-	-	-	47,205
Past due exposures	39,874	-	13,111	-	-	4,639	25,483	-	-	83,107
Other exposures	1,013,730	877	85,527	-	4,432	143,088	48,815	8,386	92,317	1,397,172
Total	6,014,045	27,284	945,884	1,518	38,799	1,300,413	1,615,616	779,315	303,732	11,026,606

31-12-2022

Amounts in KD 000s

	Kuwait	Jordan	Algeria	Iraq	Tunisia	Turkey	Other Middle East	Europe	Rest of the world	Total
Claims on sovereigns	500,853	1,208	147,098	-	7,639	217,257	85,785	25,807	50,924	1,036,571
Claims on public sector entities	63,667	-	-	-	-	-	4,089	8,156	3,292	79,204
Claims on MDBs	-	-	-	-	-	-	10,753	10,647	29,341	50,741
Claims on banks	146,847	28,232	39,698	779	4,858	182,168	1,378,860	952,678	38,189	2,772,309
Claims on corporates	3,528,334	-	503,944	-	4,994	760,739	238,864	10,980	67,886	5,115,741
Cash items	34,283	-	25,691	-	135	9,502	2,632	-	-	72,243
Regulatory retail exposures	441,679	-	30,170	-	39	124,302	-	1,161	-	597,351
Claims on central counterparties	-	-	-	-	-	13,136	-	-	-	13,136
Past due exposures	18,241	-	8,515	-	-	25,695	31,790	-	-	84,241
Other exposures	958,735	744	87,238	315,373	3,853	95,169	49,696	7,952	96,367	1,615,127
Total	5,692,639	30,184	842,354	316,152	21,518	1,427,968	1,802,469	1,017,381	285,999	11,436,664

GROSS CREDIT RISK EXPOSURES BY RESIDUAL CONTRACTUAL MATURITY

31-12-2023

Amounts in KD 000s

	Up to three months	Three to six months	Six to 12 months	Over 12 months	Total
Claims on sovereigns	590,948	131,379	56,182	478,520	1,257,029
Claims on public sector entities	-	-	3,689	71,029	74,718
Claims on MDBs	-	-	-	50,617	50,617
Claims on banks	1,516,366	148,149	609,552	208,743	2,482,810
Claims on corporates	1,054,360	538,588	1,010,524	2,281,350	4,884,822
Cash items	74,472	-	-	-	74,472
Regulatory retail exposures	86,557	29,702	53,121	505,274	674,654
Claims on central counterparties	47,205	-	-	-	47,205
Past due exposures	83,107	-	-	-	83,107
Other exposures	194,648	90,207	194,497	917,820	1,397,172
Total	3,647,663	938,025	1,927,565	4,513,353	11,026,606

31-12-2022

Amounts in KD 000s

	Up to three months	Three to six months	Six to 12 months	Over 12 months	Total
Claims on sovereigns	524,491	97,465	25,585	389,030	1,036,571
Claims on public sector entities	-	-	-	79,204	79,204
Claims on MDBs	-	-	3,234	47,507	50,741
Claims on banks	1,444,088	437,971	505,916	384,334	2,772,309
Claims on corporates	2,000,334	751,401	619,104	1,744,902	5,115,741
Cash items	72,243	-	-	-	72,243
Regulatory retail exposures	103,976	23,466	23,791	446,118	597,351
Claims on central counterparties	13,136	-	-	-	13,136
Past due exposures	84,241	-	-	-	84,241
Other exposures	798,391	33,165	142,637	640,934	1,615,127
Total	5,040,900	1,343,468	1,320,267	3,732,029	11,436,664

IMPAIRED LOANS AND PROVISIONS BY STANDARD PORTFOLIO

31-12-2023

Amounts in KD 000s

	Impaired loans (net of suspended interest and collateral)	Total provisions	Specific provision charge/charge off (-)
Claims on banks	-	1,154	-
Claims on corporates	5,254	211,181	25,119
Regulatory retail exposures	11,384	14,791	5,208
Other exposures	-	4,469	-
Total	16,638	231,595	30,327

31-12-2022

Amounts in KD 000s

	Impaired loans (net of suspended interest and collateral)	Total provisions	Specific provision charge/charge off (-)
Claims on banks	-	810	-
Claims on corporates	2,546	183,167	19,874
Regulatory retail exposures	8,088	15,857	3,658
Other exposures	-	5,723	-
Total	10,634	205,557	23,532

Basel III – Pillar III Qualitative and Quantitative Disclosures... continued

GEOGRAPHICAL DISTRIBUTION OF IMPAIRED LOANS (NET)

31-12-2023

Amounts in KD 000s

	Kuwait	Algeria	Tunisia	Turkey	Total
Claims on corporates	493	4,493	242	26	5,254
Regulatory retail exposures	8,691	2,486	154	53	11,384
Total	9,184	6,979	396	79	16,638

31-12-2022

Amounts in KD 000s

	Kuwait	Algeria	Tunisia	Turkey	Total
Claims on corporates	2,322	95	-	129	2,546
Regulatory retail exposures	5,492	2,419	153	24	8,088
Total	7,814	2,514	153	153	10,634

RECONCILIATION OF CHANGES IN PROVISIONS

31-12-2023

Amounts in KD 000s

	Funded	Unfunded	Total
Provisions as on 1 January 2023	181,218	24,339	205,557
Exchange adjustment	4,722	(534)	4,188
Amounts written off	(25,968)	-	(25,968)
Charge to income statement	46,285	1,533	47,818
Provisions as on 31 December 2023	206,257	25,338	231,595

31-12-2022

Amounts in KD 000s

	Funded	Unfunded	Total
Provisions as on 1 January 2022	182,493	19,139	201,632
Exchange adjustment	760	(400)	360
Amounts written off	(16,693)	-	(16,693)
Charge to income statement	19,656	5,631	25,287
Transferred to disposal group held for sale	(4,998)	(31)	(5,029)
Provisions as on 31 December 2022	181,218	24,339	205,557

COUNTERPARTY CREDIT RISK

i. Objective and Policies

The primary objective of counterparty credit risk management is to effectively identify, measure, report and manage all derivatives related counterparty exposures through regular review of counterparty limits and daily monitoring of exposures vs. limits.

ii. Strategies and Process

All derivative limits for counterparties are approved by Board Credit Committee or its delegated authority. The Bank has signed Credit Support Annexure with major derivative financial counterparties to mitigate counterparty credit risk. With regard to non-banking customers, derivative products are mainly offered only to selective large customers with a demonstrated need to employ these products to manage the financial risks in their businesses.

iii. Structure and Organisation

Treasury Group manages day-to-day counterparty exposures for derivatives within the limits set by the Board Credit Committee or its delegated authority. Middle Office monitors the exposures independently so that the exposures remain within the approved limits.

iv. Scope and Nature of Risk Measurement and Reporting Systems

Middle Office is responsible for calculating Mark-to-market of derivative positions on regular basis using the necessary systems/applications. Capital charge for Over the Counter (OTC) derivative products is calculated using the current exposure method ("CEM"). Under this method exposure is calculated, applying CBK recommended add-on factors and mark-to-market of the transactions.

As regards the subsidiaries, with the exception of BBT, other entities do not actively deal in derivative transactions. BBT also has similar objectives, policies, strategies, processes, structure and organisation but customized to local market environment and regulations. BBT also uses CEM to calculate capital charge on its OTC derivative products.

CREDIT SECURITIZATION

The Bank does not conduct any securitization activities.

CREDIT RISK MITIGATION (CRM)

The main CRM techniques applied by the Bank are based on eligible collaterals. Cases where the guarantee of a better-rated client/counterparty is obtained for exposures to a lower rated client/counterparty are few, mainly due to the limited number of Kuwaiti and other regional corporates for which ratings from ECAs are available in the public domain or as made available by the clients. In cases where specific pledge or blocking of deposits is available, on and off- balance sheet netting is also used to mitigate client risks.

i. On and Off-Balance Sheet Netting

The generic legal documents that the Bank obtains from its clients normally include a clause that permits the Bank to offset the client's dues to the Bank against the Bank's dues to the client. Thus, if the same legal entity that has obtained credit facilities from the Bank also maintains credit balances in its accounts, the Bank would normally have the legal right to set off the credit balances against its dues. In respect of some counterparty banks, there are specific agreements that provide for netting on and/or off-balance sheet exposures. Additionally, in specific cases, the Bank approves credit facilities to a client against pledge/block of his deposits to cover the whole or part of his dues. For the purposes of computation of CAR (also for calculation of general provisions), as a prudential measure, the Bank does not take into account the general lien available to it under the generic documentation but only considers cases where specific pledge/block of deposits is in place.

ii. Collateral Policy

It is the Bank's endeavor to obtain acceptable collateral cover for its exposures as far as commercially practicable. The collateral normally consists of real estate properties, shares listed in Kuwait and other leading stock exchanges, other traded and untraded securities such as bonds, mutual funds etc. In some cases, in order to ensure the promoter's commitment, the Bank also obtains other forms of collateral such as unlisted shares/securities etc. While the Bank will be willing to accept other eligible collaterals as defined by the CBK such as gold, eligible debt instruments etc. these are not generally offered by clients/counterparties to the Bank.

Under Kuwaiti laws, the repossession and enforcement of a mortgage on the primary residence of a borrower is not permitted except under specific conditions. The bulk of the residential mortgage loans of the Bank in its Retail Banking Group are therefore not considered to be collateralized by the primary residence, even though mortgage documents are obtained from some of the clients.

Only in some cases, where the legal conditions for enforcement are fulfilled, these are considered to be retail exposures collateralized by residential mortgages.

However, as regards the subsidiaries, the respective local laws do not pose any constraints on enforcement of the mortgage on the primary residence and hence these constraints do not apply in their cases.

For the purposes of computation of CAR, the eligible collateral predominantly consists of shares listed and traded on the recognized stock exchanges which form part of their respective main indices, Guarantees issued by eligible banks and cash collateral where specific pledge/block of deposits is in place.

Basel III – Pillar III Qualitative and Quantitative Disclosures... continued

iii. Main Types of Collateral

The Credit Policy of the Bank defines the types of collateral that are acceptable and the collateral coverage ratio, which is the ratio of the value of the collateral to the exposure, for each type of acceptable collateral. The policy also stipulates that the terms of credit facilities should stipulate a top-up level. If the value of collateral falls to a level where the actual coverage available breaches the top-up level, the client is followed up either to lodge additional collateral or reduce his outstanding dues accordingly. These various ratios, after approval, are monitored independently by the Credit Control unit and reported to the concerned business group for follow up with the client.

iv. Collateral Valuation and Management

The Bank follows a system under which the collateral valuation is independently verified. In respect of real estates in Kuwait accepted as collateral, the valuation is done on an annual basis by two independent valuers, one by a valuer approved by Central Bank of Kuwait and another by a registered valuer approved by the Bank and the average of two values being considered for risk mitigation. In respect of shares and other securities listed on the Kuwait Stock Exchange, the valuation is computed daily, based on the prices declared by the Stock Exchange at the end of the day. The valuation of other collateral such as unlisted shares is done by independent third party evaluators and updated on an annual basis. The valuation process is handled by the Credit Control unit of the Bank with the concerned business group kept informed of the value of client collateral.

v. Guarantees for Credit Enhancement

As stated earlier, there are very few cases where guarantee of a better-rated entity is obtained for the exposure to a lower rated entity. In these cases, where the rating is given by an approved ECAI, the guarantor's rating is substituted in place of the rating of the borrower, for the purpose of computation of RWAs. Where the guarantor and/or the borrower are/is not rated by an approved ECAI, the Bank uses its internal assessment to determine the acceptability of the guarantee but for the purpose of computation of RWA, this has no effect.

vi. Concentration

The Bank makes an endeavor to avoid concentration of collateral as far as possible. To this intent, when collateral in the form of listed shares is accepted, the year-to-date daily traded volumes of the concerned share and the average number of trades are examined and these are, among other points, taken into consideration in making a decision to accept the collateral and stipulating the concerned threshold ratios stated above, viz. coverage ratio & top-up ratio.

NET CREDIT EXPOSURE AFTER RISK MITIGATION AND CREDIT CONVERSION FACTOR**31-12-2023***Amounts in KD 000s*

	Before CRM	CRM	Net Exposure
Claims on sovereigns	1,257,029	-	1,257,029
Claims on public sector entities	60,318	-	60,318
Claims on MDBs	50,617	-	50,617
Claims on banks – Rated	845,631	27,687	817,944
Claims on banks – Unrated	61,914	-	61,914
Claims on corporates	3,872,130	431,818	3,440,312
Cash items	74,472	-	74,472
Regulatory retail exposures	590,996	9,158	581,838
Claims on central counterparties	47,205	-	47,205
Past due exposures	82,463	5,613	76,850
Other exposures	1,276,362	198,072	1,078,290
Total	8,219,137	672,348	7,546,789

31-12-2022*Amounts in KD 000s*

	Before CRM	CRM	Net Exposure
Claims on sovereigns	1,036,571	-	1,036,571
Claims on public sector entities	72,004	-	72,004
Claims on MDBs	50,741	-	50,741
Claims on banks – Rated	540,490	31,597	508,893
Claims on banks – Unrated	69,937	-	69,937
Claims on corporates	3,901,820	432,402	3,469,418
Cash items	72,243	-	72,243
Regulatory retail exposures	527,264	9,939	517,325
Claims on central counterparties	13,136	-	13,136
Past due exposures	82,718	1,803	80,915
Other exposures	1,520,475	147,399	1,373,076
Total	7,887,399	623,140	7,264,259

EXPOSURE COVERED BY ELIGIBLE COLLATERAL AND GUARANTEE**31-12-2023***Amounts in KD 000s*

	Exposure after CCF, net of suspended interest	Covered by Financial collateral after application of haircuts as stipulated by CBK
Claims on sovereigns	1,257,029	-
Claims on public sector entities	60,318	-
Claims on MDBs	50,617	-
Claims on banks	907,545	27,687
Claims on corporates	3,872,130	431,818
Cash items	74,472	-
Regulatory retail exposures	590,996	9,158
Claims on central counterparties	47,205	-
Past due exposures	82,463	5,613
Other exposures	1,276,362	198,072
Total	8,219,137	672,348

31-12-2022*Amounts in KD 000s*

	Exposure after CCF, net of suspended interest	Covered by Financial collateral after application of haircuts as stipulated by CBK
Claims on sovereigns	1,036,571	-
Claims on public sector entities	72,004	-
Claims on MDBs	50,741	-
Claims on banks	610,427	31,597
Claims on corporates	3,901,820	432,402
Cash items	72,243	-
Regulatory retail exposures	527,264	9,939
Claims on central counterparties	13,136	-
Past due exposures	82,718	1,803
Other exposures	1,520,475	147,399
Total	7,887,399	623,140

Basel III – Pillar III Qualitative and Quantitative Disclosures... continued

MARKET RISK FOR TRADING PORTFOLIO, FOREIGN EXCHANGE AND COMMODITIES EXPOSURES

The Bank applies the Standardized Approach for computing the market risk on its trading portfolio and at present does not use the Internal Model Approach (IMA). Under the Standardized Approach, the risk exposure is quantified according to the rules stipulated by CBK.

CAPITAL REQUIREMENT FOR MARKET RISK

Amounts in KD 000s

	31-12-2023	31-12-2022
Equity position risk	1,195	116
Foreign exchange risk	1,163	1,551
Interest rate position risk	355	176
Options	34	695
Total	2,747	2,538

OPERATIONAL RISK

As stipulated by CBK, the Bank uses the Standardised Approach for computation of Operational Risk and the capital required for the same. Out of the eight business lines defined by CBK, the Bank's operations are confined only to five, and as at the reporting date the Bank does not presently operate in Corporate Finance, Agency Services and Retail Brokerage. For the remaining business lines, the Bank uses the stipulated beta factors. Additionally, as stated earlier, the Bank has put in place an Incident Management System to track operational risk incidents and eventually, the system is expected to assist the Bank develop a more advanced approach for operational risk, if and when this is approved or mandated by the authorities. The risk dashboards give a view of the areas of operational risk to the senior management of the Bank and the Board.

The subsidiaries apply the Basic Indicator Approach for computing operational risk under their respective local regulations. However, during the consolidation process, the operational risks are considered under the Standardised Approach where the activities of the subsidiaries are considered under the various business lines as stipulated under the CBK regulations on Basel III calculations.

EQUITY PRICE RISK IN THE BANKING BOOK

i. Classification of Investments

The Bank has a set of investment Policies that outline the type of investments, the accounting requirements, the risk appetite for investments etc. The Bank's equity investments in the banking book are classified as either 'Fair Value through other comprehensive income'(FVOCI), 'Fair Value through P&L'(FVTPL) and Investment in associates.

Equity instruments at FVOCI

Upon initial recognition, the Bank 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 at FVTPL

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

Investments in associates

The Group's investment in its associates is accounted for using the equity method. An associate is an entity in which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

ii. Accounting Policy and Valuation Methodology

The accounting policies concerning investments and their valuation methodologies are described in detail under the "Summary of Significant Accounting Policies" elsewhere in this Annual Report. During the year 2023, there has been no significant change in these policies and methodologies.

The Board Credit and Investment Committee (BCIC) examines and approves investment limits and investments proposed by the Investment Department. BCIC deliberates on these proposals, taking into account RMG's view, before deciding whether to approve them.

As regards the subsidiaries, they also have their respective investment policies along the above lines, which are in line with their applicable regulatory requirements.

INVESTMENTS

31-12-2023

Amounts in KD 000s

	Publicly traded*	Privately held
Equities	63,847	68,769
Fixed income instruments	522,438	-
Any other investments	-	77,151
Total	586,285	145,920

31-12-2022

Amounts in KD 000s

	Publicly traded*	Privately held
Equities	65,459	77,042
Fixed income instruments	491,275	-
Any other investments	-	80,373
Total	556,734	157,415

* The Bank does not have any publicly traded investments whose fair value as disclosed in the financial statements is materially different from publicly quoted values.

Amounts in KD'000s

	31-12-2023	31-12-2022
Realised gains/(losses) recorded in the income statement	13,032	6,480
Unrealised gains/(losses) recognised in the shareholder's equity	(107,360)	(105,846)

Capital requirement by equity groupings

Amounts in KD'000s

	31-12-2023	31-12-2022
Investments whose fair value is designated through other comprehensive income ¹	61,440	54,635
Investments at amortized cost	28,129	22,924
Investments whose fair value is designated through profit & loss	12,165	11,040
Investments held for trading	130	129
Investment in associates	1,383	1,183
Total	103,247	89,911

INTEREST RATE RISK IN THE BANKING BOOK (IRRBB)

Interest rate risk in the banking book arises due to maturity or re-pricing mismatches of assets and liabilities. IRRBB represents the most significant market risk exposure in the Bank's banking book. For the purpose of monitoring such interest rate risk, the Bank has in place a system that tracks interest repricing dates for all of its interest bearing assets and liabilities. From such data, an interest repricing profile is prepared showing the relevant mismatches classified into various buckets.

Interest rate re-pricing reports are based on each product's contractual re-pricing characteristics overlaid where appropriate by behavioral adjustments. Behavioral adjustments are derived by an analysis of customer behavior over time augmented by input

Basel III – Pillar III Qualitative and Quantitative Disclosures... continued

from the business units. The behavioral adjustments are applied mainly for those assets and liabilities with no fixed maturity dates such as overdrafts, demand deposits etc. These adjustments are based on historical trends and are spread over a re-pricing period range of 3 to 6 months. This data is then utilized to generate various IRRBB measures such as Earnings-at-Risk and Economic Value of Equity. IRRBB details and risk measures are prepared and presented at ALCO meetings and these offer an additional tool to assist ALCO in managing interest rate risk. These measures are also presented to BRC on a quarterly basis.

EAR (Earnings at Risk) and EVE (Economic Value of Equity) measures are quantified under various rate shock scenarios, which include six prescribed internal interest rate shock scenarios to capture parallel shocks for EAR and two prescribed internal interest rate shock scenarios for EVE. For a parallel 25/50/100 basis point shock along the yield curve, net interest income for one year including derivatives is affected as shown below:

Amounts in KD 000s		
Sensitivity	2023	2022
+25 bps	3,637	3,046
-25 bps	(3,637)	(3,046)
+50 bps	7,274	6,092
-50 bps	(7,274)	(6,092)
+100 bps	14,549	12,184
-100 bps	(14,549)	(12,184)

On a consolidated basis, interest rate sensitivity at year-end was such that if interest rates of all maturities were to rise (fall) by an equal 1%, then net interest income for the coming year would have risen (fallen) by KD 14.5 million (KD 14.5 million) (2022 - KD 12.2 million (KD 12.2 million)). Also, if interest rates of all maturities were to rise (fall) by an equal 2%, discounted net present value of the Bank's consolidated equity would fall (rise) by KD 25 million (2022 fall (rise) by KD 25 million).

LIQUIDITY RISK AND FUNDING MANAGEMENT

Liquidity risk and funding management of the Group are described in detail under the section "Summary of Significant Accounting Policies" in the Annual Report. Also, a maturity analysis of cash flows payable by the Group under financial liabilities by remaining contractual maturities at the balance sheet date is shown under the section "Notes to Accounts" in the audited consolidated financial statements of the Group for the year ended 31 December 2023.

REMUNERATION PRACTICES

Remuneration Governance

The Board Nominations and Remuneration Committee (BNRC) is responsible for presenting recommendations to the Board regarding nomination to the Board's membership, review of Board structure on an annual basis, undertake performance evaluation of the overall Board and the performance of each member on annual basis, and developing Bank-wide reward policy in line with applicable laws and regulations. In addition, BNRC is responsible for appointment of the senior positions of the Executive Management, ensuring that these positions are occupied by qualified employees along with setting performance standards and succession plans.

There were 9 meetings held during the year by the BNRC.

The Committee is formed and operates as per the guidelines provided under the Corporate Governance manual and the Board / Committee Meeting Guidelines. In addition, specifically for the BNRC composition, the Chairman of the Board is not a member of the BNRC.

The scope of this remuneration policy covers Burgan bank and its subsidiaries where the regulatory requirements of the subsidiaries in the countries they operate are not in conflict with the remuneration policy.

For the purposes of the disclosures, the Bank has identified 16 staff members as being senior management group comprising mainly of the Group CEO (GCEO) and CEO Kuwait and his deputies who are directly responsible for the governance and management of the Bank and 1 staff members as being Material risk takers- group whose roles are not covered in the above group and whose activities, individually or collectively, have a significant impact on the Banks financial performance and stability/ control soundness.

Remuneration Policy

The remuneration policy aims at enabling the Group to attract, retain, motivate and reward qualified workforce while ensuring fairness and consistency as well as being appropriately risk balanced. The policy reflects the Groups objectives for good corporate governance as well as sustained and long term value creation for all stakeholders. The Remuneration policies and practices form part of the Group's overall obligation to have robust governance arrangements in place.

Employees are entitled to different remuneration components targeting appropriate and balanced remuneration package based on the employee job grade taking into consideration the employees skills, experience, his/her role in the Bank as well as market practice.

The remuneration components consist of all forms of payments or benefits in exchange for the services provided by the employee and can be divided into:

- Fixed remuneration based on employee job role and market
- Variable remuneration depending on employee performance- mainly in the form of cash bonuses, both deferred and non-deferred

Employees are eligible to variable remuneration applicable to their position. Variable remuneration is in the form of cash bonus for Variable remuneration may be paid in cash and may be subject to a vesting or deferral period. Remuneration amounts are based on the bonus pools approved by the Board for the purpose of rewarding employee performance. The total amount of performance related remuneration is based on a combination of the assessment of the overall results of the Bank and of the performance of the business unit and of the individual concerned. When assessing individual performance, key financial and non-financial targets and metrics are taken into account.

The payout of the variable remuneration is generally in cash for most of the employees. The variable remuneration is deferred for the GCEO and CEO Kuwait as approved by the Board annually in line with the approved policy over a period of time not exceeding five years. The variable remuneration, including the deferred portion, is paid or vests only if it is sustainable according to the financial situation of the Bank as a whole, and justified according to the performance of the Bank, the business unit and the individual concerned.

Employees engaged in control functions are independent from the business units they oversee. They have appropriate authority and are remunerated in accordance with the achievement of the objectives linked to their functions, independent of the performance of the business areas they control. The remuneration of the senior officers in the Internal Audit Risk management, and Compliance functions is directly overseen by the respective committees to whom they report (i.e. BAC, BRC and BCGC respectively).

The Remuneration policy was approved by the Board in December 2021 and is periodically reviewed for material changes.

Remuneration and risk management

The general remuneration policy is aimed at the alignment of remuneration with prudent risk taking. The long-term strategy will include the overall business strategy and quantified risk tolerance levels with a multi-year horizon, as well as other values such as compliance culture, ethics, behavior towards customers, measures to mitigate conflicts of interest.

The remuneration practices are carefully managed within the risk appetite as laid out by the Board taking into account all key risks- financial, operational as well as compliance. The Bank ensures that the remuneration is designed and implemented to include, in particular,

1. a proper balance of variable to fixed remuneration,
2. the measurement of performance as well as the structure and,
3. the risk adjustment of the variable remuneration.

The assessment of the performance-based components of remuneration are based on longer-term performance as outlined in the Long Range Plan (LRP) and take into account the outstanding risks associated with the performance. Variable remuneration is decided based on the individual performance against KPI's set at the beginning of the performance year and the risk appetite.

In order to minimize incentives for excessive risk-taking, variable remuneration will constitute a balanced proportion of total remuneration. Having a fully-flexible policy on variable remuneration provides that all rewards may be reduced as a result of

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negative performance or even adjusted to zero in cases of risk management issues. There are no material changes in these measures over the past year.

Linking performance and remuneration

The bank's remuneration practices are linked to both short term and long term performance goals. Key financial and non-financial performance measures are aligned to the Bank's business strategy. Performance based remuneration is based on the bonus pools allocated by the BNRC/Board for the purpose of rewarding employee performance. The rewards are based on the bank's overall performance, department/group performance and individual contribution thereof. The senior management team's performance is measured through balanced scorecard which reviews the key performance areas of customer focus, financial performance, process improvement and people management. All other employees in the bank have annual performance appraisals assessing financial and non-financial objectives based on their roles.

Risk being a key factor in determining the sustainability of long term performance the deferral of remuneration is essential to improving risk alignment in the remuneration package. The deferral of remuneration currently applies to staff identified such as the Group CEO and CEO Kuwait and senior management team.

1. Deferral Amount: A portion of the variable remuneration component not exceeding 50%, should be deferred over an appropriate period of time as defined in point 2 below.
2. Deferral Period: the deferred portion of the variable remuneration should be spread over a period not exceeding five years, and is to be aligned with the nature of the business, its risks and the activities of the member of staff in question. The actual payment of variable remuneration is spread over a period which takes account of the underlying business cycle of the Bank and its business risks.
3. The deferral portion and percentage may be adjusted in accordance with the level of seniority or responsibility of the person remunerated.

The deferral schedule is defined by different components:

- (a) the time horizon of the deferral,
- (b) the proportion of the variable remuneration that is being deferred,
- (c) the speed at which the deferred remuneration vests (vesting process) and
- (d) the time span from accrual until the payment of the first deferred amount;
- (e) the form of the deferred variable remuneration

The Bank will differentiate the deferral schedules by varying these five components.

Claw back

The variable remuneration, including the deferred portion, is paid or vests only if it is sustainable according to the financial situation of the Bank as a whole, and justified according to the performance of the Bank, the business unit and the individual concerned.

The claw-back applies to identified staff such as the Group CEO and CEO Kuwait and Executive management team

Claw back would necessitate that the executive pays back an amount already received under a cash bonus award following receipt of the cash either due to the fact that the performance of the business had been overstated at the time the payment was made; or the recipient was, at the time the payment was made, in serious breach of his employment contract and/ or bank's policy or breach of regulatory issues, which resulted in declining financial performance of the Bank.

The claw back will be applicable even after the severance of the employment relationship for a period of one year from the award of the variable remuneration and the Bank will follow the legal recourse available to it for the recovery

The Board shall, in all appropriate circumstances, require reimbursement of any annual incentive payment or long-term incentive payment to an executive officer where:

- (1) the payment was predicated upon achieving certain financial results that were subsequently the subject of a substantial restatement of the Bank's published financial statements;
- (2) the Board determines the executive engaged in intentional misconduct that caused or substantially caused the need for the substantial restatement; and

(3) a lower payment would have been made to the executive based upon the restated financial results.

In each such instance, the Bank will, to the extent practicable, seek to recover from the individual executive the amount by which the individual executive's incentive payments for the relevant period exceeded the lower payment that would have been made based on the restated financial results.

- Total number of Senior management for 2023 is 16 (2022: 17)
- Total number of Material risk takers for 2023 is 1 (2022: 4)

A) Awards for senior managers and material risk-takers paid during the year (related to performance of 2022)

31-12-2023

	Senior Management		Material Risk Takers	
	Number of Employees	Total amount in KD	Number of Employees	Total amount in KD
Variable Awards paid during the year*:				
Cash	16	1,012,796	1	42,654
Fixed Awards granted during the year:				
Cash	1	91,006		
Total awards paid during the year (variable & fixed)	17	1,103,802		42,654
Employees who received Sign on Awards during the year	1	20,000		-
End of Service termination benefits paid during the year	6	1,161,269		-

A) Awards for senior managers and material risk-takers paid during the year (related to performance of 2021)

31-12-2022

	Senior Management		Material Risk Takers	
	Number of Employees	Total amount in KD	Number of Employees	Total amount in KD
Variable Awards paid during the year*:				
Cash	17	611,266	4	75,600
Fixed Awards granted during the year:				
Cash	4	237,000	-	-
Total awards paid during the year(variable & fixed)		848,266		75,600
Employees who received Sign on Awards during the year	-	-	-	-
End of Service termination benefits paid during the year	1	17,887	1	9,570

* represents 1.4 % (2022: 1.9%) of total employees
Variable and Fixed awards are only in the form of Cash awards

B) Deferred cash remuneration outstanding as of end of the year (Salary & Bonus) amounted to KD 423,856

C) Deferred remuneration paid during the year amounted to KD 649,535

D) Summary of remunerations (salary & awards) for senior managers and material risk-takers for the 2023 financial year

31-12-2023

	Senior Management		Material Risk Takers	
	Total amount in KD			
	Unrestricted	Deferred	Unrestricted	Deferred
Variable cash remuneration :	507,246	284,385	15,457	6,624
Fixed cash remuneration :	3,087,776	-	128,584	-

Summary of remunerations (salary & awards) for senior managers and material risk-takers for the 2022 financial year

31-12-2022

	Senior Management		Material Risk Takers	
	Total amount in KD			
	Unrestricted	Deferred	Unrestricted	Deferred
Variable cash remuneration :	664,423	465,040	81,787	35,051
Fixed cash remuneration :	3,115,983	-	375,631	-

Basel III – Pillar III Qualitative and Quantitative Disclosures... continued

OVERVIEW AND CONCLUSION

In summary, the institution has in place a management, control and evaluation system that is:

- Responsive to present business environment, the bank's growth plans and the attendant risks,
- Compliant with historic regulatory instructions and in conformity with the Basel III driven requirements detailed by CBK in their June 2014 instruction document and further enhancements to the same issued from time to time including the detailed additions on Pillar II matters, and
- Meets generally accepted international risk management standards for a financial institution of the size and complexity of the Bank.

The Bank also appoints an independent audit firm other than its external auditors, to examine the internal control systems in the Bank and its subsidiaries and to point out any deficiencies that may give rise to risks. This is being done in fulfillment of the CBK regulations and a copy of these reports along with the steps taken to correct any deficiencies is presented to the Board Audit Committee and also to CBK. This provides additional comfort regarding the checks and balances in place in the Bank and its subsidiaries.

The Bank has in place relevant policies and detailed procedures for all its major departments/functions aimed to achieve full operational conformity with the policies set out in this section in an integrated and cost efficient manner. In this regard,

- Detailed operating procedures are in place in respect of all major functions and the concerned staff members may refer to them as and when necessary so as to ensure their compliance
- An international control framework monitored by a dedicated internal control unit covering all areas of the Bank
- The Bank's IT security and control structure has been effectively functioning and is certified under an international information security certification.
- An independent internal audit function has regular board approved audit plans to audit the various areas of the bank and present their findings and the responses of the audited departments including the steps taken to address audit observations.

The Bank Management will continue to review the policies and procedures on an ongoing basis periodically for necessary and appropriate enhancements, and present them for approval by Board Committees and/or the Board itself as required by the Bank's Governance structure and, where applicable, CBK guidance.

ADDITIONAL CAPITAL DISCLOSURE REQUIREMENTS**1. Common Disclosure Template – Composition of Regulatory Capital**

Common Equity Tier 1 capital: instruments and reserves		All amounts are in KD'000
1	Directly issued qualifying common share capital plus related stock surplus	628,022
2	Retained earnings	167,137
3	Accumulated other comprehensive income (and other reserves)	50,243
4	Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies)	
5	Common share capital issued by subsidiaries and held by third parties (minority interest)	46,262
6	Common Equity Tier 1 capital before regulatory adjustments	891,664
Common Equity Tier 1 capital: regulatory adjustments		
7	Prudential valuation adjustments	
8	Goodwill (net of related tax liability)	9,028
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	8,481
10	Deferred tax assets excluding those arising from temporary differences (net of related tax liability)	
11	Cash flow hedge reserve	10,938
12	Shortfall of provisions to expected losses (based on Internal Models Approach, if applied)	
13	Securitisation gain on sale	
14	Gains and losses due to changes in own credit risk on fair valued liabilities	
15	Defined benefit pension fund net assets	
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	1,742
17	Reciprocal cross holdings in common equity of banks, Fis and insurance entities	
18	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued capital (amount above 10% threshold of bank's CET1 capital)	-
19	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	
20	Mortgage servicing rights (amount above 10% threshold of bank's CET1 capital)	
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	
22	Amount exceeding the 15% threshold	
23	of which: significant investments in the common stock of financials	
24	of which: mortgage servicing rights	
25	of which: deferred tax assets arising from temporary differences	
26	National specific regulatory adjustments	
27	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	
28	Total regulatory adjustments to Common Equity Tier 1	30,189
29	Common Equity Tier 1 capital (CET1)	861,475
Additional Tier 1 capital: instruments		
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	153,375
31	of which: classified as equity under applicable accounting standards	153,375
32	of which: classified as liabilities under applicable accounting standards	
33	Directly issued capital instruments subject to phase out from Additional Tier 1	
34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	8,960
35	of which: instruments issued by subsidiaries subject to phase out	
36	Additional Tier 1 capital before regulatory adjustments	162,335
Additional Tier 1 capital: regulatory adjustments		
37	Investments in own Additional Tier 1 instruments	
38	Reciprocal cross holdings in Additional Tier 1 instruments	
39	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued capital (amount above 10% threshold of bank's CET1 capital)	
40	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions	
41	National specific regulatory adjustments	
42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	
43	Total regulatory adjustments to Additional Tier 1 capital	
44	Additional Tier 1 capital (AT1)	162,335
45	Tier 1 capital (T1 = CET1 + AT1)	1,023,810

Basel III – Pillar III Qualitative and Quantitative Disclosures... continued

Tier 2 capital: instruments and provisions		All amounts are in KD'000
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	153,375
47	Directly issued capital instruments subject to phase out from Tier 2	
48	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	19,000
49	of which: instruments issued by subsidiaries subject to phase out	
50	General provisions included in Tier 2 capital	75,579
51	Tier 2 capital before regulatory adjustments	247,954
Tier 2 capital: regulatory adjustments		
52	Investments in own Tier 2 instruments	
53	Reciprocal cross holdings in Tier 2 instruments	
54	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued capital (amount above 10% threshold of bank's CET1 capital)	-
55	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions	
56	National specific regulatory adjustments	
57	Total regulatory adjustments to Tier 2 capital	-
58	Tier 2 capital (T2)	247,954
59	Total capital (TC = T1 + T2)	1,271,764
60	Total risk-weighted assets	6,358,901
Capital ratios and buffers		
61	Common Equity Tier 1 (as percentage of risk-weighted assets)	13.5%
62	Tier 1 (as percentage of risk-weighted assets)	16.1%
63	Total capital (as percentage of risk-weighted assets)	20.0%
64	Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus D-SIB buffer requirement, expressed as a percentage of risk-weighted assets)	10.5%
65	of which: capital conservation buffer requirement	2.5%
66	of which: bank specific countercyclical buffer requirement-	-
67	of which: DSIB buffer requirement	1.0%
68	Common Equity Tier 1 available to meet buffers (as percentage of risk-weighted assets)	6.5%
National minima		
69	Kuwait Common Equity Tier 1 minimum ratio	9.5%
70	National Tier 1 minimum ratio	11.0%
71	National total capital minimum ratio excluding CCY and DSIB buffers	13.0%
Amounts below the thresholds for deduction (before risk weighting)		
72	Non-significant investments in the capital of other financials	66,847
73	Significant investments in the common stock of financials	4,405
74	Mortgage servicing rights (net of related tax liability)	-
75	Deferred tax assets arising from temporary differences (net of related tax liability)	4,470
Applicable caps on the inclusion of allowances in Tier 2		
76	Provision eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	206,857
77	Cap on inclusion of allowances in Tier 2 under standardised approach	75,579
78	Provision eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	
79	Cap on inclusion of allowances in Tier 2 under internal ratings-based approach	

2. Reconciliation requirements

The basis for the scope of consolidation for accounting and regulatory purposes is consistent for the Group. In order to provide a full reconciliation of all regulatory capital elements to the balance sheet in the consolidated financial information, a three step approach has been mandated under the Pillar 3 disclosures section of the CBK Basel III framework

Below table provides the comparison (Step1) of the balance sheet published in the consolidated financial information and the balance sheet under the regulatory scope of consolidation. Lines have been expanded and referenced with letters (Step 2) to display the relevant items of the regulatory capital.

All amounts are in KD'000			
Item	Balance sheet as in published financial statements 31-Dec-23	Under regulatory scope of consolidation 31-Dec-23	Reference
Assets			
Cash and cash equivalents	870,332	870,332	
Treasury bills and bonds with CBK and others	364,286	364,286	
Due from banks and other financial institutions	656,532	656,532	
Loans and advances to customers	4,236,942	4,236,942	
of which General Provisions (netted above) capped for Tier 2 inclusion	75,579	75,579	a
Investment securities	732,205	732,205	
of which goodwill in investment in associate	771	771	b
Other assets	372,114	372,114	
Property and equipment	176,982	176,982	
Intangible assets	16,738	16,738	
of which goodwill	8,257	8,257	c
of which other intangibles	8,481	8,481	d
Disposal group held for sale	-	-	
Total assets	7,426,131	7,426,131	
Liabilities			
Due to banks	701,942	701,942	
Due to other financial institutions	437,236	437,236	
Deposits from customers	4,463,243	4,463,243	
Other borrowed funds	549,961	549,961	
Directly issued qualifying Tier 2 instruments plus related stock surplus	153,375	153,375	e
Other liabilities	272,845	272,845	
Liabilities directly associated with disposal group held for sale	-	-	
Total liabilities	6,425,227	6,425,227	
Shareholders' Equity			
Share capital	345,220	345,220	f
Share premium	282,802	282,802	g
Treasury shares	(1,742)	(1,742)	h
Statutory reserve	117,903	117,903	i
Voluntary reserve	118,281	118,281	j
Other reserves	(185,941)	(185,941)	k
of which cash flow hedge reserve	10,938	10,938	l
Retained earnings	185,694	185,694	m
of which proposed dividend	20,681	20,681	n
of which modification loss on retail loans	(2,124)	(2,124)	o
Equity attributable to shareholders of the Bank	862,217	862,217	
Perpetual Tier 1 capital securities	153,375	153,375	p
Non-controlling interests	(14,668)	(14,668)	
Eligible as CET1 Capital under Basel III	46,262	46,262	q
Eligible as AT1 Capital under Basel III	8,960	8,960	r
Eligible as Tier 2 Capital under Basel III	19,000	19,000	s
Total equity	1,000,904	1,000,904	
Total liabilities and equity	7,426,131	7,426,131	

Basel III – Pillar III Qualitative and Quantitative Disclosures... continued

Below table provides the relevant lines under Common Disclosure Template – Composition of Regulatory capital with cross reference to the letters in the above table, thereby reconciling (Step 3) the components of regulatory capital to the published balance sheet.

All amounts are in KD'000

Relevant Row Number in Common Disclosure Template	Common Equity Tier 1 capital: instruments and reserves	Component of regulatory capital	Source based on reference letters of the balance sheet from step 2
1	Directly issued qualifying common share capital plus related stock surplus	628,022	f+g
2	Retained earnings	167,137	m-n-o
3	Accumulated other comprehensive income (and other reserves)	50,243	i+j+k
5	Common share capital issued by subsidiaries and held by third parties (minority interest)	46,262	q
6	Common Equity Tier 1 capital before regulatory adjustments	891,664	
Common Equity Tier 1 capital : regulatory adjustments			
8	Goodwill (net of related tax liability)	9,028	b+c
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	8,481	d
11	Cash flow hedge reserve	10,938	l
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	1,742	h
28	Total regulatory adjustments to Common Equity Tier 1	30,189	
29	Common Equity Tier 1 capital (CET1)	861,475	
Additional Tier 1 capital : instruments			
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	153,375	p
31	of which: classified as equity under applicable accounting standards	153,375	p
34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	8,960	r
36	Additional Tier 1 capital before regulatory adjustments	162,335	
Additional Tier 1 capital : regulatory adjustments			
43	Total regulatory adjustments to Additional Tier 1 capital	-	
44	Additional Tier 1 capital (AT1)	162,335	
45	Tier 1 capital (T1 = CET1 + AT1)	1,023,810	
Tier 2 capital : instruments and provisions			
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	153,375	e
48	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	19,000	s
50	General Provisions included in Tier 2 Capital	75,579	a
51	Tier 2 capital before regulatory adjustments	247,954	
Tier 2 capital: regulatory adjustments			
57	Total regulatory adjustments to Tier 2 capital	-	
58	Tier 2 capital (T2)	247,954	
59	Total capital (TC = T1 + T2)	1,271,764	

3. Disclosure of main features of regulatory capital instruments

1	Issuer	BURGAN BANK K.P.S.C.	Burgan Bank K.P.S.C.
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	XS2019231823	XS2265369491
3	Governing law(s) of the instrument	WHOLE INSTRUMENT- ENGLISH LAW; SUBORDINATION PROVISION - KUWAIT LAW	English law save for Issuer status and subordination provisions under Kuwaiti law
Regulatory treatment			
4	Type of Capital (CET1, AT1 or T2)	AT1	T2
5	Eligible at solo/group/group & solo	Group & Solo	Group & Solo
6	Instrument type (types to be specified by each jurisdiction)	Sub-ordinated debt	Senior unsecured bonds issued in registered global format
7	Amount recognised in regulatory capital (Currency in thousands, as of most recent reporting date)	USD 500,000 thousand	USD 500,000 thousand
8	Par value of instrument - USD	100	100
9	Accounting classification	Equity	Subordinated debt
10	Original date of issuance	9th July 2019	15th December 2020
11	Perpetual or dated	Perpetual	Dated
12	Original maturity date	No Maturity	15th December 2031
13	Issuer call subject to prior supervisory approval	Yes	Yes
14	Optional call date, contingent call dates and redemption amount	Optional Call Date: 30th June 2024: prevailing principal amount plus accrued but unpaid interest Capital event (full or partial disqualification):101% of prevailing principal amount plus accrued but unpaid interest or tax event call: prevailing principal amount + accrued but unpaid interest	At par (in whole but not in part) on any day falling in the period commencing on (and including) 15 September 2026 and ending on (and including) the Reset Date, or on any Interest Payment Date thereafter subject to the relevant Conditions being satisfied
15	Subsequent call dates, if applicable	Quarterly: prevailing principal amount + accrued but unpaid interest	As above
Coupons / dividends			
16	Fixed or floating dividend/coupon	Fixed for every 5-year period; at the end of every 5 year period, resets to the prevailing 5 yr US Treasury rate plus margin	Fixed
17	Coupon rate and any related index	5.7492%; 5-year USD Treasury rate	2.750% fixed per annum from the Issue Date (15 December 2020) until the Reset Date (15 September 2026) Resets to the then prevailing 5-Year US Treasury Rate (the "Reset Rate") plus the Margin (2.229%) on the Reset Date (15 September 2026)
18	Existence of a dividend stopper	Yes	No
19	Fully discretionary, partially discretionary or mandatory	Fully discretionary	Interest payment are mandatory, subject to write down at the point of non-viability
20	Existence of step up or other incentive to redeem	No	None
21	Noncumulative or cumulative	Non Cumulative	There is no ability to cancel coupon (see above)
22	Convertible or non-convertible	Non-convertible	Non-convertible. Write down (in whole or in part) is the only loss absorption mechanism at the point of non-viability (see below)
23	If convertible, conversion trigger (s)	N/A	N/A
24	If convertible, fully or partially	N/A	N/A
25	If convertible, conversion rate	N/A	N/A
26	If convertible, mandatory or optional conversion	N/A	N/A
27	If convertible, specify instrument type convertible into	N/A	N/A
28	If convertible, specify issuer of instrument it converts into	N/A	N/A
29	Write-down feature	Yes	Yes

Basel III – Pillar III Qualitative and Quantitative Disclosures... continued

30	If write-down, write-down trigger(s)	Determination by regulator that the bank will be non-viable without a write-down	“Non-Viability Event” means that the Financial Regulator has informed the Issuer in writing that it has determined that a Trigger Event has occurred. A “Trigger Event” will have occurred if either of the following events occurs: <ul style="list-style-type: none"> the issuing bank is instructed by its regulator to write-off or convert such instruments, on the grounds of non-viability; or an immediate injection of capital is required, by way of an emergency intervention, without which the issuing bank would become non-viable
31	If write-down, full or partial	Can be partial or full	Can be partial or full
32	If write-down, permanent or temporary	Permanent	Permanent
33	If temporary write-down, description of write-up mechanism	N/A	N/A
34	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Perpetual Tier 1 securities are immediately junior to Basel III -Tier 2 subordinated securities which are considered eligible capital securities in accordance with Basel III guidelines issued by the CBK.	The Subordinated Notes constitute direct, unconditional, subordinated and unsecured obligations of the Issuer and rank pari passu and without preference among themselves. The payment obligations of the Issuer under the Subordinated Notes (a) rank junior to all Senior Obligations of the Issuer, (b) rank pari passu with all Pari Passu Obligations of the Issuer, and (c) rank senior to all Junior Obligations of the Issuer (each as defined in the Conditions of the Subordinated Notes).
35	Non-compliant transitioned features	None	None
36	If yes, specify non-compliant features	N/A	N/A

4. Financial Leverage Ratio

Below table provides the reconciliation of the balance sheet assets from published financial statements with total exposure amount in the calculation of the leverage ratio for 2023.

Summary comparison of accounting assets vs leverage ratio exposure measure:

Item	KD 000s
1 Total consolidated assets as per published financial statements	7,426,131
2 Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	(17,509)
3 Adjustment for fiduciary assets recognized on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	-
4 Adjustments for derivative financial instruments	106,019
5 Adjustment for securities financing transactions (i.e. repos and similar secured lending)	-
6 Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	599,731
7 Other adjustments	-
8 Leverage ratio exposure	8,114,372

Leverage ratio common disclosure template:

Item	KD 000s
On-balance sheet exposures	
1 On-balance sheet items (excluding derivatives and SFTs, but including collateral)	7,426,131
2 (Asset amounts deducted in determining Basel III Tier 1 capital)	(17,509)
3 Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 & 2)	7,408,622
Derivative exposures	
4 Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	34,107
5 Add-on amounts for PFE associated with all derivatives transactions	71,912
6 Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework	-
7 (Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-
8 (Exempted CCP leg of client-cleared trade exposures)	-
9 Adjusted effective notional amount of written credit derivatives	-
10 (Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-
11 Total derivative exposures (sum of lines 4 to 10)	106,019
Securities financing transaction exposures	
12 Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transaction	-
13 (Netted amounts of cash payables and cash receivables of gross SFT assets)	-
14 CCR exposure for SFT assets	-
15 Agent transaction exposures	-
16 Total securities financing transaction exposures (sum of lines 12 to 15)	-
Other off-balance sheet exposures	
17 Off-balance sheet exposure at gross notional amount	1,811,334
18 (Adjustments for conversion to credit equivalent amounts)	(1,211,603)
19 Off-balance sheet items (sum of lines 17 and 18)	599,731
Capital and total exposures	
20 Tier 1 capital	1,023,810
21 Total exposures (sum of lines 3, 11, 16 and 19)	8,114,372
Leverage ratio	
22 Basel III leverage ratio	12.6%

Basel III – Pillar III Qualitative and Quantitative Disclosures... continued

COMPARATIVE INFORMATION FOR YEAR 2022:**ADDITIONAL CAPITAL DISCLOSURE REQUIREMENTS****1. Common Disclosure Template – Composition of Regulatory Capital**

Item	All amounts are in KD 000s
Common Equity Tier 1 capital: instruments and reserves	
1 Directly issued qualifying common share capital plus related stock surplus	611,583
2 Retained earnings	130,529
3 Accumulated other comprehensive income (and other reserves)	(16,317)
4 Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies)	
5 Common share capital issued by subsidiaries and held by third parties (minority interest)	10,427
6 Common Equity Tier 1 capital before regulatory adjustments	736,222
Common Equity Tier 1 capital: regulatory adjustments	
7 Prudential valuation adjustments	
8 Goodwill (net of related tax liability)	9,028
9 Other intangibles other than mortgage-servicing rights (net of related tax liability)	8,481
10 Deferred tax assets excluding those arising from temporary differences (net of related tax liability)	
11 Cash flow hedge reserve	18,889
12 Shortfall of provisions to expected losses (based on Internal Models Approach, if applied)	
13 Securitisation gain on sale	
14 Gains and losses due to changes in own credit risk on fair valued liabilities	
15 Defined benefit pension fund net assets	
16 Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	1,742
17 Reciprocal cross holdings in common equity of banks, Fis and insurance entities	
18 Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued capital (amount above 10% threshold of bank's CET1 capital)	-
19 Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	
20 Mortgage servicing rights (amount above 10% threshold of bank's CET1 capital)	
21 Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	
22 Amount exceeding the 15% threshold	
23 of which: significant investments in the common stock of financials	
24 of which: mortgage servicing rights	
25 of which: deferred tax assets arising from temporary differences	
26 National specific regulatory adjustments	
27 Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	
28 Total regulatory adjustments to Common Equity Tier 1	38,932
29 Common Equity Tier 1 capital (CET1)	697,290
Additional Tier 1 capital: instruments	
30 Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	153,150
31 of which: classified as equity under applicable accounting standards	153,150
32 of which: classified as liabilities under applicable accounting standards	
33 Directly issued capital instruments subject to phase out from Additional Tier 1	
34 Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	1,747
35 of which: instruments issued by subsidiaries subject to phase out	
36 Additional Tier 1 capital before regulatory adjustments	154,897
Additional Tier 1 capital: regulatory adjustments	
37 Investments in own Additional Tier 1 instruments	
38 Reciprocal cross holdings in Additional Tier 1 instruments	
39 Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued capital (amount above 10% threshold of bank's CET1 capital)	
40 Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions	
41 National specific regulatory adjustments	
42 Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	
43 Total regulatory adjustments to Additional Tier 1 capital	-
44 Additional Tier 1 capital (AT1)	154,897
45 Tier 1 capital (T1 = CET1 + AT1)	852,187

Item	All amounts are in KD 000s
Tier 2 capital: instruments and provisions	
46 Directly issued qualifying Tier 2 instruments plus related stock surplus	153,150
47 Directly issued capital instruments subject to phase out from Tier 2	
48 Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	2,371
49 of which: instruments issued by subsidiaries subject to phase out	
50 General provisions included in Tier 2 capital	76,325
51 Tier 2 capital before regulatory adjustments	231,846
Tier 2 capital: regulatory adjustments	
52 Investments in own Tier 2 instruments	
53 Reciprocal cross holdings in Tier 2 instruments	
54 Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued capital (amount above 10% threshold of bank's CET1 capital)	-
55 Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions	-
56 National specific regulatory adjustments	
57 Total regulatory adjustments to Tier 2 capital	-
58 Tier 2 capital (T2)	231,846
59 Total capital (TC = T1 + T2)	1,084,033
60 Total risk-weighted assets	6,433,584
Capital ratios and buffers	
61 Common Equity Tier 1 (as percentage of risk-weighted assets)	10.8%
62 Tier 1 (as percentage of risk-weighted assets)	13.2%
63 Total capital (as percentage of risk-weighted assets)	16.8%
64 Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus D-SIB buffer requirement, expressed as a percentage of risk-weighted assets)	9.0%
65 of which: capital conservation buffer requirement	1.0%
66 of which: bank specific countercyclical buffer requirement	-
67 of which: DSIB buffer requirement	1.0%
68 Common Equity Tier 1 available to meet buffers (as percentage of risk-weighted assets)	3.8%
National minima	
69 Kuwait Common Equity Tier 1 minimum ratio	8.0%
70 National Tier 1 minimum ratio	9.5%
71 National total capital minimum ratio excluding CCY and DSIB buffers	11.5%
Amounts below the thresholds for deduction (before risk weighting)	
72 Non-significant investments in the capital of other financials	66,487
73 Significant investments in the common stock of financials	4,432
74 Mortgage servicing rights (net of related tax liability)	-
75 Deferred tax assets arising from temporary differences (net of related tax liability)	8,362
Applicable caps on the inclusion of allowances in Tier 2	
76 Provision eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	185,903
77 Cap on inclusion of allowances in Tier 2 under standardised approach	76,325
78 Provision eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	
79 Cap on inclusion of allowances in Tier 2 under internal ratings-based approach	

Basel III – Pillar III Qualitative and Quantitative Disclosures... continued

2. Reconciliation requirements

The basis for the scope of consolidation for accounting and regulatory purposes is consistent for the Group. In order to provide a full reconciliation of all regulatory capital elements to the balance sheet in the consolidated financial information, a three step approach has been mandated under the Pillar 3 disclosures section of the CBK Basel III framework.

Below table provides the comparison (Step1) of the balance sheet published in the consolidated financial information and the balance sheet under the regulatory scope of consolidation. Lines have been expanded and referenced with letters (Step 2) to display the relevant items of the regulatory capital.

All amounts are in KD'000s

Item	Balance sheet as in published financial statements 31-Dec-22	Under regulatory scope of consolidation 31-Dec-22	Reference
Assets			
Cash and cash equivalents	659,384	659,384	
Treasury bills and bonds with CBK and others	301,554	301,554	
Due from banks and other financial institutions	482,101	482,101	
Loans and advances to customers	4,227,737	4,227,737	
of which General Provisions (netted above) capped for Tier 2 inclusion	76,325	76,325	a
Investment securities	714,149	714,149	
of which goodwill in investment in associate	771	771	b
Other assets	258,048	258,048	
Property and equipment	163,071	163,071	
Intangible assets	17,530	17,530	
of which goodwill	8,257	8,257	c
of which other intangibles	8,481	8,481	d
	6,823,574	6,823,574	
Disposal group held for sale	342,386	342,386	
Total assets	7,165,960	7,165,960	
Liabilities			
Due to banks	278,146	278,146	
Due to other financial institutions	699,421	699,421	
Deposits from customers	3,932,491	3,932,491	
Other borrowed funds	783,392	783,392	
Directly issued qualifying Tier 2 instruments plus related stock surplus	153,150	153,150	e
Other liabilities	243,891	243,891	
	5,937,341	5,937,341	
Liabilities directly associated with disposal group held for sale	281,204	281,204	
Total liabilities	6,218,545	6,218,545	
Equity			
Share capital	328,781	328,781	f
Share premium	282,802	282,802	g
Treasury shares	(1,742)	(1,742)	h
Statutory reserve	113,234	113,234	i
Voluntary reserve	113,612	113,612	j
Other disclosed reserves	(243,163)	(243,163)	k
of which cash flow hedge reserve	18,889	18,889	l
Retained earnings	152,542	152,542	m
of which proposed dividend	26,262	26,262	n
of which modification loss on retail loans	(4,249)	(4,249)	o
Total equity attributable to the equity holders of the Bank	746,066	746,066	
Perpetual Tier 1 capital securities	153,150	153,150	p
Non-controlling interests	48,199	48,199	
of which Limited Recognition eligible as CET1 Capital	10,427	10,427	q
of which Limited Recognition eligible as AT1 Capital	1,747	1,747	r
of which Limited Recognition eligible as Tier 2 Capital	2,371	2,371	s
Total equity	947,415	947,415	
Total liabilities and equity	7,165,960	7,165,960	

Below table provides the relevant lines under Common Disclosure Template - Composition of Regulatory Capital' with cross references to the letters in above Table, thereby reconciling (Step 3) the components of regulatory capital to the published balance sheet.

All amounts are in KD'000s

Relevant Row Number in Common Disclosure Template	Common Equity Tier 1 capital: instruments and reserves	Component of regulatory capital	Source based on reference letters of the balance sheet from step 2
1	Directly issued qualifying common share capital plus related stock surplus	611,583	f+g
2	Retained earnings	130,529	m-n-o
3	Accumulated other comprehensive income (and other reserves)	(16,317)	i+j+k
5	Common share capital issued by subsidiaries and held by third parties (minority interest)	10,427	q
6	Common Equity Tier 1 capital before regulatory adjustments	736,222	
	Common Equity Tier 1 capital : regulatory adjustments		
8	Goodwill (net of related tax liability)	9,028	b+c
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	8,481	d
11	Cash flow hedge reserve	18,889	l
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	1,742	h
28	Total regulatory adjustments to Common Equity Tier 1	38,932	
29	Common Equity Tier 1 capital (CET1)	697,290	
	Additional Tier 1 capital : instruments		
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	153,150	p
31	of which: classified as equity under applicable accounting standards	153,150	p
34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	1,747	r
36	Additional Tier 1 capital before regulatory adjustments	154,897	
	Additional Tier 1 capital : regulatory adjustments		
43	Total regulatory adjustments to Additional Tier 1 capital	-	
44	Additional Tier 1 capital (AT1)	154,897	
45	Tier 1 capital (T1 = CET1 + AT1)	852,187	
	Tier 2 capital : instruments and provisions		
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	153,150	e
48	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	2,371	s
50	General Provisions included in Tier 2 Capital	76,325	a
51	Tier 2 capital before regulatory adjustments	231,846	
	Tier 2 capital: regulatory adjustments		
57	Total regulatory adjustments to Tier 2 capital	-	
58	Tier 2 capital (T2)	231,846	
59	Total capital (TC = T1 + T2)	1,084,033	

Basel III – Pillar III Qualitative and Quantitative Disclosures... continued

3. Disclosure for main features of regulatory capital instruments

1	Issuer	BURGAN BANK K.P.S.C.	Burgan Bank K.P.S.C.
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	XS2019231823	XS2265369491
3	Governing law(s) of the instrument	WHOLE INSTRUMENT- ENGLISH LAW; SUBORDINATION PROVISION - KUWAIT LAW	English law save for Issuer status and subordination provisions under Kuwaiti law
Regulatory treatment			
4	Type of Capital (CET1, AT1 or T2)	AT1	T2
5	Eligible at solo/group/group & solo	Group & Solo	Group & Solo
6	Instrument type (types to be specified by each jurisdiction)	Sub-ordinated debt	Senior unsecured bonds issued in registered global format
7	Amount recognised in regulatory capital (Currency in thousands, as of most recent reporting date)	USD 500,000 thousand	USD 500,000 thousand
8	Par value of instrument	100	100
9	Accounting classification	Equity	Subordinated debt
10	Original date of issuance	9th July 2019	15th December 2020
11	Perpetual or dated	Perpetual	Dated
12	Original maturity date	No Maturity	15th December 2031
13	Issuer call subject to prior supervisory approval	Yes	Yes
14	Optional call date, contingent call dates and redemption amount	Optional Call Date: 30th June 2024: prevailing principal amount plus accrued but unpaid interest Capital event (full or partial disqualification):101% of prevailing principal amount plus accrued but unpaid interest or tax event call: prevailing principal amount + accrued but unpaid interest	At par (in whole but not in part) on any day falling in the period commencing on (and including) 15 September 2026 and ending on (and including) the Reset Date, or on any Interest Payment Date thereafter subject to the relevant Conditions being satisfied
15	Subsequent call dates, if applicable	Quarterly: prevailing principal amount + accrued but unpaid interest	As above
Coupons / dividends			
16	Fixed or floating dividend/coupon	Fixed for every 5-year period; at the end of every 5 year period, resets to the prevailing 5 yr US Treasury rate plus margin	Fixed
17	Coupon rate and any related index	5.7492%; 5-year USD Treasury rate	2.750% fixed per annum from the Issue Date (15 December 2020) until the Reset Date (15 September 2026) Resets to the then prevailing 5-Year US Treasury Rate (the "Reset Rate") plus the Margin (2.229%) on the Reset Date (15 September 2026)
18	Existence of a dividend stopper	Yes	No
19	Fully discretionary, partially discretionary or mandatory	Fully discretionary	Interest payment are mandatory, subject to write down at the point of non-viability
20	Existence of step up or other incentive to redeem	No	N/A
21	Noncumulative or cumulative	Non-cumulative	There is no ability to cancel coupon (see above)
22	Convertible or non-convertible	Non-convertible	Non-convertible. Write down (in whole or in part) is the only loss absorption mechanism at the point of non-viability (see below)
23	If convertible, conversion trigger (s)	N/A	N/A
24	If convertible, fully or partially	N/A	N/A
25	If convertible, conversion rate	N/A	N/A
26	If convertible, mandatory or optional conversion	N/A	N/A
27	If convertible, specify instrument type convertible into	N/A	N/A
28	If convertible, specify issuer of instrument it converts into	N/A	N/A
29	Write-down feature	Yes	At the Regulator's sole discretion, full or partial permanent write down in case of a Non-Viability Event

30	If write-down, write-down trigger(s)	Determination by regulator that the bank will be non-viable without a write-down	"Non-Viability Event" means that the Financial Regulator has informed the Issuer in writing that it has determined that a Trigger Event has occurred. A "Trigger Event" will have occurred if either of the following events occurs: • the issuing bank is instructed by its regulator to write-off or convert such instruments, on the grounds of non-viability; or • an immediate injection of capital is required, by way of an emergency intervention, without which the issuing bank would become non-viable
31	If write-down, full or partial	Can be partial or full	Full or partial
32	If write-down, permanent or temporary	Permanent	Permanent
33	If temporary write-down, description of write-up mechanism	N/A	N/A
34	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Perpetual Tier 1 securities are immediately junior to Basel III -Tier 2 subordinated securities which are considered eligible capital securities in accordance with Basel III guidelines issued by the CBK.	The Subordinated Notes constitute direct, unconditional, subordinated and unsecured obligations of the Issuer and rank pari passu and without preference among themselves. The payment obligations of the Issuer under the Subordinated Notes (a) rank junior to all Senior Obligations of the Issuer, (b) rank pari passu with all Pari Passu Obligations of the Issuer, and (c) rank senior to all Junior Obligations of the Issuer (each as defined in the Conditions of the Subordinated Notes)
35	Non-compliant transitioned features	None	None
36	If yes, specify non-compliant features	N/A	N/A

Basel III – Pillar III Qualitative and Quantitative Disclosures... continued

4. Financial leverage ratio

Below table provides the reconciliation of the balance sheet assets from the published consolidated financial information with total exposure amount in the calculation of leverage ratio.

Summary comparison of accounting assets vs leverage ratio exposure measure:

Item	KD 000s
1 Total consolidated assets as per published consolidated financial information	7,165,960
2 Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	(18,301)
3 Adjustment for fiduciary assets recognized on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	-
4 Adjustments for derivative financial instruments	90,964
5 Adjustment for securities financing transactions (i.e. repos and similar secured lending)	-
6 Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	568,533
7 Other adjustments	-
8 Leverage ratio exposure	7,807,156

Leverage ratio common disclosure template:

Item	KD 000s
On-balance sheet exposures	
1 On-balance sheet items (excluding derivatives and SFTs, but including collateral)	7,165,960
2 (Asset amounts deducted in determining Basel III Tier 1 capital)	(18,301)
3 Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)	7,147,659
Derivative exposures	
4 Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	37,277
5 Add-on amounts for PFE associated with all derivatives transactions	53,687
6 Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework	-
7 (Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-
8 (Exempted CCP leg of client-cleared trade exposures)	-
9 Adjusted effective notional amount of written credit derivatives	-
10 (Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-
11 Total derivative exposures (sum of lines 4 to 10)	90,964
Securities financing transaction exposures	
12 Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	-
13 (Netted amounts of cash payables and cash receivables of gross SFT assets)	-
14 CCR exposure for SFT assets	-
15 Agent transaction exposures	-
16 Total securities financing transaction exposures (sum of lines 12 to 15)	-
Other off-balance sheet exposures	
17 Off-balance sheet exposure at gross notional amount	1,811,261
18 (Adjustments for conversion to credit equivalent amounts)	(1,242,728)
19 Off-balance sheet items (sum of lines 17 and 18)	568,533
Capital and total exposures	
20 Tier 1 capital	852,187
21 Total exposures (sum of lines 3, 11, 16 and 19)	7,807,156
Leverage ratio	
22 Basel III leverage ratio	10.9%

Liquidity Risk Management

The purpose of this document is to disclose both qualitative and quantitative information regarding the Bank's liquidity position, LCR and NSFR results and internal liquidity risk measurement and management processes.

Liquidity risk is the risk to earnings or capital arising from a bank's inability to meet its obligations or commitments to a customer, creditor, or investor as they fall due without incurring unacceptable losses. It generally arises from either an inadequate liabilities profile or a bank's failure to recognize or address changes in market conditions that affect its ability to liquidate assets (i.e. convert them to cash) quickly and with minimal loss in value. The primary objective of Burgan Bank's Liquidity Risk management framework is to ensure that the Bank has sufficient liquidity to meet its obligations in both normal and stressed conditions without having to make unplanned sales of assets or borrow expensive funds under emergency conditions.

The Bank's Board of Directors ("the Board") has overall responsibility for liquidity risk management and for ensuring that risk exposures are maintained at prudent levels. To this end, the Board has established an appropriate liquidity risk management framework for the management of the Bank's funding and liquidity management requirements. The Board sets the Bank's liquidity risk strategy based on recommendations made by the Asset and Liability Committee ("ALCO"). The Board reviews and approves liquidity management policies and ensures that senior management manages liquidity risk effectively in the context of the Bank's business plan and long-term funding strategy, taking into account prevailing economic and financial conditions. To this end, the Board has set limit and tolerance levels for its liquidity risk appetite. The utilization of these appetite limits is reported to the Board regularly.

The Bank adopts a multipronged approach to managing liquidity risk. This involves monitoring and managing several liquidity metrics, such as conservative loans to deposits ratio, more than adequate reserves, a portfolio of high-quality liquid assets and banking facilities, and the continuous monitoring of forecast and actual cash flows. In addition, the Bank uses liquidity ratios (LCR, NSFR) and liquidity scenarios (behavioral, contractual and stressed) as key metrics to establish its liquidity risk tolerance levels. These metrics measure the Bank's ability to fulfill all its payment obligations stemming from ongoing business operations under various scenarios. The tolerance levels are defined either in the form of limits or management action triggers and are part of the Bank's overall liquidity management framework which is approved and reviewed by the Board on regular basis.

The Bank's Treasury Department is responsible for managing the day-to-day funding within established liquidity risk management policies and limits. It is responsible for maintaining effective communication channels within the Bank's operational and business areas to alert the funding desks of imminent funding requirements including loan drawdowns, deposit withdrawals and off-balance sheet commitments. Treasury and Market Risk personnel monitor market developments, understand their implications for the Bank's liquidity risk exposures and recommend appropriate risk management measures to ALCO.

Group Market Risk (GMR), a unit of the Risk Management Group (RMG), periodically reviews liquidity risk policies and procedures, the adequacy of these policies and of the overall liquidity management process, including key assumptions and scenarios used and reports its findings and recommendations to ALCO. GMR is also responsible for monitoring and reporting adherence to the various liquidity ratios and limits, both internal and regulatory on a regular basis.

The Bank uses several tools to manage the NSFR ratio, like holding excess HQLA, selling non-HQLA assets and buying HQLA assets, attracting more retail deposits and raising longer tenor debts through EMTN program and syndicated loans. A slight duration lengthening of deposits longer than 1 year is beneficial to the NSFR ratio.

FUNDING STRATEGY

The Bank's funding strategy is to develop a diversified funding base, while providing protection against unexpected fluctuations. It aims to align sources of funding with their use. As such, earning assets (Loans and Bonds) are largely funded with customer deposits. The funding gap for these assets is met using medium to long term debt issuance and other secured/unsecured long- and short-term funding sources.

Liquidity Risk Management... continued

The Bank maintains access to a variety of sources of wholesale funds in multiple currencies across a variety of distribution channels, maturities, instruments and geographies, including those available from syndications, bond investors, money markets, repo markets and term depositors. It is an active participant in the money market and has direct access to local and international liquidity providers. During Q4'20, the Bank successfully placed US\$500 million Subordinated Tier 2 Capital Securities (bonds) in the international debt capital markets with an eleven-year tenor, and an option for redemption after six years from the date of their issuance. This bond issue complies with the Basel III regulatory framework, as adopted by the Central Bank of Kuwait. Furthermore, Treasury successfully executed 3-year Club Loan facilities with a group of international and regional banks amounting to US\$500 million in Q3'22 and US\$800 million in Q2'23. Also, the bank successfully executed multiple bilateral loan transactions totaling US\$600 Million over the period from Q4'20 to date.

Burgan Bank Group is constantly looking at strengthening its funding mix through new issuances to lengthen the tenor of its long-term funding portfolio (EMTN program, Syndicated & Bilateral Borrowings). The Bank evaluates how each product and business line is currently funded, assess required NSFR impacts. It is also looking to incorporate NSFR into FTP for business evaluations in order to optimize funding strategy within regulatory limits, risk appetite and its objectives.

LIQUIDITY RISK MITIGATION TECHNIQUES

The Bank maintains excess liquidity in the form of cash and unencumbered high-quality liquid securities that together serve as the Bank's primary means of liquidity risk mitigation. Additionally, the Bank remains focused on diversifying funding sources. Access to both local and international money markets allows the Bank to maintain liquidity in both local and foreign currencies.

STRESS TESTING

The Bank's Liquidity management policies and limits ensure that liquidity is maintained at sufficiently comfortable levels to support operations and meet payment demands even under stressed market conditions. The Bank also has in place comprehensive stress testing policies and liquidity contingency funding that incorporate multiple scenarios covering both specific and general market-related events. The purpose of liquidity stress testing is to determine the incremental funding that may be required under extreme scenarios.

Stress testing is fully integrated into the Bank's liquidity risk management framework. It assesses the Bank's ability to generate sufficient liquidity under extreme conditions and is a key input when defining liquidity targets and limits.

CONTINGENCY FUNDING PLAN

The Bank's contingency funding plan sets out the action the Bank would take to fund business activity in crisis situations and periods of market stress. The plan outlines a list of potential risk factors, key reports and metrics that are reviewed on an ongoing basis to assist in assessing the severity of a liquidity crisis and/or market dislocation. It also describes in detail the Bank's potential response if the assessment indicates it has entered a liquidity crisis. Mitigants and action items to address specific risks are also described and assigned to groups and/or individuals responsible for implementation.

The contingency funding plan identifies key groups of individuals to ensure effective coordination, control and distribution of information that is critical to the management of a crisis or period of funding stress. It also details the responsibilities of these groups and/or individuals, which include making and disseminating key decisions, coordinating all contingency activities throughout the duration of the crisis or period of market stress, implementing liquidity maintenance activities and managing internal and external communication.

OTHER QUALITATIVE INFORMATION

The Liquidity Coverage Ratio (LCR) is a Basel III metric that measures the sufficiency of High-Quality Liquid Assets (HQLA) available to meet net short-term financial obligations over a thirty-day period in an acute stress scenario. In December 2014, CBK released the final guideline on "Liquidity Coverage Ratio Disclosure Standards", requiring banks to disclose the LCR ratio beginning in Q1, 2016. LCR is disclosed using CBK's template and is calculated using the average of daily positions during the quarter.

The LCR report for the Bank is prepared in accordance with the public/market disclosure requirements and guidelines in respect of the Liquidity Coverage Ratio Disclosure Standards as published by Central Bank of Kuwait ("CBK") in December 2014.

The Net stable funding ratio (NSFR) is designed to promote medium- and long-term stable funding of the assets and off-balance-sheet activities over a one-year time horizon. Effective Jan'23, the regulatory minimum LCR and NSFR went back to their pre-pandemic minimum 100% levels.

As at 31 Dec 2023, Burgan Bank Group's Net Stable Funding Ratio (NSFR) stood at well above 100%, largely due to a beneficial wholesale funding and equity mix, which remained stable. This suggests the Bank is in a solid position to manage any short-term funding shocks should they arise.

HIGH QUALITY LIQUID ASSETS (HQLA)

HQLAs are assets which can be easily and immediately converted into cash at little or no loss of value. There are two categories of assets that can be included in the stock of HQLA. Level 1 assets can be included without limit and with no haircut and are comprised of coins and banknotes, central bank reserves, Kuwaiti government securities, balances with central banks of countries where the Bank has subsidiaries, and securities issued by highly-rated foreign sovereigns, multilateral development banks and supranationals. Level 2 assets can be included subject to the requirement that they comprise no more than 40% of the overall stock of HQLA after haircuts have been applied. These may include certain qualifying government securities, public sector and corporate bonds. For the quarter ended Q4 2023, the stock of HQLA held by the Bank includes 91% Level 1 assets and 9% Level 2 assets. Also, on a conservative basis and as required by regulators, it is assumed that HQLAs held in excess of the total cash outflows of any Group entity are not considered as surplus liquidity at the overall Group level.

NET CASH OUTFLOWS

Net cash outflows are defined as the total expected cash outflows minus total expected cash inflows in the specified stress scenario for the subsequent 30 calendar days. Total expected cash outflows are calculated by multiplying the outstanding balances of various categories of liabilities and off-balance sheet commitments by the rates at which they are expected to run off or drawn down. Total expected cash inflows are calculated by multiplying the outstanding balances of various categories of contractual receivables by the rates at which they are expected to flow in under the stress scenario up to an aggregate cap of 75% of total expected cash outflows. All cash outflows and inflows are considered and disclosed for LCR reporting purposes.

AVAILABLE STABLE FUNDING

Available stable funding is the portion of capital and liabilities expected to be realizable over the time horizon considered by the NSFR, which extends to one year. It includes retail deposits, wholesale deposits, Tier I and Tier II Capital.

In order to increase the level of ASF, the Bank is increasing share of deposits, extend maturity of wholesale debt to higher than 1 year, increase share of Tier 1 capital through retained earnings.

REQUIRED STABLE FUNDING

Required stable funding is based on the measurement of the broad characteristics of the liquidity risk profile of an institution's assets and off-balance sheet exposures. It includes unencumbered HQLA, short- and medium-term lending (<12months), long term lending (over 1 year), other assets and non-performing loans. The more illiquid the assets the more stable funding is required.

In order to decrease the required stable funding requirement, the bank can, for example, change composition of investments (sell lower rated investments for cash or replace lower rated investments with higher rated).

Liquidity Risk Management... continued

Table 6: Disclosure Form on LCR during the quarter ended on 31/12/2023*

No	Statement	Value before	Value after
		implementing flow ratings (average) **	implementing flow (21) (average)**
		KD 000s	
High Quality Liquid Assets (HQLA)			
1	Total HQLA (before amendments)	1,285,791	1,250,157
Cash Outflow			
2	Retail deposits and small enterprises	2,151,836	209,226
3	Stable deposits	150,160	7,508
4	Less stable deposits	2,001,676	201,718
5	Unsecured wholesale funding, excluding deposits of small enterprises clients	1,637,658	969,937
6	Operating deposits	-	-
7	Non-operating deposits (other unsecured liabilities)	1,637,658	969,937
8	Secured funding	42,015	-
9	Other cash outflows, including:	487,354	373,218
10	Resulting from derivatives	355,944	355,944
11	Resulting from securities and commercial papers supported by assets (on the assumption of not being to re-finance)	-	-
12	Credit lines and binding liquidity	131,410	17,274
13	Possible future financing needs	789,043	39,452
14	Other contractual cash outflows	25,513	25,513
15	Total cash outflows	5,133,419	1,617,346
16	Secured lending transactions	-	-
17	Cash outflows resulting from regular loans	772,301	548,763
18	Other cash inflows	366,231	366,231
19	Total cash inflows	1,138,532	914,994
Liquidity Coverage Ratio (LCR)			
20	Total HQLA (after amendments)		1,061,096
21	Net cash outflows		702,352
22	LCR		151%

* Quarterly statement.

** (Simple Average) for all days during the period for which the form is prepared.

21) Is the value after implementing haircut percentages of HQLA and cash outflow and inflow.

Table 4: NSFR Common Disclosure Template for the quarter ended 31/12/2023

Sr.	Item	Unweighted Values (i.e. before applying relevant factors)				Total weighted value
		No specified maturity	Less than 6 months	6 months to one year	Over one year	
KD 000s						
Available Stable Funding (ASF):						
1	Capital:	1,138,947	-	-	-	1,138,947
2	Regulatory Capital	1,138,947	-	-	-	1,138,947
3	Other Capital Instruments	-	-	-	-	-
4	Retail deposits and deposits from small business customers:	-	1,720,280	275,655	79,531	1,877,896
5	Stable deposits	-	40,266	211	15	38,468
6	Less stable deposits	-	1,680,014	275,444	79,516	1,839,428
7	Wholesale funding:	-	2,644,999	393,377	417,148	1,596,027
8	Operational deposits	-	-	-	-	-
9	Other wholesale funding	-	2,644,999	393,377	417,148	1,596,027
10	Other liabilities:	600	245,979	6,587	119,387	119,987
11	Net derivative liabilities	-	-	-	-	-
12	All other liabilities not included in the above categories	600	245,979	6,587	119,387	119,987
13	Total ASF	1,139,547	4,611,258	675,619	616,066	4,732,857
Required Stable Funding (RSF):						
14	Total high-quality liquid assets (HQLA)	1,204,772	-	-	-	61,551
15	Deposits held at other financial institutions for operational purposes	-	-	-	-	-
16	Performing loans and securities:	-	2,522,604	732,207	1,794,753	3,158,257
17	Performing loans to financial institutions secured by Level 1 HQLA	-	-	-	-	-
18	Performing loans to financial institutions secured by HQLA other than Level 1 HQLA and unsecured performing loans to financial institutions	-	706,796	82,975	30,421	177,928
19	Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which:	-	1,815,808	649,232	1,654,176	2,886,696
20	With a risk weight of less than or equal to 35% as per the Capital Adequacy Ratio – Basel 3 guidelines	-	-	-	-	-
21	Performing housing loans, of which:	-	-	-	-	-
22	With a risk weight of less than or equal to 35% under Capital Adequacy Ratio – Basel III Guidelines	-	-	-	-	-
23	Unpledged Securities and shares traded within the formal market, in case the entities issued such instruments are not in default.	-	-	-	110,156	93,633
24	Other assets:	231,409	107,397	8,036	441,312	726,865
25	Physical traded commodities, including gold	-	-	-	-	-
26	Assets posted as initial margin for derivative contracts, cash, or other assets provided to contributions to default funds of (central Counter parties) CCPs	-	-	-	-	-
27	Net derivative assets	22,000	-	-	-	22,000
28	20% of derivative liabilities before deduction of variation margin posted	1,658	-	-	-	1,658
29	All other assets not included in the above categories	207,751	107,397	8,036	441,312	703,207
30	Off-balance sheet items	10,973	928,855	378,973	482,858	90,083
31	Total RSF	1,447,154	3,558,856	1,119,216	2,718,923	4,036,756
32	NSFR (%)					117%



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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.

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

OTHER INFORMATION

Management is responsible for the other information. The other information comprises the information included in the Group's Annual Report, but does not include the consolidated financial statements and our auditors' report thereon. Prior to the date of this auditors' report, we obtained the Board of Directors' report which forms part of the Annual Report and the remaining sections of the Annual Report are expected to be made available to us after that date.

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

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

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

RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's

ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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

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

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

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

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

Dr. Rasheed M. Al-Oenae
License No. 130
of KPMG AI-Oenae & Partners
Member Firm of KPMG International

KUWAIT: 18 FEBRUARY 2024

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

Consolidated Statement of Financial Position As at 31 December 2023

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

Khalid Al Zouman
Chief Financial Officer

Antoine J. 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.

Consolidated Statement of Income For the year ended 31 December 2023

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

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

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2023

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

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

Consolidated Statement of Changes in Shareholders' Equity

For the year ended 31 December 2023

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

*Refer to note 11 for further details.

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

Consolidated Statement of Changes in Shareholders' Equity... continued
For the year ended 31 December 2023

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

* Refer to note 11 for further details

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

Consolidated Statement of Cash Flows For the year ended 31 December 2023

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

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

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.

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.

Notes to the Consolidated Financial Statements... continued 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.

The principal operating subsidiaries of the Group are as follows:

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

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

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

Material non-controlling interests

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

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

Summarised financial information of BBT is as follows:

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial instruments

Recognition

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

Notes to the Consolidated Financial Statements... continued at 31 December 2023

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

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

Subsequent classification and measurement categories of financial assets

The Group classifies all of its financial assets as either:

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

Financial asset carried at amortised cost

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

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

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

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

Financial asset at fair value through other comprehensive income

a) Debt instruments carried at FVOCI:

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

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

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.

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.

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

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

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

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

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

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

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.

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.

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").

Notes to the Consolidated Financial Statements... continued at 31 December 2023

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.

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.

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.

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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.

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.

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.

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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.

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.

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.

Notes to the Consolidated Financial Statements... continued at 31 December 2023

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.

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 fees include credit related fee and other management fees. Loan commitment fee and originating fee that are an integral part of the effective interest rate of a loan are recognised (together with any incremental cost) as an adjustment to the effective interest rate on loan. Fee and commission income where the Group provides specific services are recognised at a point in time upon providing the service.

Dividend income

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

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.

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.

Notes to the Consolidated Financial Statements... continued at 31 December 2023

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).

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.

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.

Notes to the Consolidated Financial Statements... continued at 31 December 2023

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.

3. CASH AND CASH EQUIVALENTS

	2023 KD 000s	2022 KD 000s
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
	870,368	659,389
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
Cash and cash equivalents as per consolidated statement of cash flows	870,332	807,253

4. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	2023 KD 000s	2022 KD 000s
Loans and advances		
- Banks	44,342	38,218
- Other financial institutions (OFIs)	208,121	219,602
	252,463	257,820
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)
	656,532	482,101

5. LOANS AND ADVANCES TO CUSTOMERS

a) Balances

	2023 KD 000s	2023 KD 000s
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)
	4,236,942	4,227,737

b) Provisions

	Banks and OFIs KD 000s	Corporate KD 000s	Retail KD 000s	Total KD 000s
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	23,988	192,816	14,791	231,595

	Banks and OFIs KD 000s	Corporate KD 000s	Retail KD 000s	Total KD 000s
At 1 January 2022	25,393	161,877	14,362	201,632
Exchange adjustment	12	312	36	360
Amounts written off	-	(13,747)	(2,946)	(16,693)
Charged to consolidated statement of income	497	19,150	5,640	25,287
Transferred to disposal group held for sale (Note 9)	-	(3,794)	(1,235)	(5,029)
At 31 December 2022	25,902	163,798	15,857	205,557

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:

	2023 KD 000s	2022 KD 000s
General provision	206,857	185,903
Specific provision	24,738	19,654
	231,595	205,557

Notes to the Consolidated Financial Statements... continued at 31 December 2023

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:

31 December 2023	Stage 1 KD 000s	Stage 2 KD 000s	Stage 3 KD 000s	Total KD 000s
High	901,078	22,544	-	923,622
Standard	2,971,018	456,803	-	3,427,821
Past due or impaired	32,719	187,211	100,758	320,688
Loans and advances to banks, OFIs and customers	3,904,815	666,558	100,758	4,672,131
Contingent liabilities*	2,368,084	181,354	15,295	2,564,733
ECL allowance for credit facilities	24,174	43,286	51,799	119,259

31 December 2022	Stage 1 KD 000s	Stage 2 KD 000s	Stage 3 KD 000s	Total KD 000s
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:

	31 December 2023			
	Stage 1 KD 000s	Stage 2 KD 000s	Stage 3 KD 000s	Total KD 000s
ECL allowance as at 1 January 2023	25,176	58,054	54,159	137,389
ECL movement for the year	(594)	(8,786)	27,609	18,229
Amounts written off	-	-	(25,968)	(25,968)
Foreign exchange adjustments	(408)	(5,982)	(4,001)	(10,391)
Balance at 31 December 2023	24,174	43,286	51,799	119,259

	31 December 2022			
	Stage 1 KD 000s	Stage 2 KD 000s	Stage 3 KD 000s	Total KD 000s
ECL allowance as at 1 January 2022	27,873	55,672	47,920	131,465
ECL movement for the year	(2,280)	8,175	28,957	34,852
Amounts written off	-	-	(16,693)	(16,693)
Foreign exchange adjustments	(417)	(5,793)	(6,025)	(12,235)
Balance at 31 December 2022	25,176	58,054	54,159	137,389

6. INVESTMENT SECURITIES

As at 31 December 2023	FVOCI KD 000s	FVTPL KD 000s	Amortised cost KD 000s	Associate KD 000s	Total KD 000s
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)
	438,856	87,709	200,918	4,722	732,205

As at 31 December 2022	FVOCI KD 000s	FVTPL KD 000s	Amortised cost KD 000s	Associate KD 000s	Total KD 000s
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)
	437,076	89,121	183,395	4,557	714,149

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

	2023 KD 000s	2022 KD 000s
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)
	372,114	258,048

* 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%.

8. INTANGIBLE ASSETS

	Goodwill KD 000s	Other intangible assets KD 000s	Total KD 000s
Cost			
At 1 January 2023	8,170	41,482	49,652
Exchange adjustment	87	489	576
At 31 December 2023	8,257	41,971	50,228
Amortisation			
At 1 January 2023	-	32,122	32,122
Charge for the year	-	1,368	1,368
At 31 December 2023	-	33,490	33,490
Net book value			
At 31 December 2023	8,257	8,481	16,738
At 31 December 2022	8,170	9,360	17,530

Notes to the Consolidated Financial Statements... continued at 31 December 2023

The carrying amounts of goodwill and other intangible assets allocated to each CGU are as follows:

	Goodwill KD 000s	Other intangible assets	Total KD 000s
		Banking license KD 000s	
AGB	2,982	4,605	7,587
TIB	5,275	3,876	9,151
At 31 December 2023	8,257	8,481	16,738

	Goodwill KD 000s	Other intangible assets	Total KD 000s
		Banking license KD 000s	
AGB	2,903	4,925	7,828
TIB	5,267	4,435	9,702
At 31 December 2022	8,170	9,360	17,530

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

	Effective interest rate	2023 KD 000s	2022 KD 000s
Murabaha facility – unsecured 2024	3M Libor + (1.00% -1.18%)	–	152,818
Subordinated bonds – 2031*	2.750%	152,919	152,542
Medium term borrowing – unsecured (2024 to 2026)	3M Libor + (1.00% -1.40%)	–	325,741
Medium term borrowing – unsecured (2025 - 2026)	SOFR + (1.00% - 1.05%)	397,042	152,291
		549,961	783,392

* In 2020, the Bank issued USD 500 million Subordinated Tier 2 Notes due in 2031 (the "Notes") at the principal amount. The Notes meet the requirements to be treated as Tier 2 Capital under Basel III Regulations as adopted by the CBK. The Notes are callable in whole but not in part at the option of the issuer after 6 years from the date of their issuance, or on any interest payment date there after, subject to certain conditions being satisfied and the prior approval of the CBK.

Movement in other borrowed funds included in the consolidated statements of cash flows under financing activities includes KD 982 thousand (2022: KD 7,035 thousand) arising from foreign currency translation.

10. OTHER LIABILITIES

	2023 KD 000s	2022 KD 000s
Accrued interest payable	69,772	39,647
Staff benefits	20,456	20,513
Provision for non-cash credit facilities (note 5)	25,338	24,339
Clearing cheques and balances	33,362	29,605
Income received in advance	16,432	14,011
Other payable and accruals	50,949	49,680
Deferred tax liabilities	11,073	6,595
Taxation payable*	21,316	16,944
Other balances	24,147	42,557
	272,845	243,891

* Taxation payable includes an amount of KD 420 thousand (2022: KD 489 thousand) relating to KFAS payable.

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)	4,000,000,000	4,000,000,000
Issued and fully paid up capital (shares of 100 fils each)	3,452,203,125	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	5,316,343	5,057,911
Percentage of shares held	0.15%	0.15%
Cost KD 000's	1,742	1,742
Market value KD 000's	893	1,103
Weighted average market value per share (fils)	197	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.

Notes to the Consolidated Financial Statements... continued at 31 December 2023

f) Other reserves attributable to the equity holders of the Bank:

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

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 000s	2022 KD 000s
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
	448,309	323,478

13. INTEREST EXPENSE

	2023 KD 000s	2022 KD 000s
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
	313,446	176,014

14. NET INVESTMENT INCOME

	2023 KD 000s	2022 KD 000s
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
	7,750	7,002

15. TAXATION

	2023 KD 000s	2022 KD 000s
NLST	1,428	1,094
KFAS	420	493
Zakat	746	519
Taxation on overseas subsidiaries	19,933	14,334
	22,527	16,440

Components of taxation arising from overseas subsidiaries are as follows:

	2023 KD 000s	2022 KD 000s
Current tax	12,123	17,462
Deferred tax	7,810	(3,128)
	19,933	14,334

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.

Notes to the Consolidated Financial Statements... continued 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:

	2023 KD 000s	2022 KD 000s
Profit for the year attributable to equity holders of the Bank	43,547	52,130
Less: Interest payment and other movements on Tier 1 capital securities	(9,060)	(10,715)
Profit for the year attributable to equity holders of the Bank after interest and other movements on Tier 1 capital securities	34,487	41,415
	Shares	Shares
Weighted average number of outstanding shares, net of treasury shares	3,446,886,782	3,446,886,782
Basic and diluted earnings per share (fils)	10.0	12.0

17. SEGMENT INFORMATION

For management purposes, the Group organises its operations by geographic territory in the first instance, primarily Domestic and International. All operations outside Kuwait are classified as International. Within its domestic operations, the Group is organised into the following business segments:

- **Corporate and Consumer banking:** provides comprehensive product and services to financial institutions, corporate and individual customers, including lending, deposits, trade services, foreign exchange, advisory services, credit and debit cards, and others.
- **Treasury and Investment banking:** includes treasury activities, investment services and management. It also provides products and services to banks including money markets, lending, deposits, foreign exchange and others.
- **Central office:** includes liquidity and funding management, any residual in respect of transfer pricing and other unallocated activities.

Executive Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on segment result after provisions which in certain respects are measured differently from operating profit or loss in the consolidated financial statements.

The table below presents income and results and certain assets and liabilities information regarding the Group's operating segments.

31 December 2023	Kuwait Operations				International Operations*	Unallocated/ Intragroup Transactions	Group
	Corporate and consumer banking KD 000s	Treasury and investment banking KD 000s	Central office KD 000s	Total KD 000s	KD 000s	KD 000s	Total KD 000s
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

31 December 2022	Kuwait Operations				International Operations*	Unallocated/ Intragroup Transactions	Group
	Corporate and consumer banking KD 000s	Treasury and investment banking KD 000s	Central office KD 000s	Total KD 000s	KD 000s	KD 000s	Total KD 000s
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.

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:

	Parent Company KD 000s	Others KD 000s	2023 KD 000s	2022 KD 000s
Consolidated Statement of Financial Position				
Due from banks and OFIs*	-	178,364	178,364	190,190
Loans and advances to customers*	-	1,022,043	1,022,043	963,745
Investment securities	13,020	80,760	93,780	105,965
Investment securities managed by a related party	-	75,619	75,619	78,062
Other assets	-	6,788	6,788	6,244
Due to banks	-	8,614	8,614	5,367
Due to other financial institutions	-	2,507	2,507	30,822
Deposits from customers	97,973	86,239	184,212	186,544
Commitments and contingent liabilities				
Letters of credit	-	13,238	13,238	10,245
Letters of guarantee	-	44,872	44,872	106,365
Undrawn lines of credit	-	29,293	29,293	115,829
Other commitments	-	12,933	12,933	14,867
Transactions				
Interest income	40	63,356	63,396	42,295
Interest expense	(1,471)	(3,723)	(5,194)	(846)
Fee and commission income	3	909	912	1,234
Fee and commission expenses	-	(584)	(584)	(731)
Dividend income	-	131	131	808
Other expense	-	(9,515)	(9,515)	(4,683)
Other transactions during the year				
Purchase of property and equipment	-	11	11	20
Sale of investment securities	-	-	-	3,155
Loss on sale of investment securities	-	-	-	(3,830)
Partial sale of a subsidiary	-	57,830	57,830	-
Loss on partial sale of a subsidiary (note 2.3)	-	(3,260)	(3,260)	-

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

Notes to the Consolidated Financial Statements... continued at 31 December 2023

	No. of Board members or executive staff	2023 KD 000s	2022 KD 000s
Board members			
Loans and advances to customers	4	1,208	5,777
Deposits from customers	6	3,190	2,127
Executive staff			
Loans and advances to customers	17	1,610	850
Deposits from customers	42	2,027	3,148
Letters of guarantee	-	-	16

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 000s	2022 KD 000s
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
	7,276	8,260

19. COMMITMENTS AND CONTINGENT LIABILITIES

	2023 KD 000s	2022 KD 000s
Acceptances	47,007	27,777
Letters of credit	273,904	282,925
Letters of guarantee	930,096	884,771
	1,251,007	1,195,473

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).

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.

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.

Notes to the Consolidated Financial Statements... continued at 31 December 2023

Swaps

Swaps are contractual agreements between two parties to exchange streams of payments over time based on specified notional amounts, in relation to movements in a specified underlying index such as an interest rate, foreign currency rate or equity index.

Interest rate swaps relate to contracts taken out by the Bank with OFIs in which the Group either receives or pays a floating rate of interest, respectively, in return for paying or receiving a fixed rate of interest. The payment flows are usually netted against each other, with the difference being paid by one party to the other. In a currency swap, the Group pays a specified amount in one currency and receives a specified amount in another currency. Currency swaps are mostly gross settled.

Options

Options are contractual agreements that convey the right, but not the obligation, for the purchaser either to buy or sell a specified amount of a financial instrument at a fixed price, either at a fixed future date or at any time within a specified period.

The Group purchases and sells options through regulated exchanges and in the over-the-counter markets. Options purchased by the Group provide the Group with the opportunity to purchase (call options) or sell (put options) the underlying asset at an agreed-upon value either on or before the expiration of the option. The Group is exposed to credit risk on purchased options only to the extent of their carrying amount, which is their fair value.

Options written by the Group provide the purchaser the opportunity to purchase from or sell to the Group the underlying asset at an agreed-upon value either on or before the expiration of the option.

The table below shows the fair value of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts analysed by the terms of maturity. The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are indicative of neither the market risk nor the credit risk. Credit risk in respect of derivative financial instruments is limited to the positive fair value of instruments. The credit risk exposure is managed as part of the overall borrowers lending limits, together with potential exposures from market movements.

31 December 2023			Notional amount		Total KD 000s
	Positive fair value KD 000s	Negative fair value KD 000s	Within one year KD 000s	Over one year KD 000s	
Derivatives held for trading: (non-qualifying hedges)					
Forward swaps / foreign exchange contracts	13,901	(11,057)	1,085,672	89,579	1,175,251
Interest rate swaps	1,446	(1,303)	24,630	2,731	27,361
Options	96	(83)	15,769	-	15,769
	15,443	(12,443)	1,126,071	92,310	1,218,381
Derivatives held for hedging:					
Hedge of net investment in foreign operations:					
Forward swaps / foreign exchange contracts	145	(40)	34,407	-	34,407
Cash flow hedges:					
Interest rate swaps	28,570	(2,477)	40,824	164,806	205,630
	28,715	(2,517)	75,231	164,806	240,037

31 December 2022			Notional amount		Total KD 000s
	Positive fair value KD 000s	Negative fair value KD 000s	Within one year KD 000s	Over one year KD 000s	
Derivatives held for trading: (non-qualifying hedges)					
Forward swaps / foreign exchange contracts	3,003	(7,311)	1,353,895	258,564	1,612,459
Interest rate swaps	2,652	(581)	19,537	576	20,113
Options	1,570	(3,188)	186,004	-	186,004
	7,225	(11,080)	1,559,436	259,140	1,818,576
Derivatives held for hedging:					
Hedge of net investment in foreign operations:					
Forward swaps / foreign exchange contracts	347	(19)	28,650	-	28,650
Cash flow hedges:					
Interest rate swaps	34,740	(2,992)	29,044	203,153	232,197
	35,087	(3,011)	57,694	203,153	260,847

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.

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%.

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 000s	Level 2 KD 000s	Level 3 KD 000s	Total KD 000s	Level 1 KD 000s	Level 2 KD 000s	Level 3 KD 000s	Total KD 000s
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.

Notes to the Consolidated Financial Statements... continued 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:

- Credit risk which includes default risk of clients and counterparties;
- Market risk which includes interest rate, foreign exchange and equity price risks; and
- Liquidity risk.

Other risks

- 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.

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 000s	2022 KD 000s
Cash and cash equivalents	795,860	587,143
Treasury bills and bonds with CBK and others	364,286	301,554
Due from banks and other financial institutions	656,532	482,101
Loans and advances to customers	4,236,942	4,227,737
Investments securities – debt securities	522,438	491,275
Other assets*	207,131	156,745
Total	6,783,189	6,246,555
Commitments and contingent liabilities (note 19)	1,811,334	1,811,261
Maximum credit risk exposure before consideration of credit risk mitigation	8,594,523	8,057,816

* 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%).

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		
	Financial assets KD 000s	Commitments and contingent liabilities KD 000s	Total KD 000s	Financial assets KD 000s	Commitments and contingent liabilities KD 000s	Total KD 000s
Kuwait	4,183,157	1,391,787	5,574,944	3,819,402	1,434,928	5,254,330
Jordan	13,569	13,043	26,612	18,102	11,448	29,550
Algeria	665,675	181,401	847,076	598,102	130,015	728,117
Iraq	-	1,225	1,225	-	779	779
Tunisia	33,124	465	33,589	16,198	563	16,761
Turkey	821,403	168,478	989,881	959,388	166,194	1,125,582
Other Middle East	693,784	26,927	720,711	551,762	26,216	577,978
Europe	167,173	11,587	178,760	101,283	21,720	123,003
Rest of the world	205,304	16,421	221,725	182,318	19,398	201,716
	6,783,189	1,811,334	8,594,523	6,246,555	1,811,261	8,057,816

Notes to the Consolidated Financial Statements... continued at 31 December 2023

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 KD 000s	2022 KD 000s
Industry sector		
Sovereign	1,287,709	1,048,934
Banking	955,245	693,037
Investment	296,781	369,462
Trade and commerce	684,474	662,634
Real estate	1,118,601	1,191,225
Personal	1,926,606	1,712,861
Manufacturing	703,550	687,922
Construction	665,194	722,700
Other services	956,363	969,041
	8,594,523	8,057,816

Credit quality per class of financial assets

The Bank has a comprehensive credit policy encompassing evaluation of the customer's credit request, assessment of the purpose of request, business of the client, market, management, financials, ratings, conduct of the account and such other means to establish the credit worthiness of the counterparty and accordingly the credit exposures are classified as "High" or "Standard" based on inherent credit quality of the counterparties. Credit exposures classified as "High" quality are those where the ultimate risk of finance loss from the obligor's failure to discharge its obligation is assessed to be low. These include facilities to counterparties with financial condition, risk indicators and capacity to repay which are considered excellent. Credit exposures classified as "Standard" quality comprise all other facilities whose payment performance is compliant with the contractual conditions. The credit quality per class of financial assets for comparative period has been reclassified to conform the presentation of current year classification.

The table also shows the credit risk exposure by credit quality of financial assets by class, grade and status:

	2023				
	Rated		Past due but not impaired* KD 000s	Impaired financial assets* KD 000s	Total KD 000s
	High KD 000s	Standard KD 000s			
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
	2,546,739	3,934,462	219,930	82,058	6,783,189

	2022				
	Rated		Past due but not impaired* KD 000s	Impaired financial assets* KD 000s	Total KD 000s
	High KD 000s	Standard KD 000s			
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
	1,929,889	4,068,474	166,634	81,558	6,246,555

* 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).

The table below summarises the effect on net interest income as a result of the changes in interest rate:

	2023 KD 000s	2022 KD 000s
Increase in interest rate "Basis Points"		
50	7,274	6,092
100	14,549	12,184
Decrease in interest rate "Basis Points"		
50	(7,274)	(6,092)
100	(14,549)	(12,184)

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group takes on exposure to effects of fluctuations in the prevailing currency exchange rates on its financial position and cash flows. The Board of Directors sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily.

The table below analyses the effect on profit and equity of an assumed 5% strengthening in value of the currency rate against the Kuwaiti Dinar from levels applicable at the year end, with all other variables held constant. A negative amount in the table reflects a potential net reduction in profit or equity, where as a positive amount reflects a net potential increase.

Currency	% Change in currency rate	2023		2022	
		Effect on profit KD 000s	Effect on equity KD 000s	Effect on profit KD 000s	Effect on equity KD 000s
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.

Notes to the Consolidated Financial Statements... continued at 31 December 2023

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.

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:

31 December 2023	Up to three months KD 000s	three to six months KD 000s	six to 12 months KD 000s	More than 12 months KD 000s	Total KD 000s
Financial liabilities					
Due to banks	659,517	41,130	3,452	-	704,099
Due to other financial institutions	318,774	41,353	81,498	-	441,625
Deposits from customers	3,235,371	578,179	620,324	83,150	4,517,024
Other borrowed funds	6,011	5,945	12,021	623,282	647,259
Other liabilities	189,630	18,892	8,721	55,602	272,845
	4,409,303	685,499	726,016	762,034	6,582,852
Contingent liabilities and commitments	705,428	284,120	320,774	501,012	1,811,334

31 December 2022	Up to three months KD 000s	three to six months KD 000s	six to 12 months KD 000s	More than 12 months KD 000s	Total KD 000s
Financial liabilities					
Due to banks	244,852	29,265	4,894	592	279,603
Due to other financial institutions	658,951	10,886	34,682	-	704,519
Deposits from customers	3,339,229	254,918	229,255	142,486	3,965,888
Other borrowed funds	9,938	9,938	139,513	717,748	877,137
Other liabilities	171,612	520	7,024	64,735	243,891
	4,424,582	305,527	415,368	925,561	6,071,038
Contingent liabilities and commitments	655,829	231,892	480,866	442,674	1,811,261

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.

31 December 2023	Up to three months KD 000s	three to six months KD 000s	six to 12 months KD 000s	More than 12 months KD 000s	Total KD 000s
ASSETS					
Cash and cash equivalents	870,332	-	-	-	870,332
Treasury bills and bonds with CBK and others	152,021	125,063	35,402	51,800	364,286
Due from banks and other financial institutions	527,593	8,782	103,680	16,477	656,532
Loans and advances to customers	1,415,363	633,861	617,604	1,570,114	4,236,942
Investment securities	26,315	12,996	21,270	671,624	732,205
Other assets	116,660	6,055	6,836	242,563	372,114
Property and equipment	-	-	-	176,982	176,982
Intangible assets	-	-	-	16,738	16,738
Total assets	3,108,284	786,757	784,792	2,746,298	7,426,131
LIABILITIES AND EQUITY					
Due to banks	657,997	40,495	3,450	-	701,942
Due to other financial institutions	317,913	40,583	78,740	-	437,236
Deposits from customers	3,223,255	564,503	597,142	78,343	4,463,243
Other borrowed funds	-	-	-	549,961	549,961
Other liabilities	189,630	18,892	8,721	55,602	272,845
Equity	-	-	-	1,000,904	1,000,904
Total liabilities and equity	4,388,795	664,473	688,053	1,684,810	7,426,131

31 December 2022	Up to three months KD 000s	three to six months KD 000s	six to 12 months KD 000s	More than 12 months KD 000s	Total KD 000s
ASSETS					
Cash and cash equivalents	659,384	-	-	-	659,384
Treasury bills and bonds with CBK and others	132,564	133,292	20,543	15,155	301,554
Due from banks and other financial institutions	417,766	26,785	20,464	17,086	482,101
Loans and advances to customers	1,889,020	481,520	492,154	1,365,043	4,227,737
Investment securities	24,113	14,466	46,422	629,148	714,149
Other assets	96,211	1,158	3,363	157,316	258,048
Property and equipment	-	-	-	163,071	163,071
Intangible assets	-	-	-	17,530	17,530
Disposal group held for sale	342,386	-	-	-	342,386
Total assets	3,561,444	657,221	582,946	2,364,349	7,165,960
LIABILITIES AND EQUITY					
Due to banks	244,340	28,532	4,683	591	278,146
Due to other financial institutions	654,893	10,805	33,723	-	699,421
Deposits from customers	3,331,802	246,498	220,725	133,466	3,932,491
Other borrowed funds	-	-	119,457	663,935	783,392
Other liabilities	171,612	520	7,024	64,735	243,891
Liability directly associated with disposal group held for sale	281,204	-	-	-	281,204
Equity	-	-	-	947,415	947,415
Total liabilities and equity	4,683,851	286,355	385,612	1,810,142	7,165,960

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	6,358,901	6,433,584
Total capital required	890,246	804,198
Common Equity Tier 1 (CET1) capital	861,475	697,290
Additional Tier 1 (AT1) capital	162,335	154,897
Tier 2 capital	247,954	231,846
Total eligible capital	1,271,764	1,084,033
CET1 capital adequacy ratio	13.5%	10.8%
Tier 1 capital adequacy ratio	16.1%	13.2%
Total capital adequacy ratio	20.0%	16.8%

The Group's financial leverage ratio, calculated in accordance with CBK circular number 2/BS/ 342/2014 dated 21 October 2014, is shown below:

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



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