بنك برقان
BURGAN BANK

2022 ANNUAL REPORT

HH Sheikh
Mishal Al-Ahmad Al-Jaber Al-Sabah
Crown Prince of the State of Kuwait

HH Sheikh
Nawaf Al-Ahmad Al-Jaber Al-Sabah
Amir of the State of Kuwait

Burgan's Sidra

We at Burgan Bank derive our inspiration from the Sidra tree, which connotes resilience, strength, prosperity and generosity.

Sidra epitomises the inspiration that led to noteworthy achievements.

It shall drive the Bank to support innovators and the community to make our nation great.

Contents

Strategy In Action...

Retail Success Story

To be the preferred retail bank in Kuwait with competitive offerings to meet customers' needs at every stage of their lives.

Read more on page 24

Reimagining Banking through Digitalisation

The Bank is focusing on delivering a superior and seamless customer experience through a unique digital value proposition, scalable architecture and a cost-efficient business model.

Read more on page 26

Investing in Our Human Capital

Burgan recognises that attracting, developing and retaining top talent are the key drivers of its success. The most important investment it makes is in people.

Read more on page 28

Ratings

Fitch: A

Moody's: Baa1

S&P: BBB+

*Outlook Stable

Burgan Bank aims to be the best-in-class financial services provider by offering customers relevant solutions through leading practices, innovation and stakeholder care.

Awards and Recognitions
Won 4 Awards from "Global Finance" for Digital Banks in Kuwait

- Best Open Banking APIs
- Best Information Security and Fraud Management
- Best SME Banking
- Best Mobile Banking Adaptive Site

Revenue KD 232.1mn	**Net Interest Margin (NIM)** 2.4%
Net Income* KD 52.1mn	**Cost of Credit (CoC)** 0.6%
Total Assets KD 7.2bn	**NPL Ratio** 1.9%

* Net Income attributable to Equity shareholders

Certifications

PCI DSS COMPLIANT
ASSESSED BY CONTROLCASE

nqa. ISO 27701 PRIVACY INFORMATION MANAGEMENT

nqa. ISO 27001 INFORMATION SECURITY MANAGEMENT

Our Presence

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

Burgan Bank Group

Customers
896,648

Employees
3,827

Branches
160

ATMs
365

Burgan Bank Kuwait

Branches:	Customers:	Asset Mix:
29	118,206	71%
ATMs:	Employees:	
154	850	

Burgan Bank Turkey

Branches:	Customers:	Asset Mix:
32	481,851	13%
ATMs:	Employees:	
23	1,137	

Gulf Bank Algeria

Branches:	Customers:	Asset Mix:
63	197,241	9%
ATMs:	Employees:	
107	1,012	

Bank of Baghdad*

Branches:	Customers:	Asset Mix:
33	97,761	5%
ATMs:	Employees:	
81	727	

Tunis International Bank

Branches:	Customers:	Asset Mix:
3	1,589	2%
ATMs:	Employees:	
0	101	

* Bank of Baghdad is held for sale.

Dear Shareholders

It gives me great pleasure to present to you Burgan Bank Group's Annual Report for the fiscal year 2022.

After two challenging years, the business climate is beginning to settle but global recessionary concerns have increased in recent times. The banking sector in Kuwait continues to thrive and has arrived at a truly transformative juncture in its 80-year journey, one which presents numerous opportunities, with some challenges.

For Burgan Bank, 2022 was a year of taking a step back and re-evaluating where it stands as an organisation and what the Bank's direction should be. It has been a year of proactive change, as we lay the groundwork for some major, long-term investments in our future.

The Bank's solid foundation, responsive business model and proactive strategy have allowed us to successfully navigate the difficulties of the pandemic and post-pandemic eras, and continue to be our key strength. This is reflected in our financial results for the current year, as our performance continued to improve despite a tough operating environment. This also enabled us to make further developments across key areas of focus; from digitalisation and retail expansion, to our human capital development and ESG commitments.

Continued financial stability and solid performance

With a future-looking strategy in place, we remain focused on striking the right balance between mitigating risk and accelerating the pace of development. We have continued to leverage our strengths and focus on strategic priorities to deliver solid returns in 2022 and make prudent investments.

Despite the challenges, we recorded a healthy revenue of KD 232.1 million and delivered 14.9% growth in net income of KD 52.1 million. We also recommended distribution of a cash dividend of 8 fils per share in addition to 5% bonus shares to the shareholders. Our focus remains firmly on maintaining our financial core, to enable sustained growth in the future and deliver value to our shareholders.

A people-centric, digital-first strategy

The banking world continues to progress at an unrelenting pace, and we are continuously evolving to be on par. It is not just a matter of delivering more digital solutions, but also about ensuring that the entire banking experience and customer journey is simple, easy, and intuitive.

This year, our strategy saw us undertake expansive efforts on several fronts to reimagine our customer journeys. This included reinforcing and modernising our technological infrastructure, revamping our current suite of services and introducing attractive products. We also continue to invest in our people, upskilling for the future, to enable them to deliver our goal of offering a seamless banking experience for our customers.

Bolstered by our financial resilience, our dynamic strategy and the strength of our employee base, we are well positioned to take our evolution forward next year and accelerate our growth momentum.

A renewed commitment to sustainability

For the past few years, we have worked tirelessly to embed sustainability as an organisational pillar and a core facet of our business philosophy. Our goal remains to deliver sustainable financial performance, marked by positive community impact, high governance standards and reduced environmental risks.

In 2022, our sustainability strategy saw us deliver on some key milestones and shore up our environmental, social and governance (ESG) practices across the Group. We also continued to leverage our robust and long-standing social responsibility programmes to drive development in society at large, not only economically but also socially.

A collaborative journey towards progress

Our journey of success and evolution is one that is spearheaded first and foremost by our people. Hence, I would like to take this opportunity to express my sincerest gratitude to the entire Burgan Bank team. Every single person in the organisation, from our Executive Management team to employees across every function and department, has worked tirelessly to drive our ongoing evolution forward. It remains a team effort and a shared vision that drives the Bank forward.

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 trust and support.

> "2022 has been a year of proactive change, as we lay the groundwork for some major, long-term investments in our future."

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

Strategic Report
Group Chief Executive Officer's Message

Masoud M. J Hayat
Vice Chairman and Group CEO
of Burgan Bank Group

"At Burgan, our ambition is to be human-first in how we think, how we operate and what we deliver."

Dear Esteemed Shareholders

The pandemic saw the true strength of human spirit with innovative ideas being introduced and embraced. The fast-paced digitalisation of businesses and increasing expectations of customers to simplify and ease their experiences are here to stay. The banking industry should continue to invest in their digital infrastructure with a view to make customers' lives as easy as possible.

But the global economy is facing new challenges with continued inflationary pressures, increasing rates and rising likelihood of a global recession in 2023. Despite these concerns, Burgan has focused on executing its strategic priorities in 2022 and I expect this execution pace to continue in 2023.

Bolstering the financial strength for progressive growth

The bank's solid financial performance in 2022 reflects effectiveness of our Risk Management Framework, focus on operational efficiencies and strong contribution from our international operations. We successfully turned around some of our key businesses by delivering enhancements to business models, revitalising sales focus and maintaining tight Risk Management Framework and practices.

Burgan Bank Group delivered KD 232.1mn in revenues and generated net income of KD 52.1mn.

Net interest income grew by 15%, driven by improving margins in Kuwait and Turkey with continued high margins in Algeria. The Bank's credit costs continued to improve with a 130 bps decrease to 0.6% this year while maintaining stable asset quality with an NPL ratio of 1.9%.

One of the bank's key priorities is strategic asset reallocation and I am pleased with the progress and favourable conclusion to the sale of Bank of Baghdad. Additionally, the active measures taken to mitigate risks in Turkey along with a cautious approach to Turkish subsidiary's growth, continue to ensure that Kuwait remains the core engine of the Group's future growth ably supported by its key subsidiaries.

Simplifying the banking experience for our customers

We continue to evolve quickly to serve up a personalised, digitally-optimised and seamless banking experience to be an organisation that is truly driven by our customers' needs. Therefore, we remain heavily focused on the evolution of Burgan's overall banking experience with a strategy that is collaborative, digitally-focused and people-centric.

At the core of our strategy, we are leading our efforts to deliver a seamless and convenient experience across every touchpoint. That means simple, easy and consistent customer experience.

We launched several feature and service upgrades on Burgan Bank's digital platforms, including the mobile app, which has been one of the highest rated banking apps in Kuwait. This included the introduction of eKYC and Apply Now – as well as major enhancements to our Banking chatbot. Burgan's digital innovations were not limited to retail customers only as our corporate customers are increasingly embracing our innovative cash management app designed to deliver similar seamless and customised experience

The digital innovations are being delivered across the Group, including Turkey. Burgan Bank Turkey successfully launched their digital platform "ON" in 2021 and "ON" has done very well over the last 12 months. "ON" has received the prestigious "Best Digital Banking" award from Global Finance Magazine in 2022.

Its success underscores how well its services have been received by the customers who continue to use "ON" actively. "ON" has been successful in adding more than 350,000 customers within 15 months of operations, which is a staggering achievement and exemplifies the digital progress by one of our key subsidiaries.

An evolution that begins and ends with people

At Burgan, our ambition is to be human-first in how we think, how we operate and what we deliver. To be human-first is to be on a journey of constant evolution, of learning and adaptation, of growth and innovation for the benefit of our people.

Our employees are absolutely integral to our strategy as we seek to drive our financial performance through our people.

This philosophy is grounded in our efforts to empower our employees as partners in success and development. Upskilling our people and furnishing them with the tools needed to drive our transformation is critical, and this year saw major strides in that direction.

As part of our market-leading talent development efforts, Burgan offers flagship programs internally and in partnership with renowned universities such as Harvard, Berkeley, Columbia Business School, INSEAD and many others, to enhance the knowledge and capability of our talent pool. Burgan Bank has also broadened its approach to learning with the introduction of various signature programs, including Ro2ya and Entelaqah.

Embedding ESG into our cultural and operational fabric

We are proud to say that Burgan has adopted a proactive and comprehensive approach to sustainability as well as environmental, social and governance (ESG) management.
As a bank, our responsibility is to constantly deliver greater value to our people and our communities; first as financial providers; and second as engaged corporate citizens. As a result, in 2022, we further expanded the scope of our ESG Framework, and reaffirmed our commitment to create better solutions for a more sustainable future.

As with everything we do, our first priority was to include our employees in this sustainability journey. This year saw us introduce a comprehensive and wide-reaching internal program for ESG training and awareness amongst our staff. We also engaged all operations and subsidiaries to align our ESG efforts and promote best practices sharing and knowledge transfer.

Much more remains to be done to expand and fortify our ESG commitments, but we are proud to see the progress achieved thus far.

On that note, today, I look towards the future with optimism and drive for continued innovation, development and growth. I would like to thank our valued shareholders, the Board of Directors, our employees Central Bank of Kuwait and Capital Markets Authority for their continued trust and support as the Bank continues its progress.

Over 45 years of operations

1977
- Incorporated as joint stock company with government of Kuwait as a majority shareholder

1984
- Listed on the Kuwait Stock Exchange

1997
- Privatisation – government of Kuwait divested its 61.0% stake; Kuwait Projects Company (KIPCO) acquired the majority stake

2007
- Became a subsidiary of KIPCO. Announced new identity and launched expansion strategy

2008
- Increased stake in Jordan Kuwait Bank (JKB) to 51.2%

2009
- Completed purchase of stake in Gulf Bank Algeria (AGB)

2010
- Completed purchase of stake in Tunis International Bank (TIB) (86.7%)

2012
- Acquired 99.3% stake in Eurobank Tekfen, now known as Burgan Bank Turkey (BBT)

2015
- Sale of its stake in JKB

2019
- Announced sale of its stake in Bank of Baghdad (BoB)

2021
- Rights issue of KD 71.25mn

2022 Snapshot

January
- Launched a risk culture project to promote risk awareness among employees

February
- Centre of Excellence created to fast track IT and digital strategy implementation
- Personal Finance Manager tool launched on the app to promote smarter financial habits

March
- Upgraded its flagship product draw account "Kanz"
- Supported Diraya 2022 banking awareness campaign

April
- Supported the Eidity Campaign in collaboration with (CBK), (KBA), and KNET
- Awarded a "1-Star Happy Place to Work – Happy Workplace" certificate

May
- Power of 22 campaign launched
- Launch of "My Learning" app

June
- Innovation Lab launched to nurture talents and promote innovation
- Appointed Sheikh Abdullah Nasser Sabah Al-Ahmad Al Sabah as Chairman

July
- Received the coveted "Elite Quality Recognition Award 2021" from JPMorgan Chase N.A

September
- Upgraded salary account Al Rateb with upgraded features
- "Electronic Know Your Customer" (eKYC) form launched

October
- Digital application form "Apply Now" launched
- Cash management app for smartphones launched

November
- Digital salary certificates for its staff launched
- Rewards Store app for staff launched

December
- Al Rateb Salary Account on Burgan Online launched

2022 Growth Drivers

Global monetary conditions tightened in order to combat inflationary pressures, but countries with high government revenues, mostly generated through hydrocarbon resources export, experienced lower inflation compared to those with low government revenue.

Kuwait

7.0%*

- **Monetary Policy:** The Central Bank of Kuwait (CBK) raised its key discount rate to 3.50%, bringing borrowing costs to the highest since 2009.
- **Fiscal Policy:** Kuwait reported a KWD 3bn fiscal deficit – despite oil prices averaging higher-than-budgeted breakeven oil prices.
- Expenditures increased to KWD 21.6bn, with bloated wages and salaries accounting for 76% of the total, while revenues came in at KWD 18.6bn, with 87% of those from oil.

Turkey

4.7%

- **Monetary Policy:** The Central Bank of Turkey (CBT) cut its interest rate to 9% in 2022, adding to the 10 ppts in rate cuts since September 2021 despite: 1) TRY's decline; 2) soaring consumer prices; and 3) an unbalanced current account.
- CBT stated that the disinflation process to the 5% target would begin with further implementation of liraisation measures that pursue currency and price stability, in addition to the resolution of geopolitical conflict.
- **Fiscal policy:** Public finances are strong compared to Turkey's emerging market peers, leaving plenty of room for stimulus. The 2023 budget includes TRY 4.47tn (USD 239bn) in spending.

Algeria

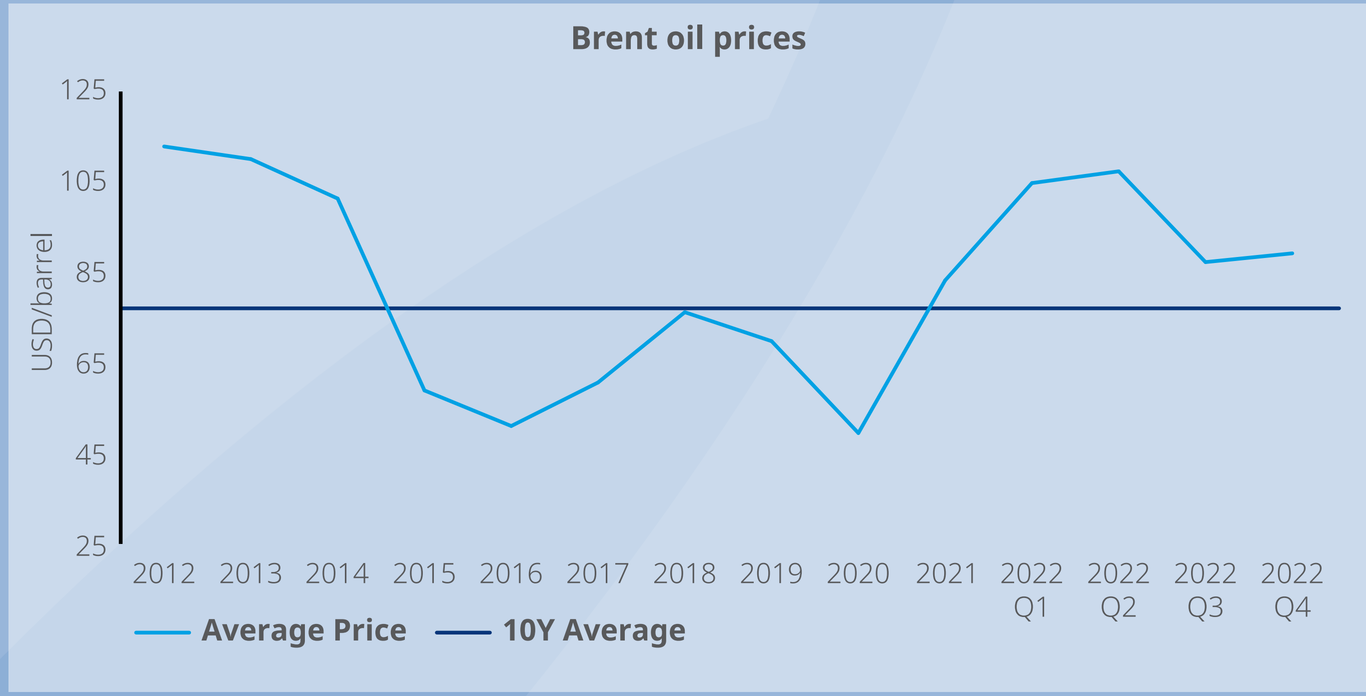
3.4%

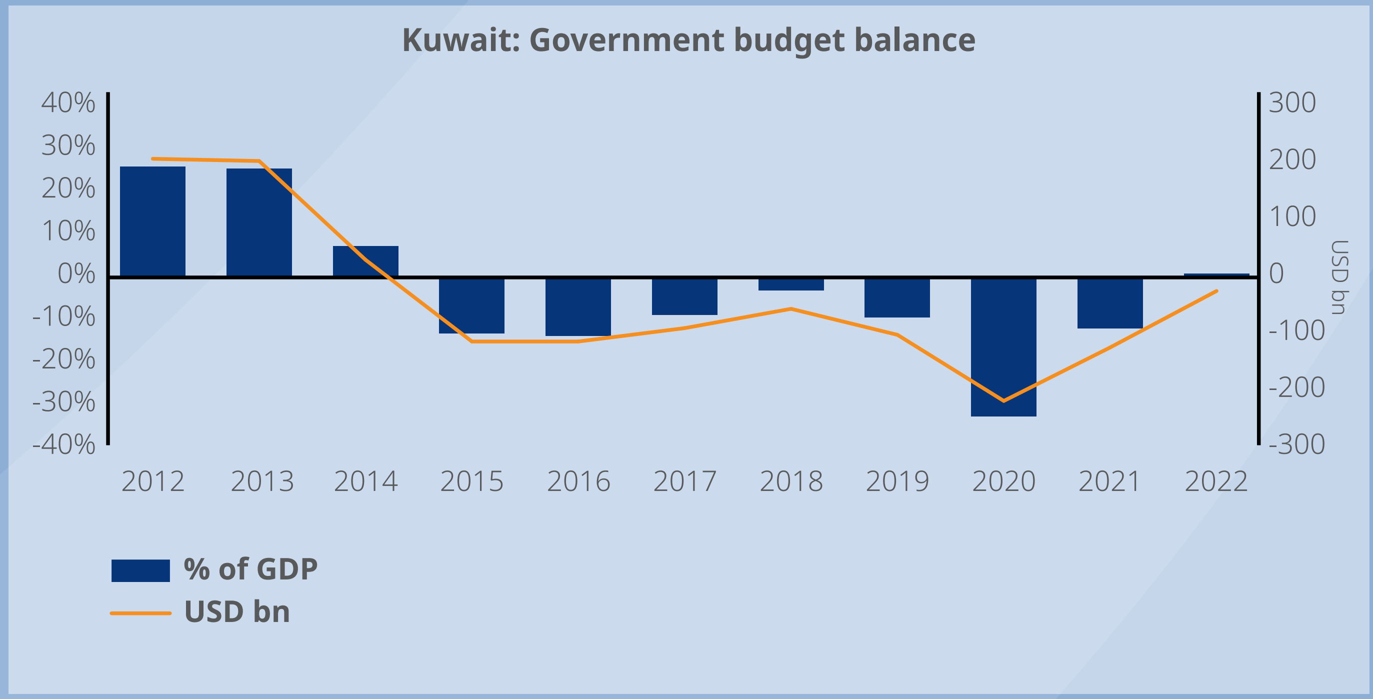
- **Monetary Policy:** The Central Bank of Algeria maintained its main policy rate at 3.00%.
- **Fiscal Policy:** The jump in oil revenues will bestow local authorities with a fiscal surplus in 2022 and provide the government with more spending power in the following fiscal year.
- The higher international Brent crude price environment and local authorities' ability to increase oil production are set to pay off for Algeria, with the current and fiscal accounts to switch from deficits last year to healthy surpluses.

Tunisia

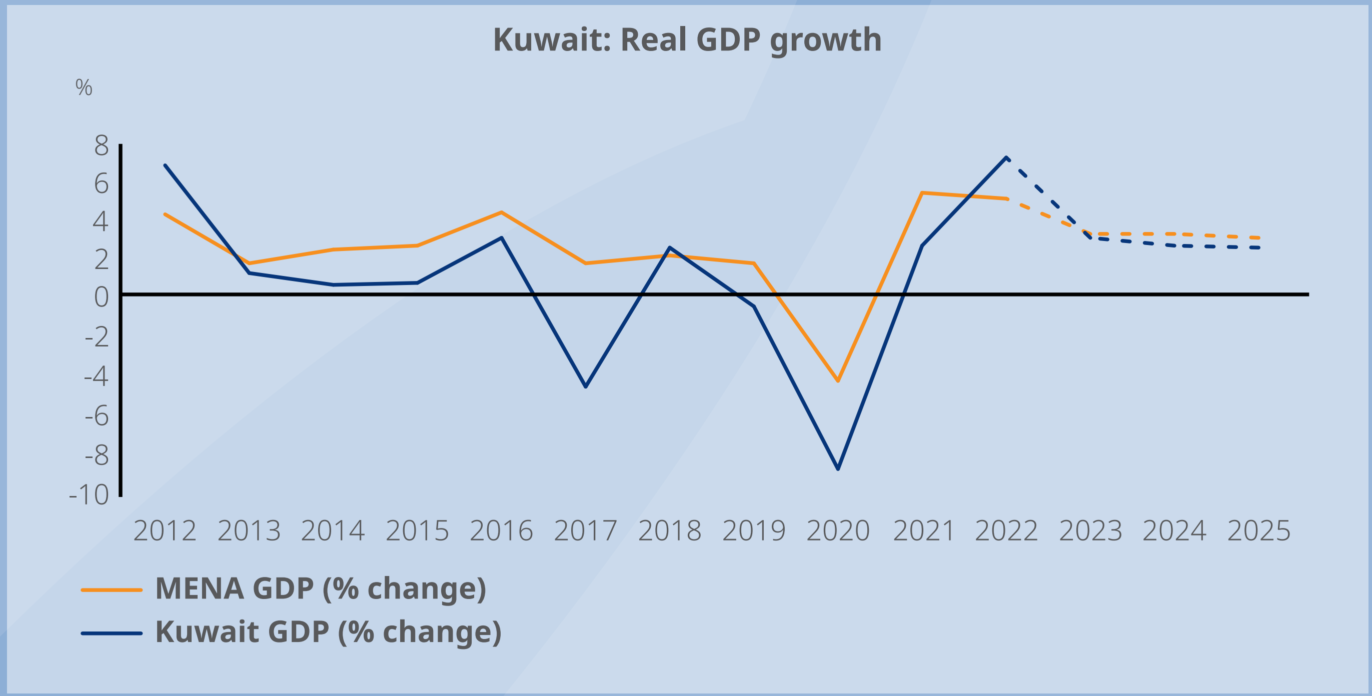
2.2%

- **Monetary Policy:** The Central Bank of Tunisia raised its benchmark interest rate to 7.25%, citing growing risks surrounding the future trend of inflation.
- **Fiscal Policy:** The fiscal deficit is anticipated to improve this year after healthy revenue collection in the first half of the year.
- The positive fiscal outlook and the prospect of an IMF program materialising soon have received a welcome boost after local authorities and trade unions agreed on a below-inflation increase in the public wage bill.
- Moreover, the government is slowly phasing out subsidies on utilities.





* GDP numbers are 2022 BB estimates
Source: Burgan Bank, IMF, World Bank, Oxford Economics



2023 Outlook

The region´s growth prospects will depend on how various global issues unfold, including: i) potential decline in oil prices; ii) economic downturn in the developed markets; and iii) the war in Ukraine.

Kuwait

2.9%*

- The economy will benefit from elevated oil prices as demand picks up and the oil sector continues to boost recovery.
- Growth in the non-oil sector is seen at 4.1%, as consumer spending continues to improve.
- Buoyant consumer spending and relatively strong real estate activity will be major contributors to the expansion in non-oil output, estimated to average 3.1% in 2022–23.
- Measures to raise nationals' private sector participation rates are also essential, as are incentives to stimulate both domestic and foreign investment.

Turkey

2.5%

- The government is pursuing accommodative monetary policies to boost the economy and has increased the minimum wage substantially in January.
- Domestic demand should strengthen, while strong manufacturing and weaker Turkish lira will lead to an expansion in exports.
- Also, tourism revenues are expected to strengthen – giving an additional boost to the services sector.
- The economy will remain hindered by high living costs and FX volatility – which reinforce headwinds to consumer spending.

Algeria

2.0%

- Higher oil production to boost economic growth, as global crude oil price increases and gas supply constraints have provided resource-rich countries the latitude to cash in and increase production.
- Gas production stoked to fill European need, in the wake of the war in Ukraine.
- Elevated crude oil prices along with higher local oil production provide government with a buffer. These dynamics, in turn, will push exports higher and the current account balance into a healthy surplus while also lifting foreign exchange reserves.

Tunisia

0.6%

- The cost-of-living crisis and the rise in interest rates will lower consumers' disposable income and, in turn, dampen household consumption.
- Economic activity will be curtailed by the government's need to cut back on spending and reduce government consumption to a greater extent.
- Lower demand from Tunisia's main trading partners is set to lower local production activities.
- Rising external balances will continue to strain foreign reserves, which have already nosedived.

* GDP numbers are 2023 BB forecasts
Source: Burgan Bank, IMF, World Bank, Oxford Economics

Our Business Model: Dynamic, Robust, Agile

Key Capabilities

Banking Infrastructure
- Maintaining the right combination of physical and digital channels.
- Strengthening digital capabilities.
- Incorporating core and supporting IT systems that are responsive and scalable.
- Maintaining state-of-the-art data privacy and cyber security infrastructure.

Human Resources
- Employee base: 4,064.*
- Enabling cross-functional collaboration.
- Continued skill training and capability building initiatives.
- Driving employee engagement initiatives.

* including BOB

Financial Resources
- Total deposits: KD 3,932mn.
- Total Regulatory Capital: KD 1,084mn.

Stakeholders Relationships
- Customers across platforms and product classes.
- Sizable corporate social responsibility (CSR) expenditure.
- Strong and strategic international network partnerships with government, regulators and banks.

Strong Intellectual Capital
- Cyber security and data privacy.
- Digitalisation of processes and improving customer experience.
- Risk Management Framework.

How Do We Create Value?

Core Activities:

Offering financing and treasury capabilities to its corporate and commercial clients through a variety of propositions via digital platforms and branches.

Retail Banking
- Full range of customer-centric solutions and experiences tailored for each customer segment.
- Regular enhancement of products and customer experience.

Treasury & Investment Banking
- Liquidity management and balance sheet optimisation to support asset growth and compliance.
- Proprietary investment portfolio management.

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

Private Banking
- Bespoke solutions and traditional banking services to HNWIs and UHNWIs.
- High-quality service with easy access to RM's and support staff.

Key Subsidiaries
- **Burgan Bank Turkey:**
  Key segments are Corporate and Commercial while making inroads in Retail Banking space through one of the best digital platforms in the market.
- **Gulf Bank of Algeria:**
  Trade driven corporate banking business; Building Retail Franchise.

Outcomes

Revenue
KD 232.1mn

Customer Loans
KD 4,228mn

ROE
5.9%

Total Customers Serviced
>896,000

MSCI ESG Rating Score
3.7

* All figures are as of FY'22.

Our Strategy Supports Our Ambition

Our strategy in 2022 continued to focus on changing market dynamics and delivering on our growth agenda, particularly strengthening of the core business as well as enhancement of our digital capabilities.

Guiding Principles

Our guiding principles drive our strategic direction and sit at the heart of who we are and how we do business.

Customer Happiness | Environment Friendly | Agile | Process Excellence | Socially Responsible

Strategic Priorities	Strengthen Key Businesses		Strategic Asset Reallocation		Digitalisation	
Key Initiatives	**Retail transformation**	**Burgan Bank Turkey (BBT) turnaround**	**Sale of stake in Bank of Baghdad (BoB)**	**Focus on core market, Kuwait**	**Ongoing success of BBT's digital platform "ON"**	**Multiple enhancements to Burgan Kuwait's mobile app**
Impact	• Retail Banking Revenues: +25%.* • Retail Banking Assets: +20%.*	• BBT Revenues: +250% y-o-y.^ • BBT NPL ratio improved by: (254bps).^ • BBT CoC improved by: (324bps).^	• Strengthens Capital Ratios: +70 bps. • Protects NPL ratio: 60 bps.	• Increase in Kuwait's % of Group's loans: +12% over the last five years.	• Total digital customers: 350K in FY'22 (vs 185K in FY'21). • Digital deposits: TRY 4.9bn in FY'22 vs TRY 1.9bn in FY'21 (+159%).	• Maintained app ratings of 4.6 across iOS and Android platforms. • Key features like "eKYC", "apply now" added.

Strategic Priorities	Sustainability		Culture Transformation	
Key Initiatives	**ESG program rolled out across the Group**	**Serve as true community partner and engaged corporate citizen**	**Building an engaged workforce with a performance focus**	**Creating a compliant risk aware culture within the Bank**
Impact	• First bank in Kuwait to establish Sustainable Financing Framework. • MSCI ESG rating score increased from 2.9 to 3.7 during FY'22.	• Promote health awareness in community. • Support of arts and sports activities (sponsorship of World Wheelchair Fencing Champion, support of Kuwaiti athletes for Olympics).	• Regular surveys to assess key strengths and identify areas of development from the employee perspective. • Achieved Great Place to Work Certification (Jan'23). • Built a cohesive, connected culture through various sports and community events.	• Customised balanced score cards for all employees to encourage high-performance culture. • Bank-wide Risk Culture project, creating Risk Champions throughout the Bank.

Key Enablers

- Culture Transformation and Investment in Talent
- Continued Investment in Digital Assets and Systems' Capabilities
- Continued Upgrade of Risk Management and Controls Framework

* Represents delta between FY22 and FY21 figures.
^ Represents delta between FY22 and FY21 LCY figures.

Retail Success Story...

"To be the preferred retail bank in Kuwait with competitive offerings to meet customers' needs at every stage of their lives."

The retail business in Kuwait was losing market share. From the beginning of FY'21, Burgan focused on rebuilding its retail business, with two key objectives:

- Increase the visibility of its Retail Banking in Kuwait.
- Improve customer service through digitalisation and enhanced propositions.

Burgan executed the following key initiatives:

Enhanced digital features
The Bank streamlined various customer journey processes and rolled out additional functionalities to ensure ease of access to banking activities without the need to visit branches.

Burgan's commitment to digitalisation led to its banking app being the highest rated among Kuwaiti banks.

In terms of its physical infrastructure, Burgan upgraded its ATMs to ITMs and CDMs in select locations, and enhanced functionalities in call centers with the objective of delivering ease of access and transacting to its customers.

BBK Retail Assets
KD 426mn
(+20% y-o-y)

BBK Retail Liabilities
KD 857mn
(+6% y-o-y)

BBK Retail Revenue Growth
25%
(y-o-y)

Engaged customer communication
Burgan enhanced its customer communication by delivering simple and engaging messages through social media and other digital channels. It also leveraged its marketing campaign judiciously to ensure continued customer engagement.

Recalibrated Risk Framework
Burgan recalibrated the Risk Appetite Framework for its Retail business and strengthened the risk controls applicable to retail staff.

Revamping customer offerings
Burgan relaunched its flagship products "KANZ" and "Al Rateb" with enhanced features to make them more "customer-relevant" and competitive.

Through "KANZ", the bank offered its customers the chance to win cash prizes exceeding KD 2.3 million – with an annual prize draw of a whopping KD 1.5 million. The bank also introduced a branch-specific draw, a first in Kuwait.

"Al Rateb" was launched targeting a younger segment of the population. This account offers 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 executed the roll-out of these products with a tailored marketing approach to communicate and connect with its customers better.

Reimagining Banking Through Digitalisation

Burgan Bank is focusing on delivering a superior and seamless customer experience through a unique digital value proposition, scalable architecture and a cost-efficient business model.

Key Pillars of our Digital Strategy

- Reinvent Consumer Journey
- Omni-Channel Adoption
- "Open" Banking
- Data Strategy, Infrastructure & Analytics
- Build a Digital Driven Organisation

Transforming customer experience in Kuwait

- Burgan Bank Kuwait made strong progress in its digital proposition to improve customer experience, upgrading the user interface, facilitating the application process for accounts, loans and credit cards, introducing a personal finance tool to track budgets and spending.
- Other highlights included the ability to update Know Your Customer (KYC) details digitally, to make fast international remittances to more than 25 countries.
- The launch of a Cash Management Solutions (CMS) platform to corporate customers, enabling them to carry out banking transactions on the move.

Success is reflected in strong customer satisfaction ratings, including being the **highest rated Kuwaiti banking app in Apple's App Store and Google Play.**

Initiatives to encourage customer migration to digital channels included marketing campaigns and sales activities, appointing digital ambassadors in branches, easier access to enable mobile app downloads, and the launch and promotion of a QR code across mobile phone operating systems.

Kuwait Metrics

Active digital users
60K

Year-on-year growth in active digital users
+38%

Award-winning digital banking platform in Turkey

ON

ON: won the "Best Digital Banking Platform" in the Best Digital Bank Awards 2022 organised by Global Finance

Launched in October 2021, Burgan Bank Turkey's new generation digital bank ON achieved significant success in a short period of one year. This success has been confirmed with the selection of ON as the "Best Digital Banking Platform" in the Best Digital Bank Awards 2022, organised annually by the Global Finance Magazine and rewarding the most successful banking services.

Thanks to the end-to-end digital customer acquisition processes, strong marketing activities and constantly developing dealer network and partnerships, the number of ON customers reached 350,000 since October 2021.

ON, which appeals to "everyone and every amount of savings", continued to make consumers' lives easier during 2022. The 5 stars awarded to ON mobile by 5,164 out of 7,010 customers indicates the rapid market success of this innovative platform.

The first anniversary of "ON"
ON has celebrated its first anniversary in October 2022. The celebration activities of ON took part in digital media, radio and TV channels through advertisements. On the occasion of ON's birthday, a lottery was held among customers where the winner won a BMW car.

Burgan Bank Turkey (BBT) has acquired 165K additional digital customers in 2022 and the total digital customer number reached 350K where the recent daily customer acquisition run rate is more than 1,000 and is increasing very fast.

Turkey's "ON" Metrics

New customer acquisitions
+89%

Loan volumes
+962%

Term deposit volumes
+159%

Investing in Our Human Capital

Burgan recognises that attracting, developing and retaining top talent are the key drivers of its success.

Burgan Cares

This programme encourages staff to pursue their academic degrees to progress in their careers. Staff who hold diplomas and who have graduated from High School can apply to be sponsored by the Bank to complete their undergraduate academic education – and to help them optimise their career growth opportunities. The Bank sponsored ten talented employees as a part of this initiative in 2022.

Retail Academy

This programme is designed for Retail Banking staff to provide them with technical and operational knowledge, along with the leadership skills to contribute to the retail business.

In line with this goal, our Learning & Talent Development (LTD) team has created a Retail Academy widget:

- **Discover & Learn:** Designed to engage the millennials with bite-sized e-learning videos to make learning fun and interactive. These are developed in-house by our highly talented employees and deployed through various media and digital channels.
- **Learn & Reflect:** This feature allows users to gain practical experience from real case studies of incidents and experiences from staff in branches.
- **Self-Learn:** Deployed through the learning hub and contains a mix of technical and power skills, as well as e-learning programmes designed to equip retail staff with the specific skill set required for their job role.

Another innovative concept under the Retail Academy is the 21-Day Challenge. This tool assesses the effectiveness by measuring staff achievements over 21 days – based on the concept that it takes a person 21 days to form a new habit. The employees who generate the highest number of sales are awarded trophies and badges.

Innovation Lab

This programme is designed to build a culture of innovation by providing people with the opportunity to come up with ideas to enhance products, services and processes through a dedicated innovation hub and regular workshops.

The idea was conceptualised by a team of five "Burganers" from the Ro2ya talent programme, endorsed by management and brought to life with the support of the HR LTD team. The Innovation Lab was launched with two main channels to suggest new innovative ideas.

- Innovation Lab room – a space where staff are provided with different tools to stimulate their creativity and boost their critical thinking.
- HR LTD portal – a dedicated widget is provided for all staff to submit their innovative ideas.

An "Innovation Lab comes to you" station will be set up very soon on every floor of the building and a "winning floor" will be selected every quarter.

Ro2ya 1 and 2 Innovation Challenge graduates will become mentors and will be an essential part of the committee that guides future innovators.

Strategic Report
Business Review

Burgan Bank Kuwait Review

Raed Abdullah Al Haqhaq
Deputy Group Chief Executive Officer & Chief Executive Officer – Kuwait

Revenue
KD 121.7mn

Operating Profit
KD 67.4mn

Net Income
KD 47.3mn

Total Assets
KD 5.5bn

"We made significant progress in executing its strategic priorities particularly in transforming Retail Banking business and enhancing digital experience for customers. It made a strong contribution to the Group's financial results in 2022."

Overview

In 2022, Burgan Bank Kuwait (BBK) predominantly focused on recalibrating its product portfolio underpinned with proactive marketing strategies, enhancing its customers', and experience while delivering on its sustainability commitments.

Performance

BBK represents 71% of Burgan Bank Group's assets and 50% of the Group's Revenue as of 31st December 2022.

In FY'22, BBK reported robust revenue levels of KD 121.7mn, supported by strong net interest income of KD 93.3mn (+9% y-o-y) due to improvement in net interest margins. Its non-interest income was lower compared to the prior year however the decline was partially offset by higher fees and commission income (+5% y-o-y).

BBK reported a net income of KD 47.3mn for FY'22 driven by stable revenue levels and significantly lower provision charges (down 59% y-o-y). During FY'22, the cost of credit fell to 50bps from 130bps reported last year.

During FY'22 BBK maintained a strong balance sheet with net loans and customer deposits of KD 3.2bn and KD 2.7bn respectively. BBK's asset quality in FY'22 also remained quite strong with a low Non-Performing Loan ratio of 1.4% and a high NPL coverage ratio of 279.2%.

Retail transformation

For many years, Burgan Bank's retail franchise in Kuwait had been underutilised. However, as part of the Bank's revenue diversification plan, it focused on rescaling the retail operation.

During FY'22, the Bank enhanced its product line, revamped its customer segmentation, built sales capacities and capabilities, and simplified internal and external processes.

These efforts yielded strong financial performance within the retail business with growth in the Assets book (+20% y-o-y) along with revenue (+25% y-o-y) and net income growth (+165% y-o-y).

To upskill its people, the Bank launched the Retail Academy which provided a customised retail central sales programmes focused on achieving the retail strategy objectives. A total of 84 staff members underwent training at the Academy in FY'22.

Going forward, the Bank intends to further cement its retail brand and continue to enhance the customer value proposition.

Digital to "core"

The Bank's philosophy is to be digital to "core" and to deliver personalised banking solutions and services to its customers. Subsequently, the Bank is committed to digitalisation across every aspect of the business.

A collaborative digital strategy made significant progress in FY'22. It enhanced its retail mobile app with new features such as eKYC, "Apply now" and "Apple pay" and also launched a secure digital cash management system (CMS) for its corporate customers.

There was also a focus on internal processes, with 30 processes automated and several new features installed on its employee app, Burgani.

Notably, the Bank has been consistently rated as the top banking app in Kuwait both on iOS and Android platforms.

Centre of Excellence

The Centre of Excellence (CoE) has been established to focus on transforming core technology and digital functions and capabilities alongside businesses to deliver value. The CoE in collaboration with the existing IT team is expected to improve execution as the Bank progressively modernises and simplifies its technology, including rationalising data centres and legacy applications, and increasing automation.

A focus of the CoE is to leverage data-driven capabilities to create value for customers from information flows.

Outlook

The Bank's strategic direction remains unchanged. It remains committed to its guiding principles of intelligent growth, prudent capital allocation and proactive risk management as well as modernisation and digitalisation of the business, with a clear objective of meeting customers' and shareholders' expectations.

Strategic Report
International Operations Review

Burgan Bank Turkey Review

Ali Murat Dinç
Chief Executive Officer, Burgan Bank Turkey

Revenue
KD 57.8mn

Operating Profit
KD 37.6mn

Net Income
KD 4.6mn

Total Assets
KD 1.0bn

"In 2022, we achieved strong financial results with our effective asset, liability and risk management, while continuing to invest in technology and digitalisation."

Performance

In 2022, Turkey experienced a volatile macro environment including a significant hike in inflation, depreciation in local currency (LC) and policy rate cuts reaching single digits. In this tough and complex environment, BBT continued to contribute to the shareholders' results by delivering strong financial performance. During the year, the Bank focused on growing its LC loans, increasing its revenues, improving efficiency and asset quality as well as expanding its digital transformation and customer base.

As of year-end, BBT's contribution to Burgan Bank Group asset base was 13%, while it contributed to 7% of Group's net income.

BBT's total equity base improved mainly driven by net profit and hedge transactions which also increased BBT's book value and supported its capital base.

For FY'22, BBT's revenue levels increased by 250% y-o-y in LC terms, driven by growth in both net interest income and non-interest income through higher margins, a growing portfolio, further optimised balance sheet structure, asset liquidations and increased customer penetration.

During FY'22, operating expenses were higher predominantly driven by heightened levels of inflation in the country. However, due to high revenue levels and positive JAWs, cost to income ratio declined from 53% in FY'21 to 35% in FY'22. Consequently, operating profits in FY'22 were 387% higher (in LC terms) than the last year.

As a result, net income in FY'22 was TRY 281mn (or KD 4.6mn) as compared to a loss of TRY 268mn (or KD 7.8mn) last year. This performance was after taking into consideration the IAS 29 (hyperinflation) accounting impact of TRY 1.5bn (or KD 24.6mn). Furthermore, BBT holds a substantial amount of provision in its balance sheet which is provided as a precaution for event risks in the future period.

In FY'22, BBT's loan book grew 40% y-o-y in LC terms maintaining its focus on growing TRY portfolio. Deposits, which remained the main source of funding, grew by 55% y-o-y LC terms through expanding the customer base with significant contribution from digital banking. Besides, BBT also invested in bonds with floating yields in order to better manage its asset portfolio against volatility in market conditions while diversifying income base. BBT's asset quality significantly improved in FY'22. NPL ratio continued to decrease successively in two years from 2020 to 2022. By 2022 year-end, NPL ratio decreased to 4.2% where the improvement was due to very limited NPL inflow and strong collection performance.

BBT also completed a capital increase of USD 50mn to support its businesses while improving solvency ratios under volatile market conditions.

On top of the Bank's strong performance, BBT has been awarded «1 Star Happy Place to Work» certificate, thanks to our people-oriented approach.

Burgan Leasing is also awarded as "Turkey's 2nd Most Admired Leasing Company in 2022" by leading economy magazine Capital.

Sustainability

Developing its sustainability performance in environmental, social and governance areas, Burgan Bank aims to transition to a low-carbon world by adopting sustainable finance. In 2022, the Bank started to take the necessary steps to avoid financing that may cause unacceptable effects on people or the environment in all credit evaluations and to implement processes such as the creation of a sustainability strategy and the establishment of a governance system.

Outlook

BBT holds a positive outlook for the future thanks to the solid and uninterrupted support of its shareholders. The Bank will continue to provide "safe, comfortable and profitable" financial services to meet the changing demands and needs of its customers in the coming periods.

Gulf Bank Algeria Review

Rabih Soukarieh
Chief Executive Officer, Gulf Bank Algeria

Revenue
KD 35.1mn

Operating Profit
KD 17.6mn

Net Income
KD 8.6mn

Total Assets
KD 707mn

"We look ahead to 2023 with optimism and confidence. We will continue to challenge ourselves to better serve our clients, and contribute to the further modernisation of the Algerian banking sector, in alignment with the directives of regulatory bodies and public authorities."

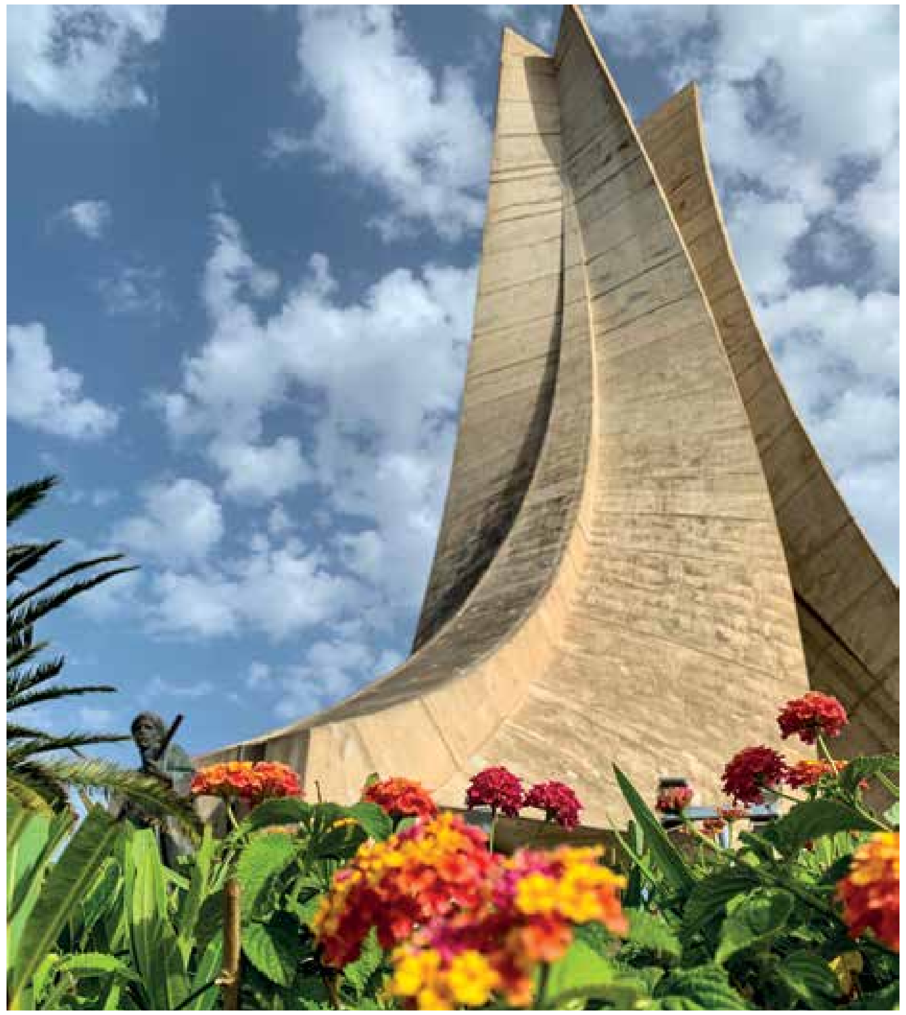
Performance

During FY'22, AGB contributed 9% of Burgan's assets and 13% of the Group's net income. AGB delivered resilient results despite regulatory and macro challenges by focusing on volume growth and attracting new customers. AGB's revenues grew by 1% y-o-y to KD 35.1mn in FY'22, supported by higher net interest income of KD 28.1mn (+2% y-o-y). AGB delivered strong bottom-line of KD 8.6mn, driven by higher revenues and lower provision charges. During FY'22 AGB maintained balance sheet growth momentum with increases in customer loans of KD 424mn (+5% y-o-y) and customer deposits of KD 578mn (+7% y-o-y). AGB's asset quality in FY'22 also improved with low Non-Performing Loan ratio of 2.4% (-20 bps y-o-y).

Digitalisation

AGB is one of the market leaders in electronic services and is recognised as a major player in the digital banking space in Algeria. During FY'22, AGB focused on digitalising some of its key operations such as card order, card blocking, PIN issue, chargeback, and cancellation with no customer need for branch interaction. It also acquired digital kiosks for self-service branches to provide customer access to key services such as e-banking solutions, contacting customer care, printing of account statements, etc. Moreover, AGB launched AGB Online service on iOS.

AGB also upgraded its intranet platform AGByCLIC to enhance communication and facilitate sharing documents/procedures within the Bank.



CSR Initiatives

AGB has always believed in giving back to the society through direct and indirect contribution. Some of the noteworthy CSR activities in FY'22 are mentioned below:

- On the occasion of the Eid al-Fitr, AGB offered donations to the NESS EL KHIR Foundation to purchase and distribute clothing for underprivileged children.
- For the third consecutive year, AGB has organised a blood drive on the occasion of World Blood Donor Day.
- AGB continued its support to various charitable associations which are active in Algeria.
- AGB sponsored BOUFARIK Sports Association for the disabled, a Wheelchair Basketball team that participates in several competitions at the national level.

AGB Towers

AGB officially inaugurated its new two-tower 25 floor head office, which has become a signature landmark in the capital. This new building is the first smart building in Algeria and has been developed as per sustainable design philosophy.

Outlook

AGB is well equipped to continue its growth trajectory and deliver its strategic initiatives to meet shareholders' ambitions. Digitalisation remains a key focus area for the Bank.

Strategic Report
International Operations Review

Tunis International Bank Review

Mohamed Fekih
Chief Executive Officer, Tunis International Bank

Revenue
KD 6.7mn

Operating Profit
KD 4.5mn

Net Income
KD 2.5mn

Total Assets
KD 133mn

"2022 is a special year for TIB celebrating 40 years of continuous, steady, sustained progress and success confirming our leading role in the Tunisian Non-Resident Banking Sector. The Bank continues to provide innovative customer services."

Performance

During FY'22, TIB contributed 2% of Burgan Bank Group's assets and 4% of the Group's net income.

FY'22 was a really strong year for TIB driven by higher volumes and yields on its bonds portfolio along with higher dividends from its investment portfolio.

In FY'22, TIB reported significantly higher revenue levels of KD 6.7mn (+39.5% y-o-y) driven by increased net interest income of KD 3.1mn (+15.3% y-o-y) and improved non-interest income of KD 3.6mn (+70% y-o-y). TIB's operating expense and provision charges were lower in FY'22, by 3% y-o-y and 30.5% y-o-y respectively, resulting in a strong bottom-line result of KD 2.5mn (+78.7% y-o-y).

TIB also reported solid growth in loans and advances as well as its deposit base in FY'22. Its loan book (including OFI's) increased by 34.5% to reach KD 55.9mn while its deposits base improved by 13.2% to reach KD 64.8mn.

During FY'22 TIB's asset quality remains very strong with NPL ratio of 0.3% (-10bps y-o-y) and NPL coverage of 13x.

Digitalisation

As a part of its digitalisation efforts, TIB automated several manual processes while maintaining adequate security. In the long term, TIB aspires to develop an omni-channel platform and set up a global workflow for desktops' virtualisation. It also plans to further enhance its cyber as well as IT security systems.

CSR Initiatives

During FY'22, TIB made several positive contributions to society supporting education, health, sport, cultural activities and families in need as part of its CSR initiatives.

Outlook

TIB expects to maintain growth in its syndicated loan book as well as corporate lending portfolio. TIB's revenues and profitability are also expected to be higher driven by increased margins, better return on investment book as well as lower expenses and credit costs.

Strategic Report
International Operations Review

Bank of Baghdad Review

Basil Husamuldeen Shakir
Chief Executive Officer,
Bank of Baghdad

Revenue
KD 22.5mn

Operating Profit
KD 16.3mn

Net Income
KD 4.8mn

Total Assets
KD 342mn

"Despite the difficult operating conditions, Bank of Baghdad recorded an impressive 182% growth in net income and double digit return on equity of 14%. This figure ranks Bank of Baghdad among the top performing banks in the region."

Performance

During FY'22, BoB contributed 5% of Burgan Bank Group's assets and 7% of the Group's net income.

BoB's financial results for FY'22 were the highest of any private bank in Iraq. Its revenues during the year stood at KD 22.5mn which was 33% higher than last year. This solid performance was driven by increased net interest income of KD 7.1mn (+160% y-o-y) and growth in non-interest income to KD 15.4 (+8% y-o-y).

BoB's cost to income ratio was 27.8% in FY'22, reflecting an improvement of 5% y-o-y driven by higher revenues and cost efficiencies. BoB's provision charges reduced by 22% in FY'22 and accordingly its cost of credit also declined quite significantly.

Given these improvements, BoB's net income came in at an exceptionally strong KD 9.2mn (BB's share of the profit was KD 4.8mn) which was exceptionally higher by 182% y-o-y.

Update on BoB's Sale

BoB continued to be classified as a "Held for Sale" asset in BB Group's financials for FY'22. Burgan Bank Group received formal approval from Central Bank of Iraq for the sale of its stake to Jordan Kuwait Bank on 13th January 2023. The sale of shares and transfer of ownership was executed and completed on 23rd February 2023.

This sale is in line with Burgan Bank's pursuance of strategic asset reallocation and shall improve Burgan's financial metrics, with protection of its NPL ratio by avoiding an increase of 60 bps and with improvement in its capital ratios by 70 bps.

Strategic Report
Financial Review

Group Financial Review

Khalid Fahad Al Zouman
Group Chief Financial Officer

Revenue
KD 232.1mn

Operating Profit
KD 125mn

Net Income
KD 52.1mn

Total Assets
KD 7.2bn

"During 2022, the net income increased by 15% y-o-y supported by higher net interest margins and lower cost of risk."

Performance

It was a year where geopolitics once again dominated global markets – whether related to the Russia and Ukraine war, the ongoing uncertain global economic outlook, monetary tightening policies by central banks or rising inflation, which was particularly prevalent in advanced economies. However, against this background, the GCC economies, including Kuwait, continued to exhibit positive sentiment backed by higher oil prices.

Despite the geopolitical turmoil and hyperinflationary accounting (IAS 29) losses of KD 24.6mn on the Turkish subsidiary, Burgan Bank succeeded in delivering a full-year net income of KD 52.1mn. This represented an increase of 15% over the year 2021 – mainly driven by higher net interest income of 15% y-o-y growth and lower cost of risk of 69.8% y-o-y.

Net interest income increased by 15% to KD 147.5mn from KD 128.2mn in 2021 as a result of a 30 bps improvement in the net interest margins, which grew to 2.4%.

Fees and commissions income were 16% higher than the previous year reflecting strong contributions across different lines of business. During 2022, overall revenues of the Group remained stable at KD 232.1mn.

Operating expenses increased by 13%, to KD 107mn due to the inflationary environment and higher costs associated with ongoing investments in the digital banking platform. The cost-to-income ratio stood at 46.1% for the year.

Total credit provisions charge reduced significantly to KD 25.3mn, from KD 84.6mn for the previous year, resulting in a lower cost of risk of 0.6% in 2022 as compared to 1.9% in 2021.

International operations contributed a healthy 50% and 30% to the Group's revenue and net income respectively.

In terms of asset growth, the Group continued its prudent growth strategy of focusing on Kuwait and maintaining a cautious growth approach in international businesses. In 2022, Kuwait's loan book contributes 76% of the Group's total loan book.

The Bank's focus on retail franchise growth is paying off. Kuwait's retail loan grew by 22% y-o-y and CASA deposits as a proportion of total deposits increased to 36% in 2022 from 32% in 2021.

The Bank's non-performing loan ratio for the year-end 2022 marginally increased to 1.9%, from 1.7% reported for the year-end 2021. The loan loss coverage ratio without considering collateral remains strong at 206% in 2022.

Capital ratios remained well above the required regulatory ratios. Burgan's Common Equity Tier 1 ratio stood at 10.8% and its Capital Adequacy Ratio stood at 16.8%, as compared to the regulatory minimum ratios of 9% and 12.5% respectively.

The Group continues to enjoy high liquidity levels with a liquid coverage ratio (LCR) and net stable funding ratio (NSFR) of 151.2% and 110.1% respectively as of 31 December 2022, which were well above the minimum regulatory requirements of 90%.

The Board is recommending a cash dividend of 8 fils per share in addition to 5% bonus shares for shareholders' approval at the 2022 Annual General Meeting.

Outlook

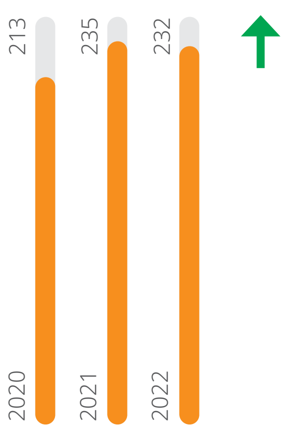
The Middle East has defied global inflationary pressures and has been the fastest-growing region globally this year. This relative outperformance is expected to continue in 2023 and the Group is optimistic that it will continue to strengthen its position in its key markets. The core metrics of the business are trending in the right direction. The Bank will focus on restoring loan growth and will increase the pace of its digital transformation to deliver customer value and organisational efficiencies.

Our Strategy Supports Our Ambition

Revenues

Commentary
Burgan's revenue levels remained stable, driven by improved net interest income in Kuwait (+9% y-o-y) and Turkey (+60% y-o-y) and supported by higher fees and commission income (+16% y-o-y) despite a drop in investment income.

KD 232mn

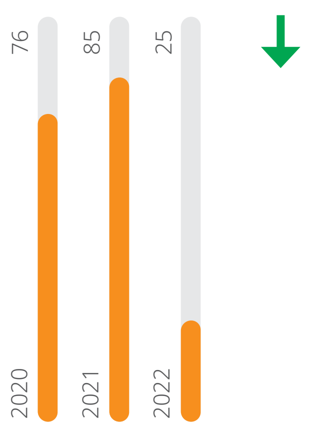


Outlook
Burgan's revenue levels shall remain strong, driven by expected pickup in net interest income, reflecting the full impact of 2022 rate hikes and also the expected hikes in 2023. Recessionary expectations and unexpected increases in Cost of Funds could have a negative impact on the topline levels.

Provision Charges

Burgan's provision charges reduced steeply by 70% y-o-y, due to the improving operating environment in Kuwait and better credit quality in Turkey. As a result, CoC improved by 130 bps y-o-y to 60 bps.

KD 25mn

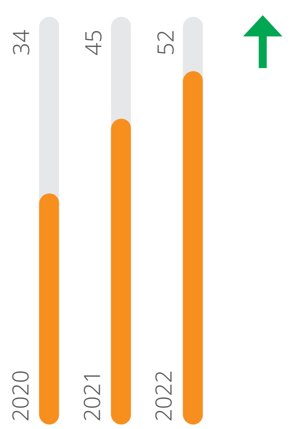


Burgan expects credit costs to remain around these levels in the near term. However, rising recessionary fears could increase provisioning requirements for the banking sector.

Net Income

Burgan's net income improved 15% y-o-y due to higher interest margins and considerable improvement in credit costs.

KD 52mn



We expect to realise growth in net income if our expectations on margins and credit costs are realised. The Bank has plans to add more revenue streams.

Net Interest Margin (NIM)

Burgan's NIMs increased by 30 bps y-o-y mainly due to the rate hikes in Kuwait and higher margins in Turkey, due to better spread on TL portfolios.

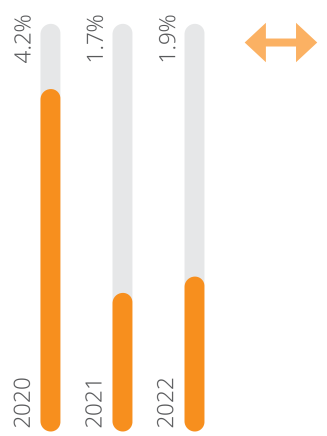
2.4%

We expect further rate hike actions by Central Banks especially in the first half of the year. If we see similar hikes by CBK, Burgan's margins should show some improvement. Also, continued improvement in BBT's asset quality are expected to contribute positively to Burgan's margins.

Non-Performing Loans Ratio (NPL)

Burgan maintained the Group's NPL ratio below 2% underscoring its strong asset quality, supported by low NPL levels in Kuwait (<1.5%) and improvement in BBT's NPL ratio (lower by 250 bps y-o-y).

1.9%

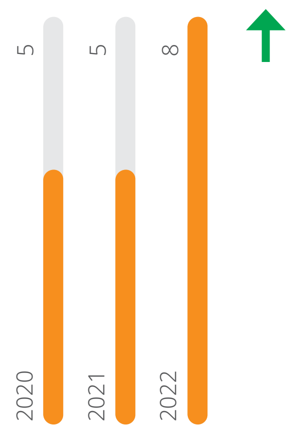


Burgan expects its NPL ratio to remain low, unless there is deterioration in credit quality of our domestic or international portfolio in light of growing recessionary fears.

Dividends Per Share (DPS)

Burgan's proposed dividends of 8 fils/share in 2022 is much higher than the past two years (growth of 60% y-o-y).

8 fils/share



Burgan expects to pay healthy level dividends while maintaining requisite balance between optimal regulatory capital ratios and competitive dividend payout.

Our ESG Highlights

Our ESG strategy and focus areas are guided by the leading international standards, including the Global Reporting Initiative (GRI) Standards and the Sustainability Accounting Standards Board (SASB), and they are aligned with the United Nations' Sustainable Development Goals (UNSDGs). The Bank also considers the priorities of Kuwait Vision 2035 and Boursa Kuwait. The Bank adopts a four-pillar ESG strategy to achieve its sustainability related goals.

Endorsing Ethical Practices and Transparency

Focus areas

- **Anti-corruption**
- **Business integrity**
- **Non-discrimination**
- **Regulatory compliance**
- **Diversity and Equal Opportunity**

- Pioneering the launch in Kuwait of digital salary certificates for staff and launch of a new staff rewards store.
- Reinforced the commitment to diversity and inclusion as reflected in the Partners to Hire programme which focused on recruiting talented people with disabilities.
- Continued focus on ethical business practice with periodic training of employees and Board members on ethics, regulatory and data privacy requirements.
- Well-diversified workforce with women comprising 47% of staff and an ongoing drive to develop female leadership.

16 PEACE, JUSTICE AND STRONG INSTITUTIONS
17 PARTNERSHIPS FOR THE GOALS

Responsible Banking and Financing

Focus areas

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

- Fortified our cyber infrastructure through a set of initiatives:
  - the implementation of a Data Leak Prevention (DLP) tool;
  - the formation of a Cyber Security Incidents Response Team (CSIRT);
  - the implementation of a Tripwire FIM tool for monitoring and alerting on specific file changes; and
  - compliance with SWIFT customer security, ISO 27001 ISMS and PIMS.
- Supported the national "Let's Be Aware" Diraya campaign to promote financial awareness and drive financial literacy. The Bank published educational material and awareness content across its social media platforms and digital channels, as well as through direct engagement with the public at job fairs and events.
- Sponsored the 9th e-Government Forum (EGOV9) as part of the Bank's efforts to contribute to technology-focused development in Kuwait.

5 GENDER EQUALITY
7 AFFORDABLE AND CLEAN ENERGY
8 DECENT WORK AND ECONOMIC GROWTH
10 REDUCED INEQUALITIES
17 PARTNERSHIPS FOR THE GOALS

Minimising Environmental Impact

Focus areas

- **Energy consumption**
- **Waste management**
- **Supplier environment assessment**

- Minimise the Bank's environmental footprint through the ongoing transition to resource-neutral operations, managing resource consumption responsibly and improving energy efficiency.
- Ensuring that no hazardous waste is generated and that all the electronic waste is recycled through collection and sale to authorised dealers.
- Implemented a bank-wide recycling initiative to ensure proper disposal of all unnecessary papers and documents.
- Installation of LED lighting system and motion sensors throughout the Head Office to save energy during and after office hours.
- Plans to implement a solar-powered system at the Head Office and charging stations for electric vehicles to encourage eco-friendly practices.

7 AFFORDABLE AND CLEAN ENERGY
12 RESPONSIBLE CONSUMPTION AND PRODUCTION

Positive Community Impact

Focus areas

- **Training and education**
- **Employee satisfaction**
- **Customer experience**
- **Kuwaitisation**
- **Corporate Social Responsibility**
- **Supplier social assessment**

- Active champion for building a strong sports culture in Kuwait:
  - on-going partnership with World Wheelchair Fencing Champion, Tareq Al Qallaf;
  - partnered with the Kuwait Olympic Committee to support five Kuwaiti athletes;
  - sponsored the Kuwaiti Equestrian Federation League for the 2021–22 and 2022–23 seasons; and
  - sponsored the first under-18 football league for young women and the Sheikh Nasser Sabah Al-Ahmad Prize for Best Domestic Athlete.
- Focus on promoting arts and culture in Kuwaiti society as part of the Bank's social responsibility:
  - renewed sponsorship of Ahmadi Music Group (AMG) covering the Group's spring season performances;
  - sponsored two major musical events – the Omar Khairat and the Ayoub Sisters concert; and
  - sponsored Dar Al Athar Al Islamiyyah's 27th cultural season featuring lectures, cultural events, musical concerts and classical theatre productions.
- To demonstrate the Bank's commitment to women's empowerment, it lit up its Head Office in pink to commemorate breast cancer awareness month and participated in the United Nations (UN) "Orange the World" campaign to end violence against women.
- Continued to invest in employees' welfare to drive performance excellence with health initiatives covering breast cancer, prostate cancer and diabetes awareness and prevention campaigns – as well as wellness programmes in partnership with local hospitals.
- Ongoing commitment to develop its people and build career paths for employees with flagship programmes such as Ro2ya for the development of leadership skills, the Retail Academy for retail bankers and Burgan Cares to support further education and career growth for Kuwaiti nationals.

4 QUALITY EDUCATION | 8 DECENT WORK AND ECONOMIC GROWTH | 16 PEACE, JUSTICE AND STRONG INSTITUTIONS | 17 PARTNERSHIPS FOR THE GOALS

2023 ESG Focus

Establishing Governance structure for oversight of policies, procedures and implementation in line with best practices.

Developing a framework to effectively assess the environmental and social footprint of the suppliers, and improving water and waste management.

Strong focus on improving digital transactional banking services and increasing e-banking customers through various planned initiatives.

Strengthen data security and privacy; implement corrective measures; and provide data handling and security awareness training to all employees.

Focus on consumer financial protection by continuing to restrict any unethical lending practices or mis-selling financial products including the development of a standalone debt collection policy.

Continuous push to enhance diversity with targets to increase the number of female employees and establish specific initiatives for women's empowerment.

Reducing carbon footprint by increasing awareness through the launch of "virtual cards", replacing current plastic cards with recyclable material.

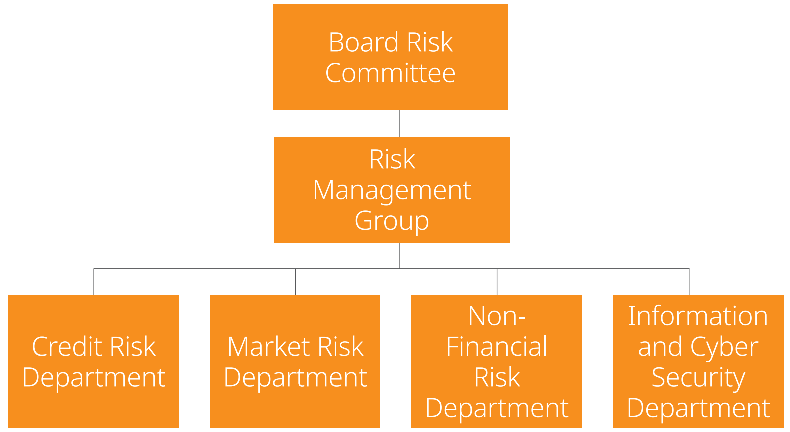
Our Risk Management

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. Risk exposures are identified, evaluated and managed to ensure that they remain within the Bank's risk appetite.

Risk Management Framework

Board of Directors	**Responsible:** The Board has ultimate responsibility for supervising the execution of the Bank's business strategy and the related 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 GCRO and the Group Risk Management.
1st Line of Defence: Business Units	**Ownership:** As the 1st Line of Defence, 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:** As the 2nd Line of Defence, Group Risk Management independently monitors, reports, provides oversight, escalates breaches, and advises 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:** As a 3rd Line of Defence, 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.

The Bank has an independent Risk Management Group (RMG) which is headed by the Group Chief Risk Officer (GCRO) who reports directly to the Board Risk Committee (BRC). The BRC reports to the Board of Directors, which is ultimately responsible for supervising the execution of the Bank's business strategy and the related risk strategy and risk appetite.



Progress achieved in 2022

The risk management team implemented several initiatives while upgrading its risk management and controls framework. Major achievements included:

- Integrated three departments – Business Continuity, Credit Control (CCO), and Treasury Middle Office with Risk Management.
- Implemented risk culture across the Bank:
  - Communicated risk themes through awareness messages on media channels and organised risk competitions.
  - GCEO and GCRO video message to staff on the Bank's risk culture roadmap.
  - Embedded risk values into Burgan's Vision, Mission and Strategy.
  - Bank-wide pre- and post-assessment survey of the risk culture.
- Successfully implemented risk appetite tool enhancements.
- Finalised transition from Moody's Rating Analyst (MRA) tool for corporate customers rating to CreditLens.
- Continued risk oversight of the subsidiaries such as performing risk reviews, coordinating risk projects, compiling risk reports and maintaining risk systems.
- Developed risk conduct framework document and risk culture workshops.

Principal Risks and Mitigants

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

	Mitigants	Progress Achieved in 2022	
Credit Risks This includes default risk of clients and counterparties.	• 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 guidelines.	• Implemented electronic filesharing 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 This includes interest rate, foreign exchange, liquidity and asset price risks.	• Variable interest rate transactions to minimise mismatches. • Regular reviews of risk models to adapt to changes in macroeconomic data.	• 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 This covers all the other risks that the Bank is facing such as operational risk (the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events), fraud risk, ESG, third party risks, business continuity and resilience.	• 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. • The Bank has a consistent and organised approach to identify, capture, analyse and report the operational losses.	• Revised Operational Risk Assessment Methodology implemented in operational risk reporting system.	• Executed RAF Mobile OTP & Mobile Access enhancements. • Completed Business Continuity and Call tree tests.
Information and Cyber Security Risks This includes risks of misappropriation of information and data.	• Comprehensive Fraud 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 defences, led by robust controls to mitigate advanced cyber threats.	• Implemented SWIFT Customer Security Programme. • Secured ISO 27001 ISMS & PIMS certification. • Implemented Data Leak Prevention (DLP) and Tripwire FIM tool for monitoring and alerting on specific file changes on a range of systems.	• AlgoSec Firewall Analyzer for delivering visibility and analysis of complex network security policies.

Our People

The Bank's greatest asset is its people. Through their dedication, quality and collaboration, they are the engine that drives the Bank to deliver excellent customer service, generate long-term value for shareholders and contribute to our community. The Bank is committed to investing in developing and supporting its people to develop their careers in a professional, diverse environment in which they can excel.

"The Bank continues to expand the digitalisation of HR services to its employees by enhancing and improving Burgani, the HR mobile app, which offers many features such as employee self-service, onboarding for new joiners, internal recruitment opportunities, employee recognition tool, employee offers and announcements."

Learning & Talent Development (LTD)

The Bank is committed to investing in a learning culture to provide employees with innovative learning opportunities to help them develop skills and capabilities for greater flexibility in their work.

Instilling our culture is a continuous process and training plays an important role in the cultural transformation within the Bank. To create risk awareness, a risk culture project was implemented with interactive competitions and recognition to encourage employee participation. This led to a "family of risk champions" across the Bank to ensure the spread of the risk culture at grass root level.

To accelerate integration, new hires undergo a robust orientation programme which focuses on soft skills. The Bank is focused on developing a high-performing leadership pipeline and career planning for our next generation of leaders through our "Leadership Signature" programme and our flagship "Ro2ya" programme.

Diversity and inclusion

The Bank firmly believes that embracing diversity and building inclusion is key to driving its success and to contribute meaningfully to the communities it serves.

There is a strong focus on empowering women, ensuring that women are treated with respect, equality and paid deservedly. Female employees account for 47% of the workforce – one of the highest among banks in Kuwait.

The Bank has several programmes dedicated to empowering women including Global Women Leadership: Empowerment & Transformation, Getting the Job Done, EQ Women In Leadership and Women Empowerment. Around half (49%) of new employees in 2022 were female and 47% of staff promoted during the year were female. Women also made up 40% of the Bank's future leaders' programme Ro2Ya.

As part of the Bank's commitment to inclusion, it took part in the career forum organised by the Public Authority for Disability Affairs, aimed at actively supporting people with disabilities in Kuwait to integrate within the Banking sector.

The Bank continues to expand its pioneering philosophy and equality practices, with equal treatment for male and female employees on all remuneration components and benefits such as airfare, education assistance, health insurance and parental leave.

Digitalisation initiatives

The Bank continues to expand the digitalisation of HR services to its employees by enhancing and improving Burgani, the HR mobile app, which offers many features such as employee self-service, onboarding for new joiners, internal recruitment opportunities, employee recognition tool, employee offers and announcements.

As a pioneering initiative, Burgan Bank was the first in the local industry to offer digital salary certificates to its employees in line with global digital advancements.

The Bank has also digitalised the employee learning experience with the introduction of the "My Learning" app which empowers employees to learn (on-the-go) without being limited to learning during regular working hours.

80%
Kuwaitisation

47%
Percentage of female employees

Figures are for Burgan Bank Kuwait.

"The Bank also recognises the importance of mental health, and continues to provide support on stress management and meditation – as well as awareness sessions on breast cancer, prostate cancer and diabetes."

Kuwaitisation

Burgan Bank is cognisant of the fact that attracting and retaining top national talent is crucial to the country's long-term development goals. Its workforce comprises 80% Kuwaiti employees which is the result of a targeted strategy of hiring local talent across all levels as well as dedicated leadership and development programmes for our nationals. 93% of the Bank's recruits in 2022 were Kuwaitis; 88% of the total staff promoted to higher jobs in 2022 were Kuwaitis.

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 enable Kuwaiti employees to participate in leadership, strategy, management and technical programmes in preparation for their future leadership roles.
- 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.
- Partnership with the American University of Kuwait's Centre for Continuing Education including targeted technical and leadership programmes for Kuwaitis.
- Dedicated one-to-one tailored coaching opportunities with an external coach for our Kuwaiti talent in the succession planning pipeline.

Performance and recognition

A pay-for-performance approach strives to recognise and reward performance with competitive and fair pay. Burgan Bank participates in periodic salary surveys through Kuwait Banking Association and takes relevant measures to align its remuneration to market best practices. The Bank revised the benefits of its employees to maintain a competitive edge in the market to attract local talents with the best compensation schemes.

The Bank's employee performance review process provides robust, timely and actionable feedback to facilitate professional development. In 2022, a unified digital balanced scorecard for all levels of employees with specific function-based KPIs was launched to instil an improved performance culture.

Building an engaged workforce

The Bank encourages open, honest feedback from employees to formulate future strategy and its implementation.

The Bank's commitment to facilitating a positive and engaging work environment that serves its employees' needs inspired the launch of the new mobile Rewards Store app that is available to all employees.

The Human Resources team launched the HR business partnering initiative to enhance engagement and understand the business needs to be a change agent in the organisation.

In 2022, the Bank conducted several surveys covering organisational culture, risk culture, vision and mission as well as onboarding. Response rates across all surveys were over 68%, demonstrating an engaged and communicative workforce, and this feedback has helped the Bank to continually adapt to support the needs of its employees. Communities have been established through various sports and social clubs, such as bowling, football, reading, film, and digital bulletin boards to drive cohesiveness among its employees through shared common interests.

Employee wellbeing

The Bank continues to enhance its health and wellness programmes, providing a comprehensive range of free preventive health check-ups.

The Bank also recognises the importance of mental health, and continues to provide support on stress management and meditation – as well as awareness sessions on breast cancer, prostate cancer and diabetes.

The Bank offers its male employees special leave of five working days as paternity leave which is one of the highest in the market. In addition to maternity leave of 70 calendar days to its female employees. The Bank recognises the importance of work life balance and provides generous annual leaves to enable this balance.

Total Training Hours

39,517

Female 22,244
Male 17,273

Staff Count Trained

893

Female 427
Male 466

Training Hours/Staff

44.25

Female 52.09
Male 37.07

Figures are for Burgan Bank Kuwait.

"Driven by You, for You"

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

Our Stakeholders

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, eg. 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.

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

Corporate Governance

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

Good practice of the rules of corporate governance requires establishing 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 further contributes to reducing risks.

Burgan Bank group ensures implementation of internationals best practices and codes of conduct with regards transaction of related parties (internally or externally) and avoiding all improper practices that may lead to a 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 the 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, transparent corporate governance and assurance of the quality of internal control through its audit committee. 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

On 22 June 2022, Burgan Bank held the 57th Ordinary Annual General Assembly meeting to elect members of the Board of Directors for the next three-year term (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 shareholders have elected five independent Board members with proven leadership and extensive expertise.

The Board comprises ten Non-Executive Directors and one Executive Director as elected by the General Assembly. The Board will ensure independence in actions and decisions at all times and shall comprise a sufficient number of members to allow it to form the required number of Board Committees. Election and renewal of the Board members 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 of Burgan Bank Group

Currently the Chairman of Burgan Bank since June 2022, Sheikh Abdullah Nasser Sabah Al Ahmad Al Sabah, also holds several positions such as the Vice Chairman of KAMCO Investment Co. KSC, Board member and Advisor to the Chairman – Kuwait Projects Company Holding (KIPCO) and a Board member at United Gulf Bank – Bahrain. During his time in KAMCO, Sheikh Abdullah led the organic and inorganic expansion plan of Kamco Invest, positioning it as one of the largest asset managers in the MENA region offering integrated investment solutions. Part of the expansion plan included the merger by amalgamation with Global Investment House followed by the successful integration of operations and systems.

As a Board member and Advisor to the Chairman of Kuwait Projects Company (Holding), Sheikh Abdullah has supervised the performance of the Executive Management Team and assisted the Board of Directors in reviewing goals, strategies, plans and policies. Sheikh Abdullah has also supervised the implementation of the corporate governance framework in line with the applicable laws and regulation, and ensuring the effectiveness of internal policies and the general framework for risk management on a periodic basis. He is an alumnus of the Royal Military Academy, Sandhurst, UK and has a BSc in Business Administration from the New York Institute of Technology, USA.

Sheikh Abdullah Nasser Sabah Al Ahmad Al Sabah is the Chairman of the BCGC Committee which is one of the bank regulatory required governance committees.

Mr. Masoud M.J. Hayat

Vice Chairman & Group Chief Executive Officer

Mr. Hayat has been the Group Chief Executive Officer of Burgan Bank since April 2019 in addition to his capacity as Vice-Chairman of the Board. He has been a Board member of Burgan since 2013. Mr. Hayat brings to the Board his extensive experience of 30-plus years in banking, commercial, investment, and management industries at a local and regional level. He started his career at Al-Ahli Bank of Kuwait in 1974, where he worked in various fields until he reached the post of Deputy Chief General Manager and Acting CEO in 1992. He was also advisor to the Board of Directors until 1996. Mr. Hayat has held key positions and Board memberships in the KIPCO Group since 1997 including his role as Chief Executive Officer, Banking (2010–2019).

Mr. Hayat has attended various professional local and international courses, including Leadership and Innovation in Public and Private Sectors at Harvard University (2004) and programme in Management and Finance at Wharton Business School – University of Pennsylvania – Philadelphia – USA.

Mr. Hayat is a member of the BCIC and BCGC Committees of Burgan Bank.

H.E. Abdel Karim A. Kabariti

Board member

Mr. Kabariti has been a Board member of Burgan Bank since 2004 and has 30-plus years of diversified experience in the banking, finance, investment and political sectors. Mr. Kabariti 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 – 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 Defence (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 Labour (1991–1993), and Minister of Tourism (1989–1991).

Mr. Kabariti holds a Bachelor's 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.

Mr. Kabariti is a member of the BAC Committee of Burgan Bank.

Governance
Corporate Governance Report

Board Members

Mr. Faisal M. Al Radwan
Independent, Non-Executive Board member

Mr. Al Radwan has been a Board member of Burgan Bank since 2010 and has over 30+ years of diversified experience in the banking, real estate, and investment sectors. Mr. Al Radwan was the Vice-Chairman at Burgan Bank Turkey and a Board member at Gulf Bank Algeria. Previously, Mr. Al Radwan was Deputy General Manager and Deputy Chief Executive Officer at the National Bank of Kuwait. He also served on the Board of the Bank of Bahrain and Kuwait and the Bank of Oman Bahrain. Mr. AL-Radwan holds a Bachelor's degree in Commerce and Business Administration, 1970 from Cairo University, Egypt.

Mr. Al Radwan is an independent Board member, the Chairman of the BNRC, the Chairman of BCIC Committee and a member of the BCGC Committee of Burgan Bank.

Mr. Fouad Husni Douglas
Independent, Non-Executive Board member

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

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

Mr. Douglas is an Independent Board member, Chairman of the BAC Committee and a member of the BRC Committee of Burgan Bank.

Mr. Mazen Issam Hawwa
Board member

Mr. Hawwa is a Senior Executive with over 25 years of multi-facet experience in various industries including real estate and financial services. He has been serving as United Real Estate Company (URC) Vice-Chairman and Group Chief Executive Officer since 2020 and sits on the Board of its several group companies.

Mr. Hawwa joined KIPCO Group 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 providing leadership, advice on strategic directives, financial planning, and governance.

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

Mr. Hawwa is a member of the BAC Committee, BRC Committee and BNRC Committee of Burgan Bank.

Dr. Amani Khalid Bouresli
Independent, Non-Executive Board member

Dr. Bouresli, formerly the Kuwait Minister of Commerce and the Minister of Planning and Development Affairs, has more than 30 years of experience in training, consulting and banking. Dr. Bouresli is the Chairperson of the IB Capital Board of Directors, and a Board member at the Ithmaar Bank and Faisal Islamic Bank of Egypt.

She is currently a Professor of Finance at Kuwait University's College of Business Administration. She served as a Member of the Board of Trustees at the Kuwait Transparency Association. She earned the 2018 Kuwaiti Economic Researcher Award sponsored by the Central Bank of Kuwait and the Middle East Excellence Award in business administration and economics. She is the founder of the Governance Excellency Prize.

Dr. Bouresli was the Founder and Chairperson of Capital Standards Rating Co., from 2009 to 2011; a Board member at Burgan Bank, Kuwait, from 2010 to 2011; and Head of the Capital Market Authority Project from 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.

Dr. Bouresli 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.

Dr. Bouresli is an independent Board member, Chairman of the BRC Committee and a member of the BNRC Committee of Burgan Bank.

Mr. Sager Abdullah Al Sharhan
Independent, Non-Executive Board member

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

Mr. Al Sharhan holds a Bachelor's degree in Mechanical Engineering, from the University of Kuwait, College of Engineering.

Mr. Al Sharhan is an independent Board member, and a member of the BCIC Committee of Burgan Bank.

Mr. Faisal M. Sarkhou
Board member

Mr. Sarkhou 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 with extensive experience in investment banking and asset management.

He joined Kamco in 2000 and has held several managerial positions including Head of Corporate Finance and Head of Financial Services & Investments. Earlier in his career, he was a member of the Corporate Finance Team at KPMG in Kuwait.

He sits on the board of several reputable companies, member of Advisory Boards and Executive Committees and is a prominent speaker in various investment forums.

Mr. Sarkhou holds a BSc Economics degree from the University of Birmingham, UK and an EMBA with distinction from HEC Paris, France.

Mr. Sarkhou is a member of the BNRC Committee and BCIC Committee of Burgan Bank.

Governance
Corporate Governance Report

Board Members

Mr. Michel A. Accad

Independent, Non-Executive Board member

Mr. Accad is the Executive General Manager (Group Chief Executive Officer) of BankMed and has more than 30 years of diversified experience in the banking and investment sectors.

He was the Chief Executive Officer of Ahli Bank of Kuwait from 2014 through 2019. From 2009 to 2014 he served as CEO of the Gulf Bank of Kuwait and oversaw its turnaround following the 2008 crisis and was the assistant CEO for Arab Bank PLC. Prior to that, he is a 27-year veteran of Citigroup. 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 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).

Mr. Accad holds a Master's in Business Administration from the University of Texas at Austin.

Mr. Accad is an independent Board member, and a member of the BRC Committee of Burgan Bank.

Mr. Abdullah Mohammed AlSharekh

Board member

Mr. AlSharekh currently holds the position of Managing Director of Markets & Investment Banking at Kamco Investment Co. KSC, in addition to the position of Vice Chairman at First Securities Brokerage Company KSC (Oula Wasata), both since 2020.

Prior to joining Kamco Invest, AlSharekh led the Economic & Investment team of the Hareer and Boubyan Development Agency and was Managing Director at Sharq Capital. Before 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.

Mr. AlSharekh 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 The Wharton School, University of Pennsylvania, USA.

Mr. AlSharekh is a member of the BAC Committee and BCGC Committee of Burgan Bank.

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.

Board Secretary

The Board Secretary ensures the flow of information to enable the Board to be aware of its duties and helps the Board in discharging its responsibilities effectively and continuously as well as keeping the Board abreast of relevant changes in legislation and governance best practices. Further more, they are the Board Committee Secretaries to be in line with the recommendations of the Central Bank of Kuwait. 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 coordinate between the Board of Directors and the Executive Management.

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 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. Throughout the year, the Board had several training sessions: fraud and anti-money laundering, cyber security and social and environmental governance as well as ethics and code of conduct training.

Mr. Abdullah Al Osta

Board Secretary & Corporate Governance Officer

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

Mr. Abdullah holds a Bachelor's degree in business from Grand View College, USA.

Governance
Corporate Governance Report

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 Nasser Sabah Al-Ahmad Al-Sabah	Chairman of the Board	9	2				
	Chairman of BCGC						
Mr. Masoud J. Hayat	Vice Chairman and Group CEO	12	4				34
	Member of BCGC						
	Member of BCIC						
H.E Abdulkareem Al-Kabariti	Member of BAC	11		7			
Mr. Faisal Al-Radwan	Chairman of BNRC	14	4			6	22
	Chairman of BCIC						
	Member of BCGC						
Mr. Fouad Husni Douglas							
	Chairman of BAC	14		8	4		
	Member of BRC						
Mr. Mazen Issam Hawwa	Member of BAC	8		4	2	2	
	Member of BRC						
	Member of BNRC						
Dr. Amani Khalid Bouresli	Chairman of BRC	9			2	2	
	Member of BNRC						
Mr. Sager Abdullah Al-Sharhan	Member of BCIC	9					22
Mr. Faisal Mansour Sarkhou							
	Member of BCIC	9				3	22
	Member of BNRC						
Mr. Michel A. Accad							
	Member of BRC	9			2		
Mr. Abdullah Mohammed Al Sharekh	Member of BCGC	9	2	4			
	Member of BAC						
Total Meetings		**14**	**4**	**8**	**4**	**6**	**42**

* 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 Nasser Sabah Al-Ahmad Al-Sabah **(Chairman)**	Mr. Masoud J. Hayat	Mr. Faisal Al-Radwan	Mr. Abdullah AlSharekh	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 Al-Kabariti	Mr. Mazen Hawwa	Mr. Abdullah AlSharekh	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 Bouresli **(Chairman)**	Mr. Fouad Douglas	Mr. Mazen Hawwa	Mr. Michel Accad	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)	Mr. Faisal Al-Radwan **(Chairman)**	Mr. Faisal Sarkhou	Dr. Amani Bouresli	Mr. Mazen Hawwa	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 setting performance standards and succession plans for Executive Management.
Board Credit and Investment Committee (BCIC)	Mr. Faisal Al-Radwan **(Chairman)**	Mr. Masoud J. Hayat	Mr. Faisal Sarkhou	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.

Governance
Corporate Governance Report

Board and Committee Accomplishments
This section provides examples 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 2022, the Interim Financial Information, the audited balance sheet, the profit & loss account and dividends for the financial year ended on 31/12/2021.
- 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 Bank's 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.
- Review the updated regulations, legislations and provisions related to the Bank's activities issued by the 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 2022. 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, ICAAP, liquidity ratios, 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 the Group level.
- Evaluated the Chief Risk Officer's annual performance and determined their remunerations.
- Reviewed and approved the new organisational structures of risk management and made recommendations to Board for approval.
- Pursued the development of the cybersecurity function.

Governance
Corporate Governance Report

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 2021.
- Reviewed the proposed annual training plan for the year 2022 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 2022 based on the key performance indicators and key risk indicators, discussed clawback cases for 2022 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 members and make a recommendation to the Board of Directors.
- Reviewed nominations for Board of Directors' 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 19 – Transactions with related parties, in the Annual Financial Statements. The Proposed Board of Directors' remuneration for 2022 amounted KWD 455,000.

Transactions with board members

	No. of Board members or executive staff	2022 KD 000s	2021 KD 000s
Board members*			
Loans and advances to customers	**4**	**5,777**	4,995

* Transactions with Board members include transaction with one of the Group executive staff who is also a Board member.

As at 31 December 2022, the collaterals against loans and advances provided to the board members amounts to KD 7,866 thousand.

Transactions with Related Parties

For information on related party transactions, please refer to Note 19 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 it expects all of its employees and Directors to follow. These values and standards govern employee interactions with its 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

Under 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 presented to the Board of Directors on annual basis and is 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 and internal control framework on areas of significant risk. The risk-based reviews cover Group businesses, operations, technology and other support functions. 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 the internal audit are addressed within the agreed appropriate time. The Board Audit Committee receives internal audit reports on a range of matters following the completion of its independent, risk-based assignments, investigations, or ad-hoc reviews, and meets regularly with the Group's Chief Internal Auditor. Internal audit responsibilities are carried out independently under the oversight of the Board Audit Committee. The Group Chief Internal Auditor reports functionally to the Chairman of the Burgan Bank Board Audit Committee and administratively to the CEO of Burgan Bank. Internal audit employees report to the Group's Chief Internal Auditor.

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Board of Directors,
Burgan Bank K.P.S.C,
P.O Box: 5389, Safat 12170,
Kuwait

2 June, 2022

Dear Sirs,

Report on Accounting and Other Records and Internal Control Systems

In accordance with our letter of engagement dated 15 March 2022, we have examined the accounting and other records and internal control systems of Burgan Bank K.P.S.C for the year ended 31 December 2021.

We covered the following within the Bank:

- Corporate Governance
- Investment Banking and Treasury Group
- Retail Banking Group
- Private Banking Group
- Group Corporate Communication
- Corporate Banking Group
- Financial Institutions Division
- Operations Group
- Group Human Resources and Development
- Group Legal
- Compliance Group
- Group Internal Audi
- Group Anti Financial Crime
- Group Risk Management
- Client Complaints Unit
- Group Strategy, Capital Management and Investor Relations
- Information Technology
- Strategic Financial Planning & Financial Accounting & Control Group
- International Operations Office
- Group Internal Control
- Financial Securities
- Confidentiality of Customer's Information
- Fraud Prevention

In addition to the above, we have also covered the following Banking and Financial Subsidiaries of Burgan Bank K.P.S.C:

- Burgan Bank A.Ş. Turkey
- Bank of Baghdad
- Gulf Bank Algérie
- Tunis International Bank
- Burgan Bank Financial Services Limited, Dubai
- Burgan Senior SPC Limited
- Burgan Tier 1 financing Limited
- Cayman SPV

Our examination has been carried out as per the requirements of the Central Bank of Kuwait (CBK) circular dated 19 January 2022 considering the requirements contained in the Manual of General Directives issued by the CBK on 14 November 1996, Pillar IV of corporate governance instructions in respect of risk management and internal controls issued by the CBK on 20 June 2012 and its amendments on 10 September 2019, instructions dated 14 May 2019 concerning Anti-money laundering and combating financing of terrorism, instructions dated 9 February 2012 regarding confidentiality of customer's information, financial securities activities and instructions regarding internal controls with respect to prevention and reporting of fraud and embezzlement cases.

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 mentioned in the above paragraph. The objective of this report is to provide reasonable, but not absolute, assurance on the extent to which the adopted procedures and systems are adequate to safeguard the assets against loss from unauthorised use or disposition; that key risks are properly monitored and evaluated; that transactions are executed in accordance with established authorisation procedures and are recorded properly; and to enable you to conduct the business in a prudent manner.

Because of inherent limitations in any internal control system, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the systems to future periods is subject to the risk that management information and control procedures may become inadequate because of changes in conditions or that the degree of compliance with those procedures may deteriorate.

Having regard to the nature and volumes of the Bank's operations, during the year ended 31 December 2021, and the materiality and risk rating of our findings, and the exception of matters set out in the report submitted to the Board of Directors of the Bank, in our opinion:
a) The accounting and other records and internal control systems of the Bank were established and maintained in accordance with the requirements of the Manual of General Directives issued by the CBK on 14 November 1996 and letter issued by CBK on 19 January 2022.
b) The findings raised in the examination and assessment of the internal controls do not have a material impact on the fair presentation of the financial statements of the Bank for the year ended 31 December 2021 and
c) The actions taken by the Bank to address the findings referred in the report, including previous years' findings are satisfactory.

Yours faithfully,

Qais M. Al Nisf
License No. 38 "A"
BDO Al Nisf & Partners

Governance
Corporate Governance Report

Compliance
Compliance with regulatory instructions, standards and guidelines issued by supervisory authorities is one of the most important elements for Burgan Bank Group's (BBG's) success. BBG adopts a unique compliance model in the Kuwaiti banking sector through full adherence to instructions of all regulatory authorities such as the Central Bank of Kuwait (CBK) and Capital Markets Authority (CMA), as well as the applicable laws and regulatory instructions. The group follows the best leading practices according to the recommendations of the Basel Committee on Banking Supervision's guidelines, which has a positive impact to maintain BBG's reputation and integrity regarding the interests of the shareholders and depositors and protect it from being exposed to regulatory sanctions.

Burgan Bank believes that compliance is a comprehensive and multi-faceted responsibility that lies on all parties in the bank beginning from the Board of Directors and the Executive Management to all employees in the group, each as per their assigned responsibilities and authorities.
- The compliance function is an independent department directly reporting to Board Corporate Governance Committee (BCGC) and mainly working to monitor and ensure that BBG and its subsidiaries complete the regulatory authorities' requirements and instructions for the group's various business activities.
- Evaluate and review compliance application procedures and the extent of its adherence to laws, regulatory instructions, procedures and directions issued by CBK, CMA, Boursa Kuwait and relevant regulatory entities – in addition to ensuring BBG compliance with regulatory instructions regarding combating financial crime and FATCA Law.
- Evaluate and monitor non-compliance risks to which BBG is exposed and review standards and procedures of applying compliance and ensure that they are matched and consistent with the law and instructions of the relevant regulatory authority.
- Compliance Function works as a reference inside the bank and across all departments on enquiries related to compliance with regulatory instructions and assists all departments to understand the instructions issued by regulatory entities through interpretation and clarification to ensure the proper application of such instructions.

During 2022, the Compliance Group succeeded in establishing a firm-compliance-culture among Burgan Bank Group. It plays a vital and pre-emptive role in the implementation and monitoring of the bank's compliance programme in the framework of a healthy business system to work on raising awareness – as well as performing a guiding role and awareness/training through healthy programmes and tasks to train and train all members of BB group to compliance rules related to their responsibilities in 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 the effectiveness and efficiency of operations;
- ensuring the reliability of processes of internal and external reporting;
- adhering with applicable laws, regulations and internal policies;
- adhering to the operational risk appetite of the bank; and
- Fulfilling 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 the 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 the 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; and
  - promoting internal control culture.
- Minimise regulatory observations and control gaps, fraud and loss events through focused mitigation plans and continuous controls enhancement efforts by:
  - optimising organisational effort and costs in the management of controls;
  - reviewing of controls design;
  - controlling performance reviews/testing; and
  - advising, monitoring and validating action plan implementation.

Based on Management directives, the GIC role has been enhanced with the establishment of a Fraud Detection and Analytics function within the department, to detect early warning signs of fraud, through a detailed analysis of data extracted from the 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 managing, minimising and mitigating risks 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 implements 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's 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 2022.

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 Group's 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 implemented a risk culture project in the last year and a half to raise 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 cover all the other risks that the bank is facing such as operational risk (the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events), fraud risk, ESG, third-party risks, business continuity and resilience, and cyber security risk.

The Group Risk function is organised into 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, the Board and 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 and market loss, estimation models. The Bank also has a robust 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.

Risk Management continued

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 cybercriminals are among those targeting computer systems around the world. Given the increasing sophistication and scope of potential cyber-attacks, which increased post-pandemic and with the start of the Russia and Ukraine conflict, future attacks may lead to significant breaches of security.

Burgan Bank has a multi-faceted and proactive risk-management approach to identifying and addressing 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 Department (GAFC) is an independent function within Burgan Bank Group. The department detects, prevents and reports suspicious financial crimes activities that involve but are not limited to money laundering, terrorism financing and breaches of local and international sanctions programme 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 to combating financial crimes.

The GACF 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 crime best practices and international standards.
- Investigating and reporting suspicious transactions.
- Substantiating and enhancing correspondent bank 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 not exceeding three 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 (2021 and 2022):

Shareholder	Nationality	No. of shares 31/12/2021	%	No. of Shares 31/12/2022	%
Kuwait Projects Company Holding K.S.C. (Closed)	Kuwaiti	1,134,917,586	36.24	1,161,663,465	35.33%
United Gulf Holding Company B.S.C.	Bahraini	469,873,904	15.01	493,367,599	15.01%
Public Institution for Social Security	Kuwaiti	230,086,490	7.35	245,010,446	7.45%

Remuneration Disclosure by Employee Category 2022

		Annual Remuneration Packages		
Category	No. of employees	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)	17	3,115,983	1,129,463	4,245,446
Group 2: Financial Risk & Control responsibilities Employees who handle financial supervision duties and risk supervision	5	489,142	137,093	626,235
Group 3: Material Risk Takers Employees participating in activities with risks	4	375,631	116,838	492,469
Grand Total	**26**	**3,980,756**	**1,383,394**	**5,364,150**

Notes:
- All remunerations are paid in cash
- Variable remuneration is on an estimate basis for 2022
- 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 2,138,618

Governance
Corporate Governance Report

Executive Management

Mr. Raed Abdullah Al Haqhaq

Deputy Group Chief Executive Officer and Chief Executive Officer – Kuwait

Mr. Raed Al Haqhaq has 27 years of experience in local and international banking across various businesses including corporate, retail and investment banking. He has held various executive and leadership roles in the Bank since he joined in 2000 and continues to play a vital role in executing the Bank's strategic priorities.

He has been Chief Executive Officer – Kuwait since 2018 and is responsible for the financial and operating performance of the Kuwait business. In 2019, he was additionally appointed as Deputy Group Chief Executive Officer and has the dual responsibilities of formulating strategy and executing growth plans for the Kuwait business and supporting the GCEO on the Group's strategic initiatives. Mr. Al Haqhaq is committed to making Burgan the employer of choice and building strong customer relationships based on integrity and trust.

Mr. Al Haqhaq is also the Chairman of Burgan Bank Financial Services Ltd, a fully owned subsidiary of Burgan Bank in Dubai International Financial Centre (DIFC). He began his career at the Kuwait Investment Authority (KIA) and then joined the International Investment Group, where his last role was Assistant Vice President. He holds a bachelor's degree of Science in Strategic Management from California State University, Sacramento, USA, and has attended management programmes at Harvard Business School and INSEAD.

Mr. Khalid Fahad Al Zouman

Group Chief Financial Officer

Mr. Al-Zouman joined Burgan Bank in 2000 as Head of Risk Management before becoming Chief Financial Officer in 2003. He has the overall responsibility for the strategic planning, implementation and managing the finance activities for the Group to support the Group's strategy. He is also responsible for the development and implementation of financial guidelines, controls and reporting procedures to support management in the achievement of profitable business plans while ensuring statutory and regulatory compliance.

Mr. Al-Zouman has over 34 years of experience working in financial management, both in Kuwait as well as international markets. Before joining Burgan Bank, Mr. Al-Zouman held senior financial management roles with Ernst and Young in Kuwait and the US. He is a Certified Public Accountant (CPA) from the State of New Hampshire, US and also holds a bachelor's degree in Computer Science from Kuwait University.

Mr. Robert James Frost

Group Chief Investment Banking and Treasury Officer

Mr. Frost leads the Investment Banking & Treasury function responsible for the strategic leadership of the Group function and developing a unified and robust strategy to achieve the Group's financial goals and objectives. He oversees the investment portfolios and plans and controls the trading and investment practices to ensure the accomplishment of corporate investment goals.

Mr. Frost, who joined the Bank in 2014 has over 26 years of experience in global financial markets with Macquarie Bank Ltd. where he held the position of Executive Director and Global Head of Capital Management for the Macquarie Securities Group. He holds a bachelor's degree in Economics and a bachelor's degree in Science (Mathematics) from the University of Queensland, Australia.

Ms. Halah Mohammad El-Sherbini

Group Chief Human Resources and Development Officer

Ms. El-Sherbini, who joined Burgan Bank in 2011 and has more than 27 years of experience, is responsible for leading the development of Burgan Bank Group's human capital, building a high-performance culture that continuously elevates the organisation's capabilities to deliver. Her mandate covers 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.

Before joining Burgan Bank, Ms. El-Sherbini headed the Human Resources function at Ahli United Bank and Citibank Kuwait growing from various leadership positions at Gulf Bank and National Bank of Kuwait. She is a graduate of Alexandria University, Egypt holding a bachelor's degree in English literature, a General Management Programme Certificate (GMP) from Harvard Business School, and a Professional in Human Resources (PHR) Certificate from Society for Human Resource Management (SHRM).

Mr. Venkatakrishnan Menon

Chief Centre of Excellence

Mr. Menon is responsible for the Bank's data strategy and subsequent data warehouse architecture, capability, governance and deployment. He also guides the project management discipline for major initiatives and projects and is the driver of process optimisation for operational efficiency within the organisation. Mr. Menon joined Burgan Bank in 2005 with over 37 years of experience. He has held several senior positions at the Bank, including Group Chief Operations and Technology Officer, Chief Retail Banking Officer Chief Operations Officer and led the Bank's digital transformation initiative as well, which have been instrumental in leading the Centre of Excellence function.

Before joining Burgan Bank Mr. Menon held 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 Management and a bachelor's degree in Science from the University of Bombay, India.

Mr. Mahmoud Mohamed Ezzat Moursi

Group Chief Legal Counsel

Mr. Moursi joined Burgan Bank in 2018, 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 including local and international legal affairs, corporate governance, credit recovery, disclosure and litigation while ensuring legal compliance across the Bank.

Mr. Moursi has more than 26 years of overall experience within the legal field and he has previously worked at Burgan Bank for 16 years. Mr. Moursi contributed to new Kuwait laws by serving as the Executive Director of Legal and Market Supervision at Boursa Kuwait, and later as Head of CMA Commissioners' Counsel and a Senior Counsel to the CMA. Mr. Moursi holds a bachelor's degree in Law from Cairo University, School of Law.

Executive Management

Mr. Fadel Mahmoud Abdullah
Chief Corporate Banking Officer

Mr. Abdullah joined the Bank in 1998 and has over 29 years of experience in financial markets. He leads and oversees the Corporate Banking and Financial Institutions (FI) business, ensuring it is delivered in line with the Bank's vision, mission and objectives while exploring new business opportunities. Mr. Abdullah also leads the overall process of management and corporate decision-making to maximise profitability and returns to shareholders.

He is also a non-executive board member at Burgan Bank Financial Services Limited Co., a fully owned subsidiary of Burgan Bank in Dubai International Financial Centre (DIFC) since 2015. Before joining Burgan Bank, he has worked for Al-Ahli Bank of Kuwait. Mr. Abdullah holds a bachelor's degree in Mathematical Science from Kuwait University.

Mr. Hameed Mohammad Abul
Chief Private Banking & Wealth Management Officer

Mr. Abul, who joined Burgan Bank in 2013 with over 29 years of experience in the banking and financial sector, leads and directs the Private Banking and Wealth Management Group's strategy. He is responsible for driving the profitable growth of the business, ensuring revenue potential is realised in a low-risk and cost-effective manner with a high standard of customer service and relationship management.

Before joining Burgan Bank, Mr. Abul gained extensive experience at the State Audit Bureau, Commercial Bank of Kuwait, Qatar National Bank and Kuwait and Gulf Link Holding. He is also a board member at Kuwait Oil Tankers Co., Danat Al Safat Co., Al Sham Islamic Bank and Al Safat Insurance Co. Mr. Abul holds a bachelor's degree in Accounting and Auditing from Kuwait University, in addition to a postgraduate diploma in International Banking from City University, London.

Mr. Naser Mohammad Al Qaisi
Chief Retail Banking Officer

Mr. Al-Qaisi joined Burgan Bank as Area Sales Manager in 2009 and has more than 32 years of experience in the banking and financial sector. He has previously worked at Gulf Bank, Investment Dar, International Financial Advisor (IFA) Hotel and resorts. He has also held various leadership roles at the Bank and has a solid track record in managing operations, customer service, sales and business development. He guides and directs, formulates and oversees the implementation of the Retail Banking Group's overall strategy.

Mr. Al-Qaisi holds a Bachelor of Business Administration and Management degree and a Master of Business Administration (MBA) degree.

Mrs. Huda Fahed Al-Shemmari
Group Head of International Operations Office – GM

Mrs. Al-Shemmari who joined the Bank in 2003 was appointed as Group Head of International Operations Office- GM in 2016. She oversees the monitoring of Burgan Bank group subsidiaries and affiliates and acts as the focal point of contact with the 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.

Mrs. Al-Shemmari has over 29 years of experience and has previously worked for Commercial Bank of Kuwait. She holds an MBA in Financial Management, BSC in General Studies from Southeastern University and BA 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.

Mr. Deniz Devrim Cengiz
Group Chief Digital Banking Officer

Mr. Cengiz has more than 20 years of experience in organisations across the MENA and EU having designed, led and executed several major digital Banking launches and initiatives. He joined the Bank in 2021 and is responsible for leading the development and execution of the Bank's digital transformation strategy that aims to provide seamless customer experiences with improved efficiencies.

Mr. Cengiz has previously worked for the National Bank of Kuwait as Group Chief Digital Officer where he launched NBK's Digital Office and for BNP Paribas in Turkey where he successfully launched a digital bank. He holds a bachelor's degree of Science in Civil Engineering from Bogazici University in Istanbul and is a member of INSEAD's Executive Leadership Programme in France.

Ms. Kholoud Abdulreda Al-Feeli
Group Head of Marketing and Corporate Communications

Mrs. Al-Feeli, who joined Burgan Bank in 2021, brings over 26 years of experience in communications, stakeholder engagement, strategic planning, corporate social responsibility (CSR) and project management.

She has held several senior marketing and communications roles for many companies including Equate, Zain International Group, Wataniya Telecom, Trukapital Investment and Kuwait News Agency. She holds a Bachelor of Arts in Political Science from Kuwait University and has attended The Reuter Foundation Programme. She is also a winner of the Dame Violet Dickson Award from the British Council.

Governance
Corporate Governance Report

Executive Management

Mr. Mohammad Abdullah Al Zayed
Head of Operations

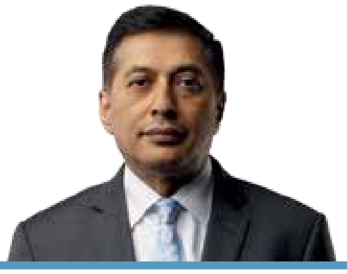
Mr. Al-Zayed has 24 years of experience in communication systems, programming and banking operations. Before joining Burgan Bank in 2009, he worked at HSBC Bank Middle East, Kuwait Investment Authority as well as the Ministry of Defence specialising in communications and telecommunication programming.

Mr. Al Zayed is responsible for leading the strategic execution of the Bank's operational functions to achieve the Bank's strategic business objectives efficiently and effectively while maintaining compliance with laws and regulations. He has successfully established a framework for the management of Burgan Bank's operations including process requirements, design and execution.
He holds a diploma degree in electronic communications engineering from the College of Technological Studies and is currently pursuing an Executive Leadership programme with Harvard Business School.

Mr. Manaf Khaled Al-Menaifi
Chief Strategic Planning and Monitoring Officer

Mr. Al-Menaifi joined Burgan bank in 2020 with over 20 years of experience in business development, corporate credit, SME banking, consumer banking, collections and recoveries, and investments. Before joining Burgan, Mr. Al-Menaifi was the Director General at the National Fund for SME Development, Principal at Investcorp, and also held various key roles in corporate credit and Consumer Banking Group at Kuwait Finance House, National Bank of Kuwait, Boubyan Bank and in Ijara House Holding Company. He is responsible for formalising Burgan's strategic planning process and monitoring the strategy implementation for overall performance of the bank.

Holding a bachelor's degree in Business Administration (Management Information Systems) from North Eastern University Boston, and MBA from London Business School, Mr. Al-Menaifi has a certificate in Leading Strategic Growth and Change from Columbia Business School and CCM from the Institute of Banking studies.



Mr. Andrew Christopher Singh
Group Chief Risk Officer

Mr. Singh joined the Bank in 2015 with over 34 years of extensive experience in risk management, and a proven record in enterprise-wide risk management in both developed and emerging markets. Before joining Burgan Bank, he held positions which include Group Chief Risk Officer at EFG Hermes Holding for the Middle East and North Africa, Regional Head of Risk Americas at Depfa Bank Plc, Regional Head of Risk for Europe at Credit Suisse and various risk and control related roles at JPMorgan Asia Pacific and UK.

Mr. Singh is responsible for establishing the Group's risk strategies, the enhancement of the Bank's Risk Management Framework as well as the implementation of risk policies and governance. He holds a bachelor's degree of Science in Chemistry from Imperial College, London University, and is an Associate of the Royal College of Science.

Mr. Kenneth Ashleigh Wainwright
Group Chief Internal Auditor

Mr. Wainwright joined Burgan Bank in 2019 and has over 30 years of experience in audit and risk management across the US, EMEA and APAC, having held senior roles with Citigroup, and the Royal Bank of Scotland. He is responsible for leading the internal audit group to ensure the provision of independent assurance on the control environment as well as to provide and support appropriate governance for the Bank and its subsidiaries.

Mr. Wainwright is a Chartered Internal Auditor, and a Fellow of the International Compliance Association. He holds a MSc in Risk Management from University College Dublin's Michael Smurfit Graduate Business School (Ireland), a BA (Honours) in European Business Studies from the University of Ulster (UK), a Maitrise from the University of Caen (France), and a Professional Postgraduate Diploma from ICA / Alliance Manchester Business School (UK).

Ms. Reham Essa Sultan
Group Head of Compliance

Ms. Sultan is a seasoned professional in the Kuwaiti Banking sector, carrying 24 years of experience in risk management, anti-money laundering and compliance. Before joining the Bank in 2007, Ms. Sultan worked in credit risk at the Bank of Kuwait and the Middle East and prior to her current role she held several job roles specialising in risk, regulatory compliance, anti-money laundering as well as sanctions risks at Burgan Bank.

Ms. Sultan is 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 Burgan Bank subsidiaries. She holds a bachelor's degree of Science in Industrial Engineering from Kuwait University.

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 four commercial banking subsidiaries as on 31 December 2022. 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
Bank of Baghdad P.J.S.C ("BoB")*	Iraq	Iraqi Dinars 250 billion	51.79%	10 January 2010
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	99.71%	21 December 2012

* BoB is classified as Disposal group held for sale, refer Note 9 of the consolidated financial statements for details.

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 2022, the share capital comprised of 3,287,812,500 issued and fully paid equity shares (31 December 2021: 3,131,250,000) of 100 fils each and the bank's capital structure was as follows:

CAPITAL STRUCTURE OF THE BANK

	Amounts in KD'000s	
	31-12-2022	**31-12-2021**
Share capital	**328,781**	313,125
Share premium	**282,802**	282,802
Statutory reserve	**113,234**	107,755
Voluntary reserve	**113,612**	108,133
Other disclosed reserves	**(243,163)**	(223,218)
Retained earnings	**156,791**	157,402
Eligible minority interest in consolidated subsidiaries	**10,427**	8,814
Less: Regulatory adjustments		
– Treasury shares	**(1,742)**	(1,742)
– Goodwill	**(8,941)**	(8,807)
– Other intangibles	**(9,360)**	(10,376)
– Cash flow hedge reserve	**(18,889)**	(7,137)
– Proposed dividends	**(26,262)**	(15,632)
– Deductions from Capital Base arising from Investments in FIs where ownership is < 10%	**–**	–
COMMON EQUITY TIER 1 (CET1) CAPITAL	**697,290**	711,119
Perpetual Tier 1 capital securities	**153,150**	151,250
Eligible minority interest in consolidated subsidiaries	**1,747**	1,663
Deductions from Capital Base arising from Investments in FIs where ownership is < 10%	**–**	–
ADDITIONAL TIER 1 (AT1) CAPITAL	**154,897**	152,913
TIER 1 CAPITAL (CET1 + AT1)	**852,187**	864,032
Capital Eligible as Tier 2	**153,150**	151,250
General provision subject to 1.25% of the credit RWA's	**76,325**	74,052
Eligible minority interest in consolidated subsidiaries	**2,371**	2,303
Deductions from Capital Base arising from Investments in FIs where ownership is < 10%	**–**	–
TIER 2 CAPITAL	**231,846**	227,605
TOTAL ELIGIBLE CAPITAL	**1,084,033**	1,091,637

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 13.0% to 10.5%. Capital adequacy requirement have changed to 11.5% from 1 January 2022 and return to 13.0% 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.

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.

Basel III – Pillar III Qualitative and Quantitative Disclosures continued

CAPITAL ADEQUACY (continued)

i. Bank's Approach to Capital Adequacy Assessment (continued)

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	
	31-12-2022	31-12-2021
Claims on sovereigns	**35,446**	37,813
Claims on public sector entities	**357**	363
Claims on multilateral development banks (MDBs)	**180**	99
Claims on banks	**23,397**	19,274
Claims on corporates	**392,521**	357,244
Regulatory retail exposures	**57,485**	44,926
Claims on central counterparties	**30**	–
Past due exposures	**8,037**	5,237
Other exposures	**184,735**	157,077
Total	**702,188**	622,033
Less: General provision in excess of 1.25% of RWA's	**(12,602)**	(11,289)
Total Credit risk weighted exposure	**689,586**	610,744
Market risk exposure under standardised approach	**3,648**	2,097
Operational risk exposure	**46,628**	43,513
Additional Capital Requirement - Domestic Systemically Important Bank (DSIB) Buffer	**64,336**	62,510
Total Capital Requirement	**804,198**	718,864
Capital Adequacy Ratio (%)	**16.8%**	17.5%
Tier 1 Ratio (%)	**13.2%**	13.8%
Common Equity Tier 1 Ratio (%)	**10.8%**	11.4%

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

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%

31-12-2021

Subsidiary Banks**	CET1*	Tier 1*	Total capital ratio*
Algeria Gulf Bank S.P.A ("AGB")	12.4%	12.4%	13.2%
Tunis International Bank S.A ("TIB")	33.6%	33.6%	34.2%
Burgan Bank A.S ("BBT")	5.6%	7.3%	15.1%

* Ratios computed under Basel III regulations as adopted in the state of Kuwait. All subsidiaries are in compliance with their local capital adequacy requirements.
** Bank of Baghdad P.J.S.C ("BoB) has been classified as a disposal group held for sale.

RISK MANAGEMENT

The Bank has set up an independent Risk Management Group (RMG) headed by the Group Chief Risk Officer (GCRO) 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:

i. Credit Risk which includes default risk of clients and counterparties
ii. Market Risk which includes interest rate, foreign exchange, liquidity and equity risks
iii. Operational Risk which includes risks due to failures from people, processes, systems and external events.

The Risk Management Group is organised into, among others, three departments each responsible for one of the above three families, viz. Credit, Market and Operational 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, Stress testing is performed on consolidated financial statements using a number of internal and regulatory scenarios.

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 Chief Credit Risk Officer 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 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.

RISK MANAGEMENT (continued)

A. CREDIT RISK (continued)

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 Group (IBT) give rise to the market risks assumed by the Bank. The Bank has a well-defined 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 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 the Head - Group Chief Investment Banking & Treasury Officer ("GCIBTO"), 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 ALCO 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 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.

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, and dealing only in vanilla derivatives and does not deal in exotic derivatives or structured derivatives.

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.

RISK MANAGEMENT (continued)

C. OPERATIONAL RISK

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. This has been achieved through a collaboration with the Internal Control Department.

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.

Information Security and Business Continuity

Information, either internal or external, is key to any organization. Due to its importance at every level of the organization, it requires an adequate level of protection. As banks are a source of money in physical or another form, reliable information becomes even more critical and hence Information Security is vital to protect its interests.

The Information Security Management System Framework has its primary objective of developing strong information security within the Bank through suitable policies and procedures. The objective of this framework is to provide the necessary protection of information, thereby ensuring its confidentiality, integrity, and availability.

Through technical, organizational and administrative measures, Burgan Bank proactively works with Information Security management to protect all types of assets, including personnel. Burgan Bank Information Security management is in compliance with the international standards, best practices and CBK mandates.

Burgan Bank has also integrated processes that prevent and/or manage serious events such as IT System disruptions, financial disturbances, and pandemics.

Burgan Bank principles for Information Security, Business Continuity, and crisis management are defined in a Business Continuity framework. 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.

For significant parts of its operations, Burgan Bank also has insurance protection, with an importance on catastrophe protection. The goal of continuous risk reduction work is to maintain and reinforce the Group's reputation by protecting, among other things, life, health, financial assets and data.

In order to support Burgan Bank group business resilience and continued to deliver strong growth as well as solid performance and maintain the highest standards in the Banking industry; Burgan Bank (BB) Operational Risk Management Department 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 immediate 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.

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.

RISK MANAGEMENT (continued)

CREDIT EXPOSURES (continued)

Definition of default

The Group considers a financial asset to be in default and therefore Stage 3 (credit impaired) when:

- The borrower is past due for more than 90 days on its credit obligation to the Group;
- The borrower is facing significant financial difficulty;
- The borrower is assessed as credit impaired based on internal qualitative and quantitative assessment;
- 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 cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive. The key elements in the measurement of ECL includes exposure at default, probability of default and loss given default.

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

The Probability of Default ("PD") is an estimate of the likelihood of default over a given time horizon. For credit facilities other than retail, Through-The-Cycle PD (TTC PD) are generated from the rating tool based on internal / external credit ratings. The Group converts the TTC PD to Point In Time (PIT) PD term structure using appropriate models and techniques. The Group assesses the PD for it's Retail portfolio through 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.

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.

Basel III – Pillar III Qualitative and Quantitative Disclosures continued

RISK MANAGEMENT (continued)

CREDIT EXPOSURES (continued)

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.

31-12-2022

	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

31-12-2021

	Gross credit exposure Amounts in KD 000s		Gross average credit exposure* Amounts in KD 000s	
	Funded	Unfunded	Funded	Unfunded
Claims on sovereigns	1,082,228	–	645,711	–
Claims on public sector entities	86,600	3,700	90,077	4,033
Claims on MDBs	52,968	–	38,789	–
Claims on banks	423,726	2,014,330	393,886	623,065
Claims on corporates	3,452,026	1,531,229	3,640,698	1,394,779
Cash items	59,173	–	48,420	–
Regulatory retail exposures	425,921	112,983	505,456	95,814
Past due exposures	68,389	5,553	163,366	3,611
Other exposures	1,520,548	140,789	993,345	160,594
Total	7,171,579	3,808,584	6,519,748	2,281,896

* 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

31-12-2022

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

31-12-2021

Amounts in KD 000s

	Kuwait	Jordan	Algeria	Iraq	Tunisia	Turkey	Other Middle East	Europe	Rest of the world	Total
Claims on sovereigns	553,518	–	127,868	–	10,010	177,140	135,327	26,502	51,863	1,082,228
Claims on public sector entities	73,000	–	–	–	–	–	4,488	9,862	2,950	90,300
Claims on MDBs	–	–	–	–	–	–	6,047	12,251	34,670	52,968
Claims on banks	322,054	3,066	35,620	615	11,955	219,648	1,033,910	697,652	113,536	2,438,056
Claims on corporates	3,351,353	–	467,292	–	7,732	760,453	315,973	42,744	37,708	4,983,255
Cash items	29,167	–	18,803	–	275	10,869	59	–	–	59,173
Regulatory retail exposures	385,959	–	30,572	–	69	113,211	75	8,930	88	538,904
Past due exposures	27,494	–	9,523	–	–	36,925	–	–	–	73,942
Other exposures	1,058,652	1,480	77,103	273,556	10,808	64,034	57,231	9,931	108,542	1,661,337
Total	5,801,197	4,546	766,781	274,171	40,849	1,382,280	1,553,110	807,872	349,357	10,980,163

GROSS CREDIT RISK EXPOSURES BY RESIDUAL CONTRACTUAL MATURITY

31-12-2022

Amounts in KD 000s

	Up to 3 months	3 to 6 months	6 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

RISK MANAGEMENT (continued)
CREDIT EXPOSURES (continued)
GROSS CREDIT RISK EXPOSURES BY RESIDUAL CONTRACTUAL MATURITY (continued)
31-12-2021

Amounts in KD 000s

	Up to 3 months	3 to 6 months	6 to 12 months	Over 12 months	Total
Claims on sovereigns	572,572	79,801	72,963	356,892	1,082,228
Claims on public sector entities	–	–	–	90,300	90,300
Claims on MDBs	–	–	–	52,968	52,968
Claims on banks	1,108,472	306,958	811,293	211,333	2,438,056
Claims on corporates	1,367,317	537,785	993,086	2,085,067	4,983,255
Cash items	59,173	–	–	–	59,173
Regulatory retail exposures	79,751	21,839	42,713	394,601	538,904
Past due exposures	73,942	–	–	–	73,942
Other exposures	576,201	77,661	322,936	684,539	1,661,337
Total	3,837,428	1,024,044	2,242,991	3,875,700	10,980,163

IMPAIRED LOANS AND PROVISIONS BY STANDARD PORTFOLIO
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**

31-12-2021

Amounts in KD 000s

	Impaired loans (net of suspended interest and collateral)	Total provisions	Specific provision charge/charge off (-)
Claims on banks	–	619	–
Claims on corporates	9,054	180,528	77,743
Regulatory retail exposures	5,345	14,362	5,022
Other exposures	–	6,123	74,161
Total	14,399	201,632	156,926

GEOGRAPHICAL DISTRIBUTION OF IMPAIRED LOANS (NET)
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**

31-12-2021

Amounts in KD 000s

	Kuwait	Algeria	Tunisia	Turkey	Total
Claims on corporates	1,898	1,301	–	5,855	9,054
Regulatory retail exposures	3,534	1,599	152	60	5,345
Total	5,432	2,900	152	5,915	14,399

RECONCILIATION OF CHANGES IN PROVISIONS
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**

31-12-2021

Amounts in KD 000s

	Funded	Unfunded	Total
Provisions as on 1 January 2021	265,905	15,472	281,377
Exchange adjustment	(9,877)	(1,012)	(10,889)
Amounts written off	(147,073)	–	(147,073)
Charge to income statement	79,957	4,679	84,636
Transferred to disposal group held for sale	(6,419)	–	(6,419)
Provisions as on 31 December 2021	182,493	19,139	201,632

Basel III – Pillar III Qualitative and Quantitative Disclosures continued

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. 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 ECAIs 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.

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.

CREDIT RISK MITIGATION (CRM) (continued)

NET CREDIT EXPOSURE AFTER RISK MITIGATION AND CREDIT CONVERSION FACTOR

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**

31-12-2021

Amounts in KD 000s

	Before CRM	CRM	Net Exposure
Claims on sovereigns	1,082,228	–	1,082,228
Claims on public sector entities	86,600	–	86,600
Claims on MDBs	52,968	–	52,968
Claims on banks – ***Rated***	485,262	13,826	471,436
Claims on banks – ***Unrated***	61,596	–	61,596
Claims on corporates	3,851,789	411,173	3,440,616
Cash items	59,173	–	59,173
Regulatory retail exposures	457,835	9,990	447,845
Past due exposures	70,873	1,790	69,083
Other exposures	1,529,179	236,705	1,292,474
Total	7,737,503	673,484	7,064,019

EXPOSURE COVERED BY ELIGIBLE COLLATERAL AND GUARANTEE

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**

31-12-2021

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	1,082,228	–
Claims on public sector entities	86,600	–
Claims on MDBs	52,968	–
Claims on banks	546,858	13,826
Claims on corporates	3,851,789	411,173
Cash items	59,173	–
Regulatory retail exposures	457,835	9,990
Past due exposures	70,873	1,790
Other exposures	1,529,179	236,705
Total	7,737,503	673,484

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

	31-12-2022	31-12-2021
Equity position risk	**116**	128
Foreign exchange risk	**1,551**	757
Interest rate position risk	**176**	564
Options	**695**	148
Total	**2,538**	1,597

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 amortised cost or financial asset carried at FVOCI, this designation eliminates, or significantly reduces, the inconsistent accounting treatment that would otherwise arise. Such designation is determined on an instrument-by-instrument basis.

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 2022, 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, which reports to GCIBTO. 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
31-12-2022
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**

31-12-2021
Amounts in KD 000s

	Publicly traded*	Privately held
Equities	72,408	90,452
Fixed income instruments	393,333	–
Any other investments	9,054	84,019
Total	474,795	174,471

* 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

	31-12-2022	31-12-2021
Realised gains/(losses) recorded in the income statement	**6,480**	2,872
Unrealised gains/(losses) recognised in the shareholder's equity	**(105,846)**	(65,398)

Capital requirement by equity groupings
Amounts in KD'000s

	31-12-2022	31-12-2021
Investments whose fair value is designated through other comprehensive income'	**54,635**	49,148
Investments at amortized cost	**22,924**	13,663
Investments whose fair value is designated through profit & loss	**11,040**	11,236
Investments held for trading	**129**	128
Investment in associates	**1,183**	1,095
Total	**89,911**	75,270

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. 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 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	2022	2021
+25 bps	**3,046**	3,660
-25 bps	**(3,046)**	(3,655)
+50 bps	**6,092**	7,328
-50 bps	**(6,092)**	(7,324)
+100 bps	**12,184**	14,656
-100 bps	**(12,184)**	(14,646)

INTEREST RATE RISK IN THE BANKING BOOK (IRRBB) (continued)

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 12.2 million (KD 12.2 million) (2021 - KD 14.7 million (KD 14.7 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 (2021 rise (fall) by KD 18 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 2022

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 6 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 17 staff members as being senior management group comprising mainly of the Vice Chairman & Group CEO (VC & GCEO) and Deputy Group CEO & CEO Kuwait and his deputies who are directly responsible for the governance and management of the Bank and 4 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 Vice Chairman & Group CEO (VC & GCEO) and Deputy Group CEO & 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 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 banks 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 Vice Chairman & Group CEO (VC & GCEO) and Deputy Group CEO & 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.

REMUNERATION PRACTICES (continued)

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 Vice Chairman & Group CEO (VC & GCEO) and Deputy Group CEO & 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 2022 is 17 (2021: 17)
- Total number of Material risk takers for 2022 is 4 (2021: 4)

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

A) Awards for senior managers and material risk-takers paid during the year (related to performance of 2020)
31-12-2021

	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	414,683	4	32,550
Fixed Awards granted during the year:				
Cash	4	237,000	–	-
Total awards paid during the year(variable & fixed)		651,683		32,550
Employees who received Sign on Awards during the year	–	–	–	–
End of Service termination benefits paid during the year			–	–

* represents 1.9 % (2021: 2.8%) of total employees
Variable and Fixed awards are only in the form of Cash awards

B) Deferred remuneration outstanding as of end of the year (Salary & Bonus) amounted to KD 691,135

C) Deferred remuneration paid during the year amounted to KD 516,049

D) 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	–

D) Summary of remunerations (salary & awards) for senior managers and material risk-takers for the 2021 financial year
31-12-2021

	Senior Management		Material Risk Takers	
	Total amount in KD			
	Unrestricted	Deferred	Unrestricted	Deferred
Variable cash remuneration :	361,983	222,504	94,905	23,726
Fixed cash remuneration :	2,960,370	–	390,553	–

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	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)	8,941
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	9,360
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

Basel III – Pillar III Qualitative and Quantitative Disclosures continued

ADDITIONAL CAPITAL DISCLOSURE REQUIREMENTS (continued)

1. Common Disclosure Template – Composition of Regulatory Capital (continued)

	Tier 2 capital: instruments and provisions	All amounts are in KD'000
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	153,150
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	

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-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	8,170	8,170	c
of which other intangibles	9,360	9,360	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	
Customers deposits	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**	
Shareholders' 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 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
Equity attributable to shareholders 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**	

Basel III – Pillar III Qualitative and Quantitative Disclosures continued

ADDITIONAL CAPITAL DISCLOSURE REQUIREMENTS (continued)

2. Reconciliation requirements (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	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)	8,941	b+c
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	9,360	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	

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

ADDITIONAL CAPITAL DISCLOSURE REQUIREMENTS (continued)
3. Disclosure of main features of regulatory capital instruments (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: • 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 2022.

Summary comparison of accounting assets vs leverage ratio exposure measure:

	Item	KD 000s
1	Total consolidated assets as per published financial statements	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 & 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 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	1,811,261
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%

Basel III – Pillar III Qualitative and Quantitative Disclosures continued

COMPARATIVE INFORMATION FOR YEAR 2021:
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 000s
1	Directly issued qualifying common share capital plus related stock surplus	595,927
2	Retained earnings	141,770
3	Accumulated other comprehensive income (and other reserves)	(7,330)
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)	8,814
6	Common Equity Tier 1 capital before regulatory adjustments	739,181
	Common Equity Tier 1 capital: regulatory adjustments	
7	Prudential valuation adjustments	
8	Goodwill (net of related tax liability)	8,807
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	10,376
10	Deferred tax assets excluding those arising from temporary differences (net of related tax liability)	
11	Cash flow hedge reserve	7,137
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	28,062
29	Common Equity Tier 1 capital (CET1)	711,119
	Additional Tier 1 capital: instruments	
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	151,250
31	of which: classified as equity under applicable accounting standards	151,250
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)	1,663
35	of which: instruments issued by subsidiaries subject to phase out	
36	Additional Tier 1 capital before regulatory adjustments	152,913
	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)	152,913
45	Tier 1 capital (T1 = CET1 + AT1)	864,032

	Common Equity Tier 1 capital: instruments and reserves	All amounts are in KD 000s
	Tier 2 capital: instruments and provisions	
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	151,250
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)	2,303
49	of which: instruments issued by subsidiaries subject to phase out	
50	General provisions included in Tier 2 capital	74,052
51	Tier 2 capital before regulatory adjustments	227,605
	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)	227,605
59	Total capital (TC = T1 + T2)	1,091,637
60	Total risk-weighted assets	6,250,981
	Capital ratios and buffers	
61	Common Equity Tier 1 (as percentage of risk-weighted assets)	11.4%
62	Tier 1 (as percentage of risk-weighted assets)	13.8%
63	Total capital (as percentage of risk-weighted assets)	17.5%
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)	8.0%
65	of which: capital conservation buffer requirement	0.0%
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)	4.4%
	National minima	
69	Kuwait Common Equity Tier 1 minimum ratio	7.0%
70	National Tier 1 minimum ratio	8.5%
71	National total capital minimum ratio excluding CCY and DSIB buffers	10.5%
	Amounts below the thresholds for deduction (before risk weighting)	
72	Non-significant investments in the capital of other financials	69,833
73	Significant investments in the common stock of financials	4,495
74	Mortgage servicing rights (net of related tax liability)	–
75	Deferred tax assets arising from temporary differences (net of related tax liability)	5,250
	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)	181,579
77	Cap on inclusion of allowances in Tier 2 under standardised approach	74,052
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

COMPARATIVE INFORMATION FOR YEAR 2021:
ADDITIONAL CAPITAL DISCLOSURE REQUIREMENTS (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-21	Under regulatory scope of consolidation 31-Dec-21	Reference
Assets			
Cash and cash equivalents	821,608	821,608	
Treasury bills and bonds with CBK and others	247,393	247,393	
Due from banks and other financial institutions	331,324	331,324	
Loans and advances to customers	4,278,709	4,278,709	
of which General Provisions (netted above) capped for Tier 2 inclusion	74,052	74,052	a
Investment securities	649,266	649,266	
of which goodwill in investment in associate	771	771	b
Other assets	277,562	277,562	
Property and equipment	150,153	150,153	
Intangible assets	18,412	18,412	
of which goodwill	8,036	8,036	c
of which other intangibles	10,376	10,376	d
	6,774,427	**6,774,427**	
Disposal group held for sale	300,488	300,488	
Total assets	**7,074,915**	**7,074,915**	
Liabilities			
Due to banks	518,756	518,756	
Due to other financial institutions	364,829	364,829	
Deposits from customers	4,161,731	4,161,731	
Other borrowed funds	622,483	622,483	
Directly issued qualifying Tier 2 instruments plus related stock surplus	151,250	151,250	e
Other liabilities	225,768	225,768	
	5,893,567	**5,893,567**	
Liabilities directly associated with disposal group held for sale	249,423	249,423	
Total liabilities	**6,142,990**	**6,142,990**	
Equity			
Share capital	313,125	313,125	f
Share premium	282,802	282,802	g
Treasury shares	(1,742)	(1,742)	h
Statutory reserve	107,755	107,755	i
Voluntary reserve	108,133	108,133	j
Other disclosed reserves	(223,218)	(223,218)	k
of which cash flow hedge reserve	7,137	7,137	l
Retained earnings	151,028	151,028	m
of which proposed dividend	15,632	15,632	n
of which modification loss on retail loans	(6,374)	(6,374)	o
Total equity attributable to the equity holders of the Bank	**737,883**	**737,883**	
Perpetual Tier 1 capital securities	151,250	151,250	p
Non-controlling interests	42,792	42,792	
of which Limited Recognition eligible as CET1 Capital	8,814	8,814	q
of which Limited Recognition eligible as AT1 Capital	1,663	1,663	r
of which Limited Recognition eligible as Tier 2 Capital	2,303	2,303	s
Total equity	**931,925**	**931,925**	
Total liabilities and equity	**7,074,915**	**7,074,915**	

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	595,927	f+g
2	Retained earnings	141,770	m–n–o
3	Accumulated other comprehensive income (and other reserves)	(7,330)	i+j+k
5	Common share capital issued by subsidiaries and held by third parties (minority interest)	8,814	q
6	Common Equity Tier 1 capital before regulatory adjustments	739,181	
	Common Equity Tier 1 capital : regulatory adjustments		
8	Goodwill (net of related tax liability)	8,807	b+c
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	10,376	d
11	Cash flow hedge reserve	7,137	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	28,062	
29	Common Equity Tier 1 capital (CET1)	711,119	
	Additional Tier 1 capital : instruments		
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	151,250	p
31	of which: classified as equity under applicable accounting standards	151,250	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)	1,663	r
36	Additional Tier 1 capital before regulatory adjustments	152,913	
	Additional Tier 1 capital : regulatory adjustments		
43	Total regulatory adjustments to Additional Tier 1 capital	–	
44	Additional Tier 1 capital (AT1)	152,913	
45	Tier 1 capital (T1 = CET1 + AT1)	864,032	
	Tier 2 capital : instruments and provisions		
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	151,250	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)	2,303	s
50	General Provisions included in Tier 2 Capital	74,052	a
51	Tier 2 capital before regulatory adjustments	227,605	
	Tier 2 capital: regulatory adjustments		
57	Total regulatory adjustments to Tier 2 capital	–	
58	Tier 2 capital (T2)	227,605	
59	Total capital (TC = T1 + T2)	1,091,637	

Basel III – Pillar III Qualitative and Quantitative Disclosures continued

COMPARATIVE INFORMATION FOR YEAR 2021:
ADDITIONAL CAPITAL DISCLOSURE REQUIREMENTS (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

COMPARATIVE INFORMATION FOR YEAR 2021:
ADDITIONAL CAPITAL DISCLOSURE REQUIREMENTS (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	7,074,915
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	(19,183)
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	98,551
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)	530,205
7	Other adjustments	
8	**Leverage ratio exposure**	**7,684,488**

Leverage ratio common disclosure template:

	Item	KD 000s
On-balance sheet exposures		
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	7,074,915
2	(Asset amounts deducted in determining Basel III Tier 1 capital)	(19,183)
3	Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)	7,055,732
Derivative exposures		
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	67,474
5	Add-on amounts for PFE associated with all derivatives transactions	31,077
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)	98,551
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	1,730,883
18	(Adjustments for conversion to credit equivalent amounts)	(1,200,678)
19	Off-balance sheet items (sum of lines 17 and 18)	530,205
Capital and total exposures		
20	Tier 1 capital	864,032
21	Total exposures (sum of lines 3, 11, 16 and 19)	7,684,488
Leverage ratio		
22	Basel III leverage ratio	11.2%

Liquidity Risk Management

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 unit 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.

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. On 30 June 2016, the Bank successfully established a US$1.5BN Reg S EMTN Program, under which the Bank may issue senior unsecured debt securities (through public or private placements). The Bank issued bonds worth US$500MM under this program in Q3'16. Also, 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 a US$390 million 3-year Club Loan facility with a group of international and regional banks. Over the period from Q4'20 to date, the bank successfully executed a USD$500 million 3-year Club Loan facility and multiple bilateral loan transactions totaling US$1,775 Million.

Liquidity Risk Management continued

Funding strategy continued

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. Central Bank of Kuwait ("CBK") has reduced minimum LCR and NSFR levels from 100% to 80% from Mar'20 to Dec'21. Also, effective Jan'22, minimum LCR and NSFR will be 90% and Jan'23 onwards these two ratios will go back to the minimum 100% levels.

[As at 31 December 2022], Burgan Bank Group's Net Stable Funding Ratio (NSFR) stood at well above 90%, 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, 2022], the stock of HQLA held by the Bank includes [87%] Level 1 assets and [13%] 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 realisable 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
Required Stable Funding continued

Table 6: Disclosure Form on LCR during the quarter ended on 31/12/2022*

No	Statement	Value before implementing flow ratings (average) **	Value after implementing flow rates
			KD 000s
High Quality Liquid Assets (HQLA)			
1	Total HQLA (before ammendments)	**1,049,029**	**1,006,768**
Cash Outflow			
2	Retail deposits and small enterprises	1,272,448	199,962
3	Stable deposits	82,468	4,123
4	Less stable deposits	1,189,980	195,839
5	Unsecured wholesale funding, excluding deposits of small enterprises clients	1,378,851	804,358
6	Operating deposits	–	–
7	Non-operating deposits (other unsecured liabilities)	1,378,851	804,358
8	Secured funding	19,964	–
9	Other cash outflows, including:	389,473	314,689
10	Resulting from derivatives	302,249	302,249
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	87,224	12,440
13	Possible future financing needs	849,250	42,463
14	Other contractual cash outflows	20,607	20,607
15	**Total cash outflows**	3,930,593	1,382,079
16	Secured lending transactions	–	–
17	Cash outflows resulting from regular loans	709,200	482,418
18	Other cash inflows	300,996	300,996
19	Total cash inflows	1,010,196	783,414
Liquidity Coverage Ratio (LCR)			
20	Total HQLA (after amendments)		**904,997**
21	Net cash outflows		**598,665**
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.

Required Stable Funding continued

Table 4: NSFR Common Disclosure Template for the quarter ended 31/12/2022

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:	**1,122,965**	**–**	**–**	**–**	**1,122,965**
2	Regulatory Capital	1,122,965	–	–	–	1,122,965
3	Other Capital Instruments	–	–	–	–	–
4	Retail deposits and deposits from small business customers:	–	**1,777,545**	**121,431**	**114,721**	**1,826,543**
5	Stable deposits		54,641	235	11	52,143
6	Less stable deposits	–	1,722,904	121,196	114,710	1,774,400
7	Wholesale funding:	–	**2,739,254**	**257,229**	**527,387**	**1,613,865**
8	Operational deposits	–	–	–	–	–
9	Other wholesale funding	–	2,739,254	257,229	527,387	1,613,865
10	Other liabilities:	**33,654**	**522,028**	**8,370**	**104,292**	**137,946**
11	Net derivative liabilities	–	–	–	–	–
12	All other liabilities not included in the above categories	33,654	522,028	8,370	104,292	137,946
13	**Total ASF**	**1,156,619**	**5,038,827**	**387,030**	**746,400**	**4,701,319**
Required Stable Funding (RSF):						
14	Total high-quality liquid assets (HQLA)	1,180,808	–	–	–	63,734
15	Deposits held at other financial institutions for operational purposes	–	–	–	–	–
16	Performing loans and securities:	–	**2,675,107**	**532,373**	**1,805,811**	**3,192,971**
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	–	594,617	20,510	40,018	139,466
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:	–	2,080,490	511,863	1,709,359	3,005,536
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.	–	–	–	56,434	47,969
24	Other assets:	**262,684**	**448,445**	**1,413**	**433,235**	**920,848**
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	28,221	–	–	–	28,221
28	20% of derivative liabilities before deduction of variation margin posted	2,822	–	–	–	2,822
29	All other assets not included in the above categories	231,641	448,445	1,413	433,235	889,805
30	Off-balance sheet items	**14,867**	**894,262**	**466,488**	**435,644**	**90,563**
31	Total RSF	**1,458,359**	**4,017,814**	**1,000,274**	**2,674,690**	**4,268,116**
32	NSFR (%)					**110%**

KPMG RSM

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

Opinion

We have audited the consolidated financial statements of Burgan Bank K.P.S.C. (the "Bank") and its subsidiaries (together, the "Group"), which comprise the consolidated statement of financial position as at 31 December 2022, the consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS"), as adopted by the Central Bank of Kuwait (the "CBK") for use by the State of Kuwait.

Basis for Opinion

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

Key Audit Matters

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

Credit losses on loans and advances to customers

See Note 5 to the consolidated financial statements.

The key audit matter

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

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

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

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

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

How the matter was addressed in our audit

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

Other Information

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

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

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

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

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

Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion, proper books of account have been kept by the Bank and the consolidated financial statements, together with the contents of the Board of Directors' report relating to these consolidated financial statements are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Capital Adequacy Regulations and Financial Leverage Ratio Regulations issued by the CBK as stipulated in the CBK Circular Nos. 2/RB, RBA/336/2014 dated 24 June 2014 and its amendments, and 2/BS/342/2014 dated 21 October 2014 and its amendments, respectively, the Companies Law No. 1 of 2016, as amended, and its Executive Regulations, as amended, and by the Bank's Memorandum of Incorporation and Articles of Association, as amended, that an inventory was carried out, and that, to the best of our knowledge and belief, no violations of the Capital Adequacy Regulations and Financial Leverage Ratio Regulations issued by the CBK as stipulated in the CBK Circular Nos. 2/RB, RBA/336/2014 dated 24 June 2014 and its amendments, and 2/BS/342/2014 dated 21 October 2014 and its amendments, respectively, the Companies Law No. 1 of 2016, as amended, and its Executive Regulations, as amended, or of the Bank's Memorandum of Incorporation and Articles of Association, as amended, have occurred during the year ended 31 December 2022 that might have had a material effect on the business of the Bank or on its consolidated financial position.

We further report that, during the course of our audit, we have not become aware of any violations of the provisions of Law No. 32 of 1968, as amended, concerning currency, the CBK and the organisation of banking business, and its related regulations during the year ended 31 December 2022 that might have had a material effect on the business of the Bank or on its consolidated financial position.

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

Nayef M. Albazie

License No. 91-A
RSM Albazie & Co.

Kuwait: 8 February 2023

Financial Statements
Consolidated Statement of Financial Position
As at 31 December 2022

	Notes	2022 KD 000s	2021 KD 000s
ASSETS			
Cash and cash equivalents	3	**659,384**	821,608
Treasury bills and bonds with CBK and others		**301,554**	247,393
Due from banks and other financial institutions	4	**482,101**	331,324
Loans and advances to customers	5	**4,227,737**	4,278,709
Investment securities	6	**714,149**	649,266
Other assets	7	**258,048**	277,562
Property and equipment		**163,071**	150,153
Intangible assets	8	**17,530**	18,412
		6,823,574	6,774,427
Disposal group held for sale	9	**342,386**	300,488
TOTAL ASSETS		**7,165,960**	7,074,915
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks		**278,146**	518,756
Due to other financial institutions		**699,421**	364,829
Deposits from customers		**3,932,491**	4,161,731
Other borrowed funds	10	**783,392**	622,483
Other liabilities	11	**243,891**	225,768
		5,937,341	5,893,567
Liabilities directly associated with the disposal group held for sale	9	**281,204**	249,423
TOTAL LIABILITIES		**6,218,545**	6,142,990
EQUITY			
Share capital	12	**328,781**	313,125
Share premium	12	**282,802**	282,802
Treasury shares	12	**(1,742)**	(1,742)
Statutory reserve	12	**113,234**	107,755
Voluntary reserve	12	**113,612**	108,133
Other reserves	12	**(243,163)**	(223,218)
Retained earnings		**152,542**	151,028
Total equity attributable to the equity holders of the Bank		**746,066**	737,883
Perpetual Tier 1 capital securities	12	**153,150**	151,250
Non-controlling interests		**48,199**	42,792
TOTAL EQUITY		**947,415**	931,925
TOTAL LIABILITIES AND EQUITY		**7,165,960**	7,074,915

Khalid Al Zouman
Group Chief Financial Officer

Masoud M.J. Hayat
Vice Chairman &
Group Chief Executive Officer

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

The attached notes 1 to 24 form an integral part of these consolidated financial statements.

Financial Statements
Consolidated Statement of Income
For the year ended 31 December 2022

	Notes	2022 KD 000s	2021 KD 000s
Interest income	13	**323,478**	254,121
Interest expense	14	**(176,014)**	(125,947)
Net interest income		**147,464**	128,174
Fee and commission income		**48,225**	40,841
Fee and commission expense		**(7,276)**	(5,498)
Net fee and commission income		**40,949**	35,343
Net gain from foreign currencies		**15,275**	17,161
Net investment income	15	**7,002**	29,581
Dividend income		**2,002**	1,291
Other income		**19,358**	23,180
Net operating income		**232,050**	234,730
Staff expenses		**(53,178)**	(46,289)
Other expenses		**(53,898)**	(48,520)
Operating profit		**124,974**	139,921
Provision for credit losses	5	**(25,287)**	(84,636)
Provision release for other financial assets		**10**	12
Net monetary loss	2.7	**(24,597)**	–
Profit for the year before taxation and Board of directors' remuneration		**75,100**	55,297
Taxation	16	**(16,440)**	(6,708)
Board of directors' remuneration		**(110)**	–
Profit for the year		**58,550**	48,589
Attributable to			
Equity holders of the Bank		**52,130**	45,389
Non-controlling interests		**6,420**	3,200
		58,550	48,589
Basic and diluted earnings per share attributable to the equity holders of the Bank (Fils)	17	**12.6**	12.5

The attached notes 1 to 24 form an integral part of these consolidated financial statements.

Financial Statements
Consolidated Statement of Comprehensive Income
For the year ended 31 December 2022

	2022 KD 000s	2021 KD 000s
Profit for the year	**58,550**	48,589
Other comprehensive loss:		
Items that will not be reclassified to consolidated statement of income in subsequent periods:		
Net change in fair value of equity instruments at fair value through other comprehensive income	**(20,964)**	(9,046)
	(20,964)	(9,046)
Items that are or may be reclassified to consolidated statement of income in subsequent periods:		
Debt instruments at fair value through other comprehensive income:		
Net change in fair value	**(23,647)**	(6,977)
Net transfer to consolidated statement of income	**(729)**	(385)
Foreign currency translation adjustment	**(18,844)**	(43,147)
Changes in fair value of cash flow hedges	**11,786**	4,863
Net gain on hedge of a net investment	**2,449**	9,362
Other comprehensive loss for the year	**(49,949)**	(45,330)
Total comprehensive income for the year	**8,601**	3,259
Attributable to:		
Equity holders of the Bank	**1,360**	1,062
Non-controlling interests	**7,241**	2,197
	8,601	3,259

The attached notes 1 to 24 form an integral part of these consolidated financial statements.

Financial Statements

Consolidated Statement of Changes in Shareholders' Equity

For the year ended 31 December 2022

	Attributable to the equity holders of the Bank										
	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	Total equity 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 12)	15,656	–	–	–	–	–	(15,656)	–	–	–	–
Cash dividend (Note 12)	–	–	–	–	–	–	(15,632)	(15,632)	–	–	(15,632)
Dividend paid to non-controlling interests	–	–	–	–	–	–	–	–	–	(1,932)	(1,932)
Foreign currency translation adjustment	–	–	–	–	–	–	(1,900)	(1,900)	1,900	–	–
Net transfer to retained earnings for derecognition of equity investments at FVOCI	–	–	–	–	–	4,867	(4,867)	–	–	–	–
Interest payment on Tier 1 capital securities	–	–	–	–	–	–	(8,815)	(8,815)	–	–	(8,815)
Impact of application of IAS 29 (Note 2.7)	–	–	–	–	–	25,958	7,212	33,170	–	98	33,268
Balance as at 31 December 2022	328,781	282,802	(1,742)	113,234	113,612	(243,163)	152,542	746,066	153,150	48,199	947,415

* Refer to note 12 for further details.

The attached notes 1 to 24 form an integral part of these consolidated financial statements.

Financial Statements

Consolidated Statement of Changes in Shareholders' Equity (continued)

For the year ended 31 December 2022

	Attributable to the equity holders of the Bank										
	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	Total equity KD 000s
Balance as at 1 January 2021	262,500	249,052	(1,742)	102,971	103,349	(178,868)	150,011	687,273	151,625	40,866	879,764
Profit for the year	–	–	–	–	–	–	45,389	45,389	–	3,200	48,589
Other comprehensive loss for the year	–	–	–	–	–	(44,327)	–	(44,327)	–	(1,003)	(45,330)
Total comprehensive (loss) income for the year	–	–	–	–	–	(44,327)	45,389	1,062	–	2,197	3,259
Transfer to reserves	–	–	–	4,784	4,784	–	(9,568)	–	–	–	–
Bonus shares issued (note 12)	13,125	–	–	–	–	–	(13,125)	–	–	–	–
Right Shares issued (note 12)	37,500	33,750	–	–	–	–	–	71,250	–	–	71,250
Cash dividend (note 12)	–	–	–	–	–	–	(13,102)	(13,102)	–	–	(13,102)
Dividend paid to non-controlling interests	–	–	–	–	–	–	–	–	–	(271)	(271)
Foreign currency translation adjustment	–	–	–	–	–	–	375	375	(375)	–	–
Net transfer to retained earnings for derecognition of equity investments at FVOCI	–	–	–	–	–	541	(541)	–	–	–	–
Transfer to retained earnings	–	–	–	–	–	(564)	564	–	–	–	–
Right Shares issuance cost	–	–	–	–	–	–	(298)	(298)	–	–	(298)
Interest payment on Tier 1 capital securities	–	–	–	–	–	–	(8,677)	(8,677)	–	–	(8,677)
Balance as at 31 December 2021	313,125	282,802	(1,742)	107,755	108,133	(223,218)	151,028	737,883	151,250	42,792	931,925

* Refer to note 12 for further details.

The attached notes 1 to 24 form an integral part of these consolidated financial statements.

Financial Statements
Consolidated Statement of Cash Flows
Year ended 31 December 2022

	Notes	2022 KD 000s	2021 KD 000s
Operating activities			
Profit for the year before taxation and Board of directors' remuneration		**75,100**	55,297
Adjustments:			
Net investment income	15	**(7,002)**	(29,581)
Provision for credit losses	5	**25,287**	84,636
Provision release for other financial assets		**(10)**	(12)
Dividend income		**(2,002)**	(1,291)
Depreciation and amortisation		**14,053**	12,684
Net monetary loss	2.7	**24,597**	–
Operating profit before changes in operating assets and liabilities		**130,023**	121,733
Changes in operating assets and liabilities:			
Treasury bills and bonds with CBK and others		**(106,960)**	(51,698)
Due from banks and other financial institutions		**(141,610)**	132,350
Loans and advances to customers		**35,802**	(68,157)
Other assets		**22,686**	(11,208)
Due to banks		**(243,487)**	107,159
Due to other financial institutions		**334,592**	(245,425)
Deposits from customers		**(200,613)**	120,849
Other liabilities		**15,003**	(10,470)
Taxation paid		**(12,646)**	(4,737)
Net cash flows (used in) from operating activities		**(167,210)**	90,396
Investing activities			
Purchase of investment securities		**(497,159)**	(512,185)
Proceeds from sale of investment securities		**409,297**	480,792
Purchase of property and equipment		**(24,715)**	(2,951)
Net movement in non-controlling interests		**26**	–
Dividend income received		**2,002**	1,291
Net cash flows used in investing activities		**(110,549)**	(33,053)
Financing activities			
Other borrowed funds	10	**160,695**	(56,629)
Cash dividend paid to equity holders of the Bank	12	**(15,632)**	(13,102)
Cash dividend paid to non-controlling interests		**(1,932)**	(271)
Proceeds from increase of share capital		**–**	71,250
Right shares issuance cost		**–**	(298)
Interest payment on Tier 1 capital securities		**(8,815)**	(8,677)
Net cash flows from (used in) financing activities		**134,316**	(7,727)
Net (decrease) increase in cash and cash equivalents		**(143,443)**	49,616
Effect of foreign currency translation		**(20,879)**	(42,604)
Cash and cash equivalents at 1 January		**971,575**	964,563
Cash and cash equivalents at 31 December	3	**807,253**	971,575
Additional cash flow information:			
Interest received		**337,137**	226,778
Interest paid		**167,883**	133,416

The attached notes 1 to 24 form an integral part of these consolidated financial statements.

Financial Statements
Notes to the Consolidated Financial Statements
At 31 December 2022

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

The consolidated financial statements of the Bank and its subsidiaries (collectively the "Group") for the year ended 31 December 2022 were authorised for issue in accordance with a resolution of the Board of Directors on 16 January 2023 and are issued subject to the approval of the Annual General Assembly of the shareholders of the Bank. The Annual General Assembly of the Shareholders has the power to amend these consolidated financial statements after issuance.

The principal activities of the Group are explained in note 18.

The Bank is a subsidiary of Kuwait Projects Company Holding K.S.C.P. (the "Parent Company").

2.1 BASIS OF PREPARATION
a) Statement of compliance

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

The consolidated financial statements have been prepared in accordance with the regulations for financial services institutions as issued by the CBK in the State of Kuwait. These regulations, require banks and other financial institutions regulated by the CBK to adopt the IFRS, as issued by International Accounting Standards Board ("IASB"), except for:

(i) Expected credit loss ("ECL") to be measured at the higher of ECL provision on credit facilities computed under IFRS 9 in accordance with the CBK guidelines or the provisions as required by the CBK instructions along with its consequent impact on related disclosures; and

(ii) Recognition of modification losses on financial assets arising from payment holidays to customers as a result of Covid-19, during the financial year ended 31 December 2020, as required by the CBK circular reference no. 2/RB, RBA/461/2020. Modification losses referred to in the circular, should be recognised in retained earnings instead of profit or loss as would be required by IFRS 9. However, modification loss on financial assets arising from any other payment holidays to customers shall be recognised in the profit or loss in accordance with IFRS 9. All modification losses incurred after the year ended 31 December 2020, are recognised to the profit or loss. The application of the policy will result in application of different accounting presentation for modification losses in 2020 as compared to other periods.

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

The consolidated financial statements of the Group have been prepared using the accounting policies consistent to those applied for the year ended 31 December 2021 except as noted below in note 2.2. Certain prior year amounts have been restated/reclassified in order to conform to the current year presentation. Such reclassifications do not affect previously reported assets, liabilities, equity and profit for the year.

b) Functional and presentation currency

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

c) Basis of measurement

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

2.2 CHANGES IN ACCOUNTING POLICIES

New and amended standards and interpretations

The Group applied the following amendments effective from 1 January 2022.

Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37

An onerous contract is a contract under which the unavoidable of meeting the obligations under the contract costs (i.e., the costs that the Group cannot avoid because it has the contract) exceed the economic benefits expected to be received under it.

The amendments specify that when assessing whether a contract is onerous or loss-making, an entity needs to include costs that relate directly to a contract to provide goods or services including both incremental costs (e.g., the costs of direct labour and materials) and an allocation of costs directly related to contract activities (e.g., depreciation of equipment used to fulfil the contract and costs of contract management and supervision). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

This amendment had no impact on the consolidated financial statements of the Group.

Reference to the Conceptual Framework – Amendments to IFRS 3

The amendments replace a reference to a previous version of the IASB's Conceptual Framework with a reference to the current version issued in March 2018 without significantly changing its requirements.

The amendments add an exception to the recognition principle of IFRS 3 *Business Combinations* to avoid the issue of potential "Day 2" gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* or IFRIC 21 Levies, if incurred separately. The exception requires entities to apply the criteria in IAS 37 or IFRIC 21, respectively, instead of the Conceptual Framework, to determine whether a present obligation exists at the acquisition date.

The amendments also add a new paragraph to IFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date.

This amendment had no impact on the consolidated financial statements of the Group as there were no contingent assets, liabilities and contingent liabilities within the scope of these amendments that had arisen during the year.

Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16

The amendment prohibits entities from deducting from the cost of an item of property, plant and equipment, any proceeds of the sale of items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

These amendments had no impact on the consolidated financial statements of the Group as there were no sales of such items produced by property, plant and equipment made available for use on or after the beginning of the earliest period presented.

IFRS 9 Financial Instruments – Fees in the "10 per cent" test for derecognition of financial liabilities

The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. There is no similar amendment proposed for IAS 39 *Financial Instruments: Recognition and Measurement.*

These amendment had no impact on the consolidated financial information of the Group as there were no modifications of the Group's financial instruments during the year.

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 2022	Effective interest as at 31 December 2021
Algeria Gulf Bank S.P.A. ("AGB")	Banking	Algeria	**86.01%**	86.01%
Bank of Baghdad P.J.S.C. ("BoB")*	Banking	Iraq	**51.79%**	51.79%
Tunis International Bank S.A ("TIB")	Banking	Tunisia	**86.70%**	86.70%
Burgan Bank A.S. ("BBT")	Banking	Turkey	**99.71%**	99.63%
Burgan Bank Financial Services Limited ("BBFS")	Financial Advisory Services	UAE	**100.00%**	100.00%
Held through BoB*				
Baghdad Brokerage Company	Brokerage	Iraq	**–**	51.79%
Held through BBT				
Burgan Finansal Kiralama A.S	Leasing	Turkey	**99.71%**	99.63%
Burgan Yatirim Menkul Degerler A.S.	Brokerage	Turkey	**99.71%**	99.63%
Special purpose vehicle ("SPV") treated as a subsidiary				
Burgan Senior SPC Limited	Special purpose entity	UAE	**100.00%**	100.00%

* Classified as disposal group held for sale, refer note 9 for details.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Instruments

Recognition

A financial asset or a financial liability is recognised when the Group becomes a party to the contractual provisions of the instrument. All regular way purchase and sale of financial assets are recognised using settlement date accounting. Changes in fair value between the trade date and settlement date are recognised in the consolidated statement of income or in other comprehensive income in accordance with the policy applicable to the related instrument. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulations or conventions in the market place.

Classification and measurement

Initial classification and measurement of financial instruments

The classification of financial instruments at initial recognition depends on the business model for managing the instruments and on their contractual cash flow characteristics. Financial instruments are initially measured at their fair value. 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.

Financial Statements
Notes to the Consolidated Financial Statements continued
At 31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

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 cash flow characteristics

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

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

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

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

Subsequent classification and measurement categories of financial assets

The Group classifies all of its financial assets as either:

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

Financial asset carried at amortised cost

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

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

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

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

Financial asset at fair value through other comprehensive income

a) Debt instruments carried at FVOCI:

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

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

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

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

b) Equity instruments carried at FVOCI

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

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

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

Financial assets carried at FVTPL

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

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

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

Subsequent classification and measurement categories of financial liabilities

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

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

Financial guarantees and loan commitments

In the ordinary course of business, the Group issues financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised as a liability at fair value, being the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the consolidated statement of income, and the higher of ECL under IFRS 9 according to the CBK guidelines and provision required by the CBK instructions.

Undrawn loan commitments and letters of credits are commitments under which, over the duration of the commitment, the Group is required to provide a loan with pre-specified terms to the customer. Similar to financial guarantee contracts, under IAS 39, a provision was recognised if they were an onerous contract and the higher of ECL under IFRS 9 according to the CBK guidelines and provision required by the CBK instructions.

De-recognition

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

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

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

Financial Statements
Notes to the Consolidated Financial Statements continued
At 31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

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

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

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

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

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

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 to the CBK guidelines. These financial assets comprise investments in debt securities measured at amortised cost or FVOCI and on balances and deposits with banks. Equity investments are not subject to ECL.

Expected credit losses under IFRS 9 as per the CBK guidelines

The Group has established a policy to perform an assessment at the end of each reporting period of whether there has been a significant increase in credit risk since initial recognition by considering the change in the risk of default occurring over the remaining life of the financial instrument.

ECL are estimated based on the present value of all cash shortfalls over the remaining expected life of the financial asset, i.e., the difference between:

- The contractual cash flows that are due to the Group under the contract; and
- The cash flows that the Group expects to receive, discounted at the effective interest rate of the credit facility.

The Group applies a three-stage approach to classify and measure the ECL on the financial assets classified as credit facilities, as described below:

Stage 1: 12-month ECL

For financial assets classified as credit facilities where there has not been any significant increase in credit risk since their initial recognition or those credit facilities which are determined to have a low credit risk at the reporting date, the Group classifies these facilities under Stage 1 and measures the loss allowance which is a result of defaults that are expected to arise over the next 12 months ("12-month ECL") on these financial assets.

Stage 2: Lifetime ECL – not credit impaired

For financial assets classified as credit facilities where there has been a significant increase in credit risk since initial recognition but are not credit impaired, the Group classifies these facilities under Stage 2 and measures loss allowance which is a result of defaults that are expected to arise over the lifetime ("Lifetime ECL") on these financial assets.

Stage 3: Lifetime ECL – credit impaired

For financial assets classified as credit facilities which are in default and credit impaired, the Group classifies these facilities under Stage 3 and measures loss allowance at an amount equal to 100% of net exposure i.e. exposure after deduction of eligible collateral.

Staging of credit facilities

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

- Deterioration in the customer rating of the borrower indicating default;
- A material decrease in the underlying collateral value where the recovery of the loan is expected from the sale of the collateral;
- A material deterioration in the customer's financial position in the opinion of the Group causing concerns on the repayment ability;
- A material covenant breach in a committed facility;
- Filing for bankruptcy or liquidation;
- Downgrade in the facility's credit rating by 2 grades for the facilities with Investment Grade rating and by 1 grade for those with Non-Investment Grade rating.

Except for consumer and instalment credit facilities, transfer of credit facility from Stage 2 to Stage 1 is made after a curing period of 12 months from the satisfaction of all conditions that triggered classification of the credit facility to Stage 2. In addition, the Group also complies with the CBK guidelines with respect to transfer.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Definition of default

The Group considers a financial asset to be in default and therefore, Stage 3 (credit impaired) when:

- The borrower is past due for more than 90 days on its credit obligation to the Group;
- The borrower is facing significant financial difficulty;
- The borrower is assessed as credit impaired based on internal qualitative and quantitative assessment; or
- Other indicators such as breach of covenants, customer being deceased etc.

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

Measurement of ECL

ECL are probability weighted estimates of credit losses and are measured as the present value of all cash shortfalls discounted at the effective interest rate of the financial instrument. Cash shortfall represent the difference between cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive.

The key elements in the measurement of ECL includes exposure at default, probability of default and loss given default.

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

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

The Loss Given Default ("LGD") is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD. In addition, 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 document its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows attributable to the hedge risk.

The Group discontinues hedge accounting when the following criteria are met:

a) it is determined that the hedging instrument is not, or has ceased to be, highly effective as a hedge;
b) the hedging instrument expires, or is sold, terminated, or exercised;
c) the hedged item matures or is sold or repaid; or
d) 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.

Financial Statements
Notes to the Consolidated Financial Statements continued
At 31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in other comprehensive income at that time remains in other comprehensive income and is recognised when the hedged forecast transaction is ultimately recognised in the consolidated statement of income. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was recognised in other comprehensive income is immediately transferred to the consolidated statement of income.

Hedge of net investment in a foreign operation

Hedges of net investments in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a way similar to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised in other comprehensive income while any gains or losses relating to the ineffective portion are recognised in the consolidated statement of income. On disposal of the foreign operation, the cumulative value of any such gains or losses recognised in other comprehensive income is transferred to the consolidated statement of income.

Fair value measurement

The Group measures financial instruments, such as, derivatives, investment securities etc., at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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.

Financial Statements
Notes to the Consolidated Financial Statements continued
At 31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

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	four to 11 years
Motor vehicles	three to seven years
Computers	five 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
Customer relationships and core customer deposits	five to 10 years

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated statement of income when the asset is derecognised. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised.

Leases

At inception of a contract, the Group assesses whether the contract is a lease. A contract is a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for a consideration. If the contract is identified as a lease, the Group recognises a right-of-use asset and a lease liability at the lease commencement date. The Group elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and lease contracts for which the underlying asset is of low value.

Right-of-use assets

The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred. The right-of-use asset is subsequently depreciated using the straight-line method over the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any. The Group presents right-of-use assets in 'property and equipment' in the consolidated statement of financial position.

Lease liabilities

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the Group's incremental borrowing rate. The lease liability is subsequently measured at amortised cost using the effective interest rate method. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, or a change in the lease payments. The Group presents lease liabilities in 'other liabilities' in the consolidated statement of financial position.

Business combinations and goodwill

A business combination is the bringing together of separate entities or businesses into one reporting entity as a result of one entity, the acquirer, obtaining control of one or more other businesses. The acquisition method of accounting is used to account for business combinations. Under this method, the acquirer recognises, separately from goodwill, identifiable assets acquired, liabilities assumed and any non-controlling interests in the acquiree at the acquisition date.

The identifiable assets acquired and the liabilities assumed at the acquisition date are measured at fair values. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed in the period in which they are incurred.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through the consolidated statement of income. It is then considered in the determination of goodwill.

Goodwill arising in a business combination is recognised as of the acquisition date as the excess of:

a) the aggregate of the consideration transferred, the amount of any non-controlling interests in the acquiree measured at fair value or at the non-controlling interest's proportionate share of the acquiree's;
b) identifiable net assets and the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree; over
c) the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed measured at their fair values.

If the aggregate consideration transferred is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in the consolidated statement of income.

Goodwill is allocated to each of the Group's cash-generating units or for groups of cash-generating units and is tested annually for impairment and is assessed regularly whether there is any indication of impairment. Goodwill impairment is determined by assessing the recoverable amount of cash-generating unit to which goodwill relates.

The recoverable value is the higher of the fair value less costs to sell and its value in use of the cash-generating unit, which is the net present value of estimated future cash flows expected from such cash-generating unit. If the recoverable amount of cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit prorated on the basis of the carrying amount of each asset in the unit. Any impairment loss recognised for goodwill is not reversed in the subsequent period.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operations within that unit is disposed off, the goodwill associated with the operation disposed off is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation.

End of service benefits

Provision is made under the Kuwait Labour Law, employee contracts and respective applicable laws in the countries where the subsidiaries operate. This liability, which is unfunded, represents the amount payable to each employee and is a reliable approximation of the obligation as at the reporting date. The Group also makes contributions to State plans and the obligation is limited to the contributions made.

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.

Financial Statements
Notes to the Consolidated Financial Statements continued
At 31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Any realised losses are recognised in the same account to the extent of the credit balance on that account. Any excess losses are recognised in retained earnings then to the voluntary reserve and statutory reserve. Gains realised subsequently on the sale of treasury shares are first used to offset any previously recorded losses in the order of reserves, retained earnings and the treasury shares reserve account. These shares are not entitled to any cash dividend that the Bank may propose. The issue of bonus shares increases the number of shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

Share based compensation

The Group operated an equity settled share based compensation plan. The cost of share based compensation transactions with employees is measured by reference to the fair value at the date on which they are granted. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options or shares on the date of grant using the Black Scholes model. Measurement inputs include share price on grant date, exercise price, volatility, risk free interest rate and expected dividend yield. At each reporting date, the Group revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the consolidated statement of income, with a corresponding adjustment to equity.

Other reserve

Other reserve is used to record the effect of changes in ownership interest in subsidiaries, without loss of control, changes in fair value of cash flow hedges, hedge of net investments in foreign operations and other comprehensive income from disposal group held for sale.

Revenue recognition

Interest and similar income and expense

Interest income and expense are recognised in the consolidated statement of income for all financial instruments measured at amortised cost, interest bearing assets classified as FVOCI and financial instruments designated at FVTPL using effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future cash flows through the expected life of the financial instrument or, a shorter period, when appropriate, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, all fees and charges paid or received between parties to the contract, transaction costs and all other premiums or discounts are considered, but not future credit losses.

Once a financial instrument is impaired, interest is thereafter recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

When the Group enters into an interest rate swap to change interest from fixed to floating (or vice versa) the amount of interest income or expense is adjusted by the net interest on the effective portion of the swap. All fees paid or received are treated as an integral part of the effective interest rate of financial instruments and are recognised over the contractual period, except when the underlying risk is sold to a third party, at which time it is recognised immediately.

Fee and commission income

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

Dividend income

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

Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed and is included in the same line item in the consolidated statement of income.

Foreign currency

Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transaction and balances

Transactions in foreign currencies are initially recorded at the spot rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the spot rate of exchange ruling at the reporting date. Any resultant gains or losses are recognised in the consolidated statement of income.

Non-monetary assets and liabilities in foreign currencies that are stated at fair value are translated to respective entity's functional currency at the foreign exchange rates ruling on the dates that the values were determined. In case of non-monetary assets whose change in fair values are recognised directly in OCI, foreign exchange differences are recognised directly in OCI and for non-monetary assets whose change in fair value are recognised directly in the consolidated statement of income, foreign exchange differences are recognised in the consolidated statement of income.

Group companies upon consolidation

As at the reporting date, the assets and liabilities of subsidiaries are translated into the Bank's presentation currency (i.e. "KD") at the rate of exchange ruling on the reporting date, and their statements of income are translated at the average exchange rates for the year. Exchange differences arising on translation are taken directly to OCI. On disposal of a foreign subsidiary, the deferred cumulative amount recognised in OCI relating to that particular subsidiary is recognised in the consolidated statement of income.

Any goodwill or fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the respective subsidiaries and translated at the rate of exchange ruling on the reporting date.

Taxation

National Labour Support Tax (NLST)

The Bank calculates the NLST in accordance with Law No. 19 of 2000 and the Ministry of Finance Resolution No. 24 of 2006 at 2.5% of taxable profit for the year. As per the law, cash dividends from listed companies which are subjected to NLST have been deducted from the profit for the year.

Contribution to Kuwait Foundation for the Advancement of Sciences (KFAS)

The Bank calculates the contribution to KFAS at 1% of the profit in accordance with the calculation based on the Foundation's Board of Directors' resolution.

Zakat

Contribution to Zakat is calculated at 1% of the profit of the Bank in accordance with Law No. 46 of 2006 and the Ministry of Finance resolution No. 58/2007 effective from 10 December 2007.

Taxation on overseas subsidiaries

Taxation on overseas subsidiaries is calculated on the basis of the tax rates applicable and prescribed according to the prevailing laws, regulations and instructions of the countries where these subsidiaries operate. Income tax payable on taxable profit ('current tax') is recognised as an expense in the period in which the profits arise in accordance with the fiscal regulations of the respective countries in which the Group operates.

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except when the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Deferred tax assets and liabilities are measured using tax rates and applicable legislation at the reporting date.

Segment information

A segment is a distinguishable component of the Group that engages in business activities from which it earns revenue and incurs costs. The operating segments are used by management of the Bank to allocate resources and assess performance. Operating segments exhibiting similar economic characteristics, product and services, class of customers where appropriate are aggregated and reported as reportable segments.

Financial Statements
Notes to the Consolidated Financial Statements continued
At 31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Contingencies
Contingent assets are not recognised in the consolidated financial statements, but are disclosed when an inflow of economic benefit is probable.

Contingent liabilities are not recognised in the consolidated financial statements, but are disclosed unless the possibility of an outflow of resources embodying economic benefit is remote.

Fiduciary assets
Assets and related deposits held in trust or in a fiduciary capacity are not treated as assets or liabilities of the Group and accordingly, are not included in the consolidated statement of financial position.

2.5 STANDARDS ISSUED BUT NOT YET EFFECTIVE

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Bank's consolidated financial statements are disclosed below. The Bank intends to adopt these standards, if applicable, when they become effective.
- Classification of Liabilities as Current or Non-current (Amendments to IAS 1);
- Disclosure of Accounting Policies – Amendments to IAS 1 and IFRS Practice Statement 2;
- IFRS 17 Insurance Contracts and amendments to IFRS 17 Insurance Contracts;
- Disclosure of Accounting Estimates (Amendments to IAS 8);
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12); and
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28).

2.6 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures, as well as, the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Judgments
In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the consolidated financial statements:

Classification of financial assets
The Group determines the classification of financial assets based on the assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding.

Deferred tax assets
Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that future taxable profits will be available against which the losses can be utilised. Judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax planning strategies.

Significant judgement in determining the lease term of contracts with renewal options
The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The following are the critical judgments in the application of IFRS 16, apart from those involving estimations, that management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements:
- identifying whether a contract (or part of a contract) includes a lease;
- determining whether it is reasonably certain that an extension or termination option will be exercised; and
- classification of lease arrangements (when the entity is a lessor).

Hedge of net investment in foreign operations
The management exercises judgement to determine the amount of net assets of the subsidiary to be hedged (also called as hedge ratio) based on the future expected changes in the functional currency exchange rate movements of the subsidairy, hedge cost and forward exchange rated and its impact on the Group's net assets.

Estimation uncertainty and assumptions
The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Impairment of goodwill
The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use or fair value less cost to sell of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

Fair value of assets and liabilities including intangible assets
Considerable judgement by management is required in the estimation of the fair value of the assets including intangible assets with finite useful life, liabilities and contingent liabilities acquired.

Impairment losses on loans and advances
Considerable judgement by management is required in the estimation of the amount and timing of future cash flows, collateral values, significant increase in credit risk, rating models, ECL models, macro economic variables when determining the level of provisions required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty, and actual results may differ resulting in future changes to such provisions.

Fair value measurement of financial instruments
When the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the discounted cash flows model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Any changes in these estimates and assumptions, as well as, the use of different, but equally reasonable estimates and assumptions may have an impact on carrying amounts of loans and receivables and investments at FVOCI.

2.7 HYPERINFLATION

The Bank, through its subsidiary Burgan Bank A.S. ("BBT"), has banking operations in Turkey. The Turkish economy has been assessed as a hyperinflationary economy based on the cumulative inflation rates over the previous three years, effective for reporting period on or after 30 April 2022. Accordingly, these consolidated financial statements include the effects of hyperinflation in accordance with IAS 29 "*Financial Reporting in Hyperinflationary Economies*" stemming from its Turkish operations. IAS 29 has been applied from 1 January 2022 i.e. the beginning of the reporting period in which the Group identified hyperinflation.

The Group has determined the Consumer Price Index ("CPI") as the appropriate general price index to be used in the inflation accounting and it was measured at 1,128.45 as at 31 December 2022 (31 December 2021: 686.95). The inflation accounting was applied to the books of BBT from the date of acquisition i.e. December 2012.

2.8 INTEREST RATE BENCHMARK REFORM – PHASE 2

The Group has exposure to the London Interbank offered rates (LIBOR), the benchmark rate, through its financial instruments, which will be replaced as part of the fundamental reform of various major interest rate benchmarks. The Group Treasury provides oversight over the transition from LIBORs to alternative reference rates. This includes evaluating the extent to which assets and liabilities are referenced to LIBOR cash flows, whether such contracts need to be amended as a result of those reforms and how to manage communication about LIBOR reform with counterparties. The new contracts to be entered by the Group on or after 1 January 2022 will be based on using various alternative benchmark interest rates including certain "risk-free" rates.

Transition away from LIBOR to the risk-free or alternative "reference rate" ("RFR") regime will affect the pricing of deposits, loan financing, hedging instruments and debt securities.

Financial assets and liabilities
The Group's exposure to IBOR linked financial assets and liabilities is mainly through USD LIBOR. The Group will perform transition of these contracts to RFRs through bilateral agreements not later than June 2023.

Financial Statements
Notes to the Consolidated Financial Statements continued
At 31 December 2022

2.8 INTEREST RATE BENCHMARK REFORM – PHASE 2 continued
The Group's exposure to financial assets and liabilities that are based on USD LIBOR maturing after June 2023 is KD 116,767 thousand (2021: KD 182,126 thousand) and KD 295,580 thousand (2021: KD 291,913 thousand) respectively. The Group is in discussion with the counterparties clients to effect an orderly transition of USD exposures to the relevant RFR.

Derivatives held for hedging purposes
The Group is required to transition USD LIBOR based derivatives no later than June 2023. The notional value of USD LIBOR derivatives designated as fair value hedges, maturing after June 2023 is KD 16,847 thousand as at 31 December 2022 (2021: KD 20,933 thousand).

3. CASH AND CASH EQUIVALENTS

	2022 KD 000s	2021 KD 000s
Cash on hand and in current account with banks and OFIs	301,402	409,283
Balances with the CBK	168,734	165,839
Due from banks and OFIs with original maturity within thirty days	189,253	246,502
	659,389	821,624
Expected credit losses	(5)	(16)
Cash and cash equivalents as per consolidated statement of financial position	659,384	821,608
Cash and cash equivalents attributable to disposal group held for sale (Note 9)	147,869	149,967
Cash and cash equivalents as per consolidated statement of cash flows	807,253	971,575

4. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	2022 KD 000s	2021 KD 000s
Loans and advances		
– Banks	38,218	20,111
– Other financial institutions (OFIs)	219,602	196,762
	257,820	216,873
Deposits with banks	249,704	139,439
Gross due from banks and OFIs	507,524	356,312
Provision (Note 5)	(25,413)	(24,945)
Expected credit losses	(10)	(43)
	482,101	331,324

5. LOANS AND ADVANCES TO CUSTOMERS
a) Balances

	2022 KD 000s	2021 KD 000s
Corporate	3,928,638	4,069,684
Retail	454,904	366,573
Gross loans and advances to customers	4,383,542	4,436,257
Provision	(155,805)	(157,548)
	4,227,737	4,278,709

b) Provisions

	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

	Banks and OFIs KD 000s	Corporate KD 000s	Retail KD 000s	Total KD 000s
At 1 January 2021	25,368	240,151	15,858	281,377
Exchange adjustment	(2)	(10,720)	(167)	(10,889)
Amounts written off	–	(141,763)	(5,310)	(147,073)
Charged to consolidated statement of income	27	80,628	3,981	84,636
Transferred to disposal group held for sale (Note 9)	–	(6,419)	–	(6,419)
At 31 December 2021	25,393	161,877	14,362	201,632

The provision includes KD 24,339 thousand (2021: KD 19,139 thousand), being provision for non-cash facilities reported under other liabilities (Note 11), of which KD 489 thousand (2021: KD 448 thousand) relates to due from Banks and OFIs.

The impairment provision for credit facilities complies in all material respects with the specific provision requirements of the CBK and IFRS as adopted by the CBK for use by the State of Kuwait. In March 2007, the CBK issued a circular amending the basis of making minimum general provisions on facilities changing the rate from 2% to 1% for cash facilities and 0.5% for non cash facilities. The revised rates are applied effective from 1 January 2007 on the net increase in facilities, net of certain restricted categories of collateral during the reporting period. The general provision as of 31 December 2006 in excess of the present 1% for cash facilities and 0.5% for non cash facilities amounts to KD 16,154 thousand and is retained as a general provision until further directive from the CBK. Interest income on impaired loans and advances is immaterial.

During the year, the Group recovered KD 4,150 thousand (2021: KD 13,422 thousand) from customers whose balances were written off and recorded the same under other income in the consolidated statement of income.

The breakup of specific and general provision is as follows:

	2022 KD 000s	2021 KD 000s
General provision	185,903	181,579
Specific provision	19,654	20,053
	205,557	201,632

Financial Statements
Notes to the Consolidated Financial Statements continued
At 31 December 2022

5. LOANS AND ADVANCES TO CUSTOMERS continued

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 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

31 December 2021	Stage 1 KD 000s	Stage 2 KD 000s	Stage 3 KD 000s	Total KD 000s
High	496,252	977	–	497,229
Standard	3,334,541	581,615	–	3,916,156
Past due or impaired	9,135	150,879	79,731	239,745
Loans and advances to Banks, OFIs and customers	3,839,928	733,471	79,731	4,653,130
Contingent liabilities*	2,265,073	199,110	14,721	2,478,904
ECL allowance for credit facilities	27,873	55,672	47,920	131,465

* Includes commitments to extend non-cash facilities.

The weightings assigned to each macro-economic scenario are based on the credit cycle index, and as at 31 December 2022, were 40% to the Base Case, 30% to Downside and 30% to the Upside Case. (2021: 40% to the Base Case, 30% to Downside and 30% to the Upside Case).

An analysis of the changes in the ECL allowance for credit facilities (cash and non-cash facilities) computed under IFRS 9 in accordance with the CBK guidelines is as follows:

	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

	31 December 2021			
	Stage 1 KD 000s	Stage 2 KD 000s	Stage 3 KD 000s	Total KD 000s
ECL allowance as at 1 January 2021	52,962	99,591	100,162	252,715
ECL movement for the year	(23,497)	(30,080)	125,458	71,881
Amounts written off	–	–	(147,073)	(147,073)
Foreign exchange adjustments	(1,592)	(13,839)	(30,627)	(46,058)
Balance at 31 December 2021	27,873	55,672	47,920	131,465

6. INVESTMENT SECURITIES

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

As at 31 December 2021	FVOCI KD 000s	FVTPL KD 000s	Amortised cost KD 000s	Associate KD 000s	Total KD 000s
Debt securities	271,487	3,033	119,427	–	393,947
Equity securities	155,884	13,029	–	4,579	173,492
Managed funds	–	82,441	–	–	82,441
Less: Expected credit losses	–	–	(614)	–	(614)
	427,371	98,503	118,813	4,579	649,266

7. OTHER ASSETS

	2022 KD 000s	2021 KD 000s
Accrued interest receivable	97,334	110,993
Prepaid expenses	3,677	3,051
Assets pending sale*	85,480	98,836
Deferred tax assets	8,362	5,250
Taxation paid in advance	3,784	3,496
Sundry debtors	10,580	9,375
Other balances	48,984	46,712
Less: Expected credit losses	(153)	(151)
	258,048	277,562

* 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 2022	8,036	40,053	48,089
Exchange adjustment	134	1,429	1,563
At 31 December 2022	8,170	41,482	49,652
Amortisation			
At 1 January 2022	–	29,677	29,677
Charge for the year	–	2,445	2,445
At 31 December 2022	–	32,122	32,122
Net book value			
At 31 December 2022	8,170	9,360	17,530
At 31 December 2021	8,036	10,376	18,412

Financial Statements
Notes to the Consolidated Financial Statements continued
At 31 December 2022

8. INTANGIBLE ASSETS continued
The carrying amounts of goodwill and other intangible assets allocated to each CGU are as follows:

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

	Goodwill KD 000s	Other intangible assets KD 000s Banking license	Customer relationships	Core customer deposits	Total	Total KD 000s
AGB	2,834	5,196	–	–	5,196	8,030
TIB	5,202	5,033	–	–	5,033	10,235
BBT	–	–	130	17	147	147
At 31 December 2021	8,036	10,229	130	17	10,376	18,412

Impairment testing of goodwill
The carrying value of goodwill is tested for impairment on an annual basis (or more frequently if evidence exists that goodwill might be impaired) by estimating the recoverable amount of the cash-generating unit ("CGU") to which these items are allocated using value-in-use calculations unless fair value based on active market price is higher than the carrying value of the CGU. The value in use calculations use pre-tax cash flow projections based on financial projections approved by management over a five years period and a relevant terminal growth rate of 5% (2021: 5%). These cash flows were then discounted using a pre-tax discount rate of 25% to 30% (2021: 18% to 25%) to derive a net present value which is compared to the carrying value. The discount rate used is pre-tax and reflects specific risks relating to the relevant CGU. The recoverable amounts are either higher or approximates the carrying value of goodwill. The Group has also performed a sensitivity analysis by varying these input factors by a reasonable possible margin. Based on such analysis, there are no indications that goodwill is impaired considering the level of judgments and estimations used.

9. DISPOSAL GROUP HELD FOR SALE
The Group owns 51.79% equity interest in Bank of Baghdad ("BoB"). The investment in BoB was classified as disposal group held for sale as at 31 December 2020, based on approval from the Board of Directors, as the Bank had the intention to sell the investment in BoB and was actively looking for buyers and is carried at lower of carrying value or fair value less costs to sell in accordance with *"IFRS 5- Non-current Assets Held for Sale and Discontinued Operations*".

During the year, the Bank has signed a binding offer with Jordan Kuwait Bank ("JKB") along with the approvals of the Board of Directors of the Bank, Board of Directors of JKB and Central Bank of Jordan.

Subsequent to the year end, the Bank has obtained the approval from Central Bank of Iraq. The completion of the transaction is subject to fulfilment of legal documentation and Iraqi Stock Exchange requirements.

The results for the year are presented below:

	2022 KD 000s	2021 KD 000s
Interest income	9,184	4,193
Interest expense	(2,038)	(1,440)
Net interest income	**7,146**	2,753
Fee and commission income	12,158	10,036
Fee and commission expense	(522)	(467)
Net fee and commission income	**11,636**	9,569
Net gain from foreign currencies	3,688	4,571
Other income	78	69
Operating income	**22,548**	16,962
Staff expenses	(3,013)	(3,054)
Other expenses	(3,264)	(2,485)
Operating profit before provision	**16,271**	11,423
Provision for credit losses (Note 5 (b))	(5,029)	(6,419)
Profit for the year before taxation	**11,242**	5,004
Taxation	(2,052)	(1,744)
Profit for the year	**9,190**	3,260

Assets and liabilities of disposal group classified as held for sale as at 31 December are, as follows:

	2022 KD 000s	2021 KD 000s
ASSETS		
Cash and cash equivalents (note 3)	147,869	149,967
Treasury bills and bonds	136,613	83,814
Due from banks and other financial institutions	26,142	35,777
Loans and advances to customers	10,256	12,693
Investment securities	686	1,328
Other assets	4,732	4,486
Property and equipment	16,088	12,423
TOTAL ASSETS	**342,386**	300,488
LIABILITIES		
Due to banks	181	417
Deposits from customers	264,712	236,085
Other borrowed funds	123	337
Other liabilities	16,188	12,584
TOTAL LIABILITIES	**281,204**	249,423

	2022 KD 000s	2021 KD 000s
Net assets directly associated with disposal group	61,182	51,065

The net cash flows are as follows:

	2022 KD 000s	2021 KD 000s
Net cash flows from (used in):		
– Operating activities	3,904	7,329
– Investment activities	(3,282)	(1,962)
– Financing activities	(4,893)	(14)
Net (decrease) increase in cash and cash equivalents during the year	(4,271)	5,353

9. DISPOSAL GROUP HELD FOR SALE continued

Material non-controlling interests

The management of the Bank has concluded that Bank of Baghdad ("BoB") is the only subsidiary, which has non-controlling interests that is material to the Group. The information relating to non-controlling interests is as follows:

	2022 KD 000s	2021 KD 000s
Accumulated balances	**29,949**	26,344
Profit attributable	**4,430**	1,572

10. OTHER BORROWED FUNDS

	Effective interest rate	2022 KD 000s	2021 KD 000s
Murabaha facility – unsecured 2024	**3M Libor + (1.00% –1.18%)**	**152,818**	150,680
Subordinated bonds – 2031*	**2.750%**	**152,542**	150,498
Medium term borrowing – unsecured (2023 to 2026)	**3M Libor + (1.00% –1.40%)**	**325,741**	321,305
Medium term borrowing – unsecured (2025)	**SOFR+ 1.05%**	**152,291**	–
		783,392	622,483

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

Movement in other borrowed funds included in the consolidated statements of cash flows under financing activities includes KD 7,035 thousand (2021: KD 714 thousand) arising from foreign currency translation.

11. OTHER LIABILITIES

	2022 KD 000s	2021 KD 000s
Accrued interest payable	**39,647**	31,516
Staff benefits	**20,513**	17,662
Provision for non-cash credit facilities (note 5)	**24,339**	19,139
Clearing cheques and balances	**29,605**	36,947
Income received in advance	**14,011**	10,445
Other payable and accruals	**49,680**	44,033
Deferred tax liabilities	**6,595**	196
Taxation payable	**16,944**	12,759
Other balances	**42,557**	53,071
	243,891	225,768

12. EQUITY AND RESERVES

a) Authorised, issued and fully paid up capital of the Bank

	2022	2021
Authorised share capital (shares of 100 fils each)	**4,000,000,000**	4,000,000,000
Issued and fully paid up capital (shares of 100 fils each)	**3,287,812,500**	3,131,250,000

b) On 5 April 2022, the Annual General Assembly approved the distribution of cash dividend of five fils per share (2020: five fils) and bonus shares of 5% (2020: 5%) for the year ended 31 December 2021.

c) During the previous year, after obtaining necessary approvals, the Bank increased its paid up share capital through the issuance of rights issue of 375,000,000 shares, each with a nominal value of 100 fils and share premium of 90 fils. The rights issue were fully subscribed resulting in an increase in share capital of KD 37,500 thousand and share premium of KD 33,750 thousand during the previous year.

d) The share premium and treasury shares reserve are not available for distribution. The Companies Law and the Bank's articles of association require that 10% of the profit for the year attributable to equity holders of the Bank before Board of Directors remuneration, NLST, KFAS and Zakat be transferred annually to statutory reserve. The Bank may resolve to discontinue such annual transfers when the reserve equals 50% of paid up share capital. Distribution of statutory reserve is limited to the amount required to enable the payment of dividend of 5% of share capital in years when accumulated profits are not sufficient for the payment of a dividend of that amount.

e) The articles of association of the Bank requires an amount of not less than 10% of the profit for the year attributable to equity holders of the Bank before Board of Directors remuneration, NLST, KFAS and Zakat be transferred annually to the voluntary reserve. There is no restriction on distribution of this reserve, except as noted in note 12 (f).

f) Treasury shares

	2022	2021
Number of shares held	**5,057,911**	4,811,693
Percentage of shares held	**0.15%**	0.15%
Cost KD 000s	**1,742**	1,742
Market value KD 000s	**1,103**	1,193
Weighted average market value per share (fils)	**260**	224

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.

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

	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**
Impact of application of IAS 29 (Note 2.7)	**–**	**–**	**25,958**	**–**	**–**	**–**	**–**	**25,958**
Balance at 31 December 2022	**43,135**	**(105,846)**	**(216,666)**	**24,956**	**18,889**	**(1,478)**	**(6,153)**	**(243,163)**

	31 December 2021								
	Treasury shares reserve KD 000s	Fair value reserve KD 000s	Share based compensation 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 2021	43,135	(49,953)	564	(181,259)	13,145	2,295	(1,478)	(5,317)	(178,868)
Other comprehensive (loss) income for the period	–	(16,188)	–	(42,343)	9,362	4,842	–	–	(44,327)
Total comprehensive (loss) income	–	(16,188)	–	(42,343)	9,362	4,842	–	–	(44,327)
Transfer related to disposal group held for sale	–	202	–	1,088	–	–	–	(1,290)	–
Net transfer to retained earnings for derecognition of equity investments at FVOCI	–	541	–	–	–	–	–	–	541
Transfer to retained earnings	–	–	(564)	–	–	–	–	–	(564)
Balance at 31 December 2021	43,135	(65,398)	–	(222,514)	22,507	7,137	(1,478)	(6,607)	(223,218)

Financial Statements
Notes to the Consolidated Financial Statements continued
At 31 December 2022

12. EQUITY AND RESERVES continued

h) Proposed dividend
The Board of Directors has recommended distributing cash dividend of eight fils per share (2021: five fils) and bonus shares of 5% (2021: 5%) for the financial year ended 31 December 2022. Subject to approval at the annual general meeting ("AGM") of the shareholders, the cash dividend and bonus shares shall be payable to shareholders registered in the Bank's records as of the AGM date.

i) Perpetual Tier 1 Capital Securities
On 2 July 2019, the Bank issued Perpetual Tier 1 Capital Securities (the "Tier 1 securities"), amounting to USD 500,000 thousand.

The Tier 1 securities constitute direct, unconditional, subordinated and unsecured obligations of the Bank and are classified as equity in accordance with IAS 32, *Financial Instruments – Classification*. The Tier 1 securities do not have a maturity date. They are redeemable by the Bank at its discretion after 9 July 2024 (the "First Call Date") or on any interest payment date thereafter subject to the prior consent of the regulatory authority.

The Tier 1 securities bear interest on their nominal amount from the issue date to the First Call Date at a fixed annual rate of 5.7492%. Thereafter, the interest rate will be reset at five-year intervals. Interest will be payable semi-annually in arrears and treated as a deduction from equity.

The Bank, at its sole discretion, may elect not to distribute interest and this is not considered an event of default. If the Bank does not pay interest on the Tier 1 securities, on a scheduled interest payment date (for whatever reason), then the Bank must not make any other distribution or payment on or with respect to its other shares that rank equally with or junior to the Tier 1 securities (other than pro-rata distributions or payments on shares that rank equally with Tier 1 securities) unless and until it has paid two consecutive interest payments in full on the Tier 1 securities.

13. INTEREST INCOME

	2022 KD 000s	2021 KD 000s
Loans and advances to customers	**249,813**	211,241
Due from banks and other financial institutions	**49,711**	31,551
Treasury bills and bonds	**6,298**	7,450
Investment securities	**17,656**	3,879
	323,478	254,121

14. INTEREST EXPENSE

	2022 KD 000s	2021 KD 000s
Deposits from customers	**109,687**	76,677
Due to banks	**40,506**	33,256
Due to other financial institutions	**4,242**	448
Other borrowed funds	**21,579**	15,566
	176,014	125,947

15. NET INVESTMENT INCOME

	2022 KD 000s	2021 KD 000s
Net gain on financial assets at FVTPL	**6,736**	28,764
Net gain from financial assets at FVOCI	**138**	371
Share of result from associates	**128**	446
	7,002	29,581

16. TAXATION

	2022 KD 000s	2021 KD 000s
NLST	**1,094**	1,004
KFAS	**493**	481
Zakat	**519**	476
Taxation on overseas subsidiaries	**14,334**	4,747
	16,440	6,708

Components of taxation arising from overseas subsidiaries are as follows:

	2022 KD 000s	2021 KD 000s
Current tax	**17,462**	6,646
Deferred tax	**(3,128)**	(1,899)
	14,334	4,747

The tax rate applicable to the taxable subsidiary companies is in the range of 15% to 35% (2021: 15% to 35%) whereas the effective income tax rate for the year ended 31 December 2022 is in the range of 15% to 34% (2021: 27% to 28%). For the purpose of determining the taxable results for the year, the accounting profit of the overseas subsidiary companies were adjusted for tax purposes. Adjustments for tax purposes include items relating to both income and expense. The adjustments are based on the current understanding of the existing laws, regulations and practices of each overseas subsidiary company's jurisdiction.

17. EARNINGS PER SHARE

Basic and diluted earnings per share is computed by dividing the profit for the year attributable to equity holders of the Bank after interest payment and other movements on Tier 1 capital securities by the weighted average number of shares outstanding during the year less treasury shares.

The computation of basic and diluted earnings per share is as follows:

	2022 KD 000s	2021 KD 000s
Profit for the year attributable to equity holders of the Bank	**52,130**	45,389
Less: Interest payment and other movements on Tier 1 capital securities	**(10,715)**	(8,302)
Profit for the year attributable to equity holders of the Bank after interest and other movements on Tier 1 capital securities	**41,415**	37,087
	Shares	**Shares**
Weighted average number of outstanding shares, net of treasury shares	**3,282,754,589**	2,962,687,273
Basic and diluted earnings per share (fils)	**12.6**	12.5

Earning per share calculations for 2021 have been adjusted to take account of the bonus shares issued in 2022.

18. SEGMENT INFORMATION

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

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

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

Consequent to an internal re-organisation during the year, the management has merged the previously reported segments of Corporate Banking and Retail and Private Banking segments into "Corporate and Consumer Banking" segment. The financial information relating to these segments in the comparative financial year has been restated to conform to the current year presentation.

Financial Statements
Notes to the Consolidated Financial Statements continued
At 31 December 2022

18. SEGMENT INFORMATION continued

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

	Kuwait Operations				International Operations*	Unallocated/ Intragroup Transactions	Group
31 December 2022	**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	**118,757**	**60**	**2,863**	**121,680**	**122,152**	**(11,782)**	**232,050**
Profit (loss) for the year	**54,463**	**(4,541)**	**(2,612)**	**47,310**	**25,094**	**(13,854)**	**58,550**
Total assets	**3,731,241**	**839,337**	**554,106**	**5,124,684**	**2,222,710**	**(181,434)**	**7,165,960**
Total liabilities	**2,590,302**	**298,754**	**1,584,718**	**4,473,774**	**1,905,326**	**(160,555)**	**6,218,545**

	Kuwait Operations				International Operations*	Unallocated/ Intragroup Transactions	Group
31 December 2021	**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	91,053	431	(5,683)	85,801	52,624	(10,251)	128,174
Segment operating results	119,054	30,512	(5,188)	144,378	93,401	(3,049)	234,730
Profit (loss) for the year	35,397	25,205	(9,617)	50,985	6,727	(9,123)	48,589
Total assets	3,878,838	745,945	600,290	5,225,073	2,040,862	(191,020)	7,074,915
Total liabilities	2,520,868	397,702	1,603,385	4,521,955	1,805,309	(184,274)	6,142,990

* International operations include operational results of BoB which is classified as disposal group held for sale as at 31 December 2022 and 31 December 2021 (Note 9).

19. TRANSACTIONS WITH RELATED PARTIES

The Group has entered into transactions with certain related parties (Parent Company, directors and key management personnel of the Group and entities controlled, jointly controlled or significantly influenced by such parties) who were customers of the Group during the year. The "Others" column in the table below mainly represent transactions with other related parties that are either controlled or significantly influenced by the Parent Company. The terms of these transactions are substantially on the same commercial basis as approved by the Group's management, including collateral. Lending to Board Members and their related parties is secured by tangible collateral in accordance with regulations of Central Bank of Kuwait. The outstanding balances and transactions are as follows:

	Parent Company KD 000s	**Others KD 000s**	**2022 KD 000s**	**2021 KD 000s**
Consolidated Statement of Financial Position				
Due from banks and OFIs*	**–**	**190,190**	**190,190**	175,970
Loans and advances to customers*	**–**	**963,745**	**963,745**	968,721
Investment securities	**14,341**	**91,624**	**105,965**	126,323
Investment securities managed by a related party	**–**	**78,062**	**78,062**	82,108
Other assets	**–**	**6,244**	**6,244**	5,867
Due to banks	**–**	**5,367**	**5,367**	7,429
Due to other financial institutions	**–**	**30,822**	**30,822**	64,509
Deposits from customers	**125,745**	**60,799**	**186,544**	153,134
Commitments and contingent liabilities				
Letters of credit	**–**	**10,245**	**10,245**	711
Letters of guarantee	**–**	**106,365**	**106,365**	69,607
Undrawn lines of credit	**–**	**115,829**	**115,829**	127,207
Other commitments	**–**	**14,867**	**14,867**	15,793
Transactions				
Interest income	**40**	**42,255**	**42,295**	30,912
Interest expense	**(229)**	**(617)**	**(846)**	(656)
Fee and commission income	**3**	**1,231**	**1,234**	804
Fee and commission expenses	**–**	**(731)**	**(731)**	(517)
Dividend income	**599**	**209**	**808**	499
Other expense	**–**	**(4,683)**	**(4,683)**	(10,845)
Other transactions during the year				
Purchase of property and equipments	**–**	**20**	**20**	1,664
Sale of investment securities	**–**	**3,155**	**3,155**	–
Loss on sale of investment securities	**–**	**(3,830)**	**(3,830)**	–

* As of 31 December 2022, the fair value of the total eligible collateral to the extent of the outstanding balances amounting to KD 512,533 thousand (2021: KD 532,224 thousand).

	No. of Board members or executive staff	**2022 KD 000s**	**2021 KD 000s**
Board members*			
Loans and advances to customers	**4**	**5,777**	4,995
Deposits from customers	**6**	**2,127**	978
Executive staff			
Loans and advances to customers	**16**	**850**	217
Deposits from customers	**42**	**3,148**	1,983
Letters of guarantee	**1**	**16**	18

* Transactions with Board members include transaction with one of the Group executive staff who is also a Board member.

Financial Statements
Notes to the Consolidated Financial Statements continued
At 31 December 2022

19. TRANSACTIONS WITH RELATED PARTIES continued
Key management compensation

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

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

20. COMMITMENTS AND CONTINGENT LIABILITIES

	2022 KD 000s	2021 KD 000s
Acceptances	**27,777**	40,182
Letters of credit	**282,925**	209,612
Letters of guarantee	**884,771**	822,849
	1,195,473	1,072,643

Irrecoverable commitments to extend credit amount to KD 600,921 thousand (2021: KD 642,447 thousand). This includes commitments to extend credit which are irrecoverable over the life of the facility or are revocable only in response to a material adverse change.

The primary purpose of these instruments is to ensure that funds are available to customers as required. Acceptances, standby letters of credit and guarantees, which represent irrevocable assurances that the Group will make payments in the event that the customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are undertaken by the Group on behalf of the customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing.

Undrawn lines of credit represent unused portions of authorisations to extend cash credit. With respect to credit risk on undrawn lines of credit, the Group is potentially exposed to loss in an amount equal to the total unused lines. However, the likely amount of loss is less than the total unused lines since most of these lines will expire or terminate without being funded.

The Group makes available to its customers guarantees which may require that the Group makes payments on their behalf and enters into commitments to extend credit lines to secure their liquidity needs. Such payments are collected from customers based on the terms of the letter of credit. They expose the Group to similar risks to loans and these are mitigated by the same control processes and policies.

The Group has commitments in respect of capital expenditure amounting to KD 14,867 thousand (2021: KD 15,793 thousand).

21. DERIVATIVE FINANCIAL INSTRUMENTS
In the ordinary course of business, the Group enters into various types of transactions that involve derivative financial instruments. The Group offers it's clients derivatives products that are traded in the financial markets in order to service their risk management needs to hedge currency and interest rate exposures. The Group also uses derivatives for economic hedging purpose to manage its own assets and liabilities as well as to hedge certain risk exposures such as variation in future cash flows attributable to a recognised asset or liability (cash flow hedge), or hedges of net investment in foreign operation. For those derivative contracts that are designated as a hedging instrument, hedge accounting is used provided certain criteria are met.

Derivatives are initially recognised and are subsequently measured at fair value. Fair values are obtained from quoted market prices in active markets, and valuation techniques (such as discounted cash flow models and option pricing models), as appropriate. All derivatives are carried as assets when their fair value is positive and as liabilities when fair values are negative.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged.

At the inception of the transactions the Group documents the relationship between the hedging instruments and the hedged items, its risk management objective, together with the methods selected to assess hedge effectiveness. The Group also documents its assessment both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of the hedged items.

Derivative instruments that are used by the Group as part of its risk management strategies, but which do not qualify for hedge accounting under the Group's hedge accounting policies, are presented as Derivatives held for trading (non-qualifying hedges).

Derivatives held for hedging

Hedge of net investment in foreign operations

The Bank entered into forward foreign exchange contracts between TRY and USD, which has been designated as a hedge of the Bank's net investment in its Turkish subsidiary. This transaction has created a net long position in USD. Gains or losses on the retranslation of the aforesaid contracts are recorded in equity to offset any gains or losses on translation of the net investments in the Turkish subsidiary. Hedge ineffectiveness only arises to the extent the hedging instruments exceeds in nominal terms, the risk exposure from the foreign operations. No ineffectiveness from hedges of net investments in foreign operations was recognised in the consolidated statement of income during the year. The Group regularly assess the optimal hedge ratio i.e. the amount of net assets of the subsidiary to be hedged and as at 31 December 2022 has determined 30% (2021: 40%) as the optimal hedge ratio.

Cash flow hedges

One of the subsidiary of the Group applies cash flow hedge accounting using interest rate swaps to hedge its foreign currency deposits with an average maturity upto 3 months against interest rate fluctuations. The subsidiary implements effectiveness tests at the reporting dates for hedge accounting; the effective portions are accounted as part of changes in fair value of derivatives under other reserves, whereas the ineffective portion is recognised in the consolidated statement of income.

No ineffectiveness from hedges was recognised in the consolidated statement of income during the year.

Derivatives held for trading

Derivative contracts that are entered into for the purpose of servicing customers in their risk management needs as well as derivatives used by the Group for economic hedging purpose but which do not meet the qualifying criteria for hedge accounting are classified as "Derivatives held for trading". The risk exposures on account of derivative contracts for customers are covered by entering into positions with an opposite risk profile with other counter parties or by other risk mitigating transactions.

Types of derivative contracts

Forward foreign exchange contracts

Forward foreign exchange contracts are contractual agreements to either buy or sell a specified currency, at a specific price and date in the future, and are customised contracts transacted in the over-the-counter market.

Swaps

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

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

Options

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

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

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

Financial Statements
Notes to the Consolidated Financial Statements continued
At 31 December 2022

21. DERIVATIVE FINANCIAL INSTRUMENTS continued

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

31 December 2022	Positive fair value KD 000s	Negative fair value KD 000s	Notional amount: Within one year KD 000s	Notional amount: Over one year KD 000s	Total 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**

31 December 2021	Positive fair value KD 000s	Negative fair value KD 000s	Notional amount: Within one year KD 000s	Notional amount: Over one year KD 000s	Total KD 000s
Derivatives held for trading: (non-qualifying hedges)					
Forward swaps/foreign exchange contracts	26,657	(16,362)	1,518,030	121,826	1,639,856
Interest rate swaps	1,903	(2,208)	34,652	46,482	81,134
Options	1,405	(1,979)	52,556	–	52,556
	29,965	(20,549)	1,605,238	168,308	1,773,546
Derivatives held for hedging:					
Hedge of net investment in foreign operations:					
Forward swaps/foreign exchange contracts	6,704	–	20,931	–	20,931
Cash flow hedges:					
Interest rate swaps	36,159	(2,112)	63,399	133,043	196,442
	42,863	(2,112)	84,330	133,043	217,373

Hedging instruments are used to hedge net investment in a foreign operation and interest rate risk pertaining to hedged items. Hedged item for net investment in foreign operation pertain to the Bank's net investment in BBT and the foreign exchange translation loss recorded in OCI amounted to KD 17,476 thousand (2021: KD 15,981 thousand) for the hedged portion. Hedged item for interest rate risk include a portion of customer deposits and long term borrowings denominated in foreign currency in a subsidiary having a carrying value of KD 232,197 thousand (2021: KD 196,442 thousand). All the hedges were determined to be effective as at the year-end.

22. FAIR VALUE MEASUREMENT

Fair value of all financial instruments is not materially different from their carrying values. For financial assets and financial liabilities that are liquid or having a short-term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits, savings accounts without a specific maturity.

The fair value of investment securities is categorised as per the policy on fair value measurement in Note 2. Movement in level 3 is mainly on account of purchase, sale and change in fair value and on account of investment security acquired against recovery of debt previously written off, recorded as other income and change in fair value and reclassification under IFRS 9. During the year, a decrease of KD 10,600 thousand (2021: decrease of KD 5,848 thousand) was recorded in the other comprehensive income representing change in fair value. There were no material transfers between the levels during the year. The impact on the consolidated statement of financial position or the consolidated statement of shareholders' equity would be immaterial if the relevant risk variables used to fair value the unquoted securities were altered by 5%.

Debt securities included under level 3 consists of unquoted corporate bonds. The fair values of these bonds are estimated using discounted cash flow method. Equities and other securities included in this category mainly include strategic equity investments and managed funds which are not traded in an active market. The fair values of these investments are estimated by using valuation techniques that are appropriate in the circumstances. Valuation techniques include discounted cash flow models, observable market information of comparable companies, recent transaction information and net asset values.

Significant unobservable inputs used in valuation techniques mainly include discount rate, terminal growth rate, revenue, profit estimates and market multiples such as price to book and price to earnings. Given the diverse nature of these investments, it is not practical to disclose a range of significant unobservable inputs.

Other financial assets and liabilities are carried at amortised cost and their carrying values are not materially different from their fair values. Fair values of remaining financial assets and liabilities carried at amortised cost are estimated using valuation techniques incorporating certain assumptions such as future cash flows 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 2022				31 December 2021			
	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	**65,459**	**–**	**74,535**	**139,994**	81,462	–	87,451	168,913
Debt securities	**307,880**	**–**	**–**	**307,880**	274,520	–	–	274,520
Managed funds	**–**	**–**	**78,323**	**78,323**	–	–	82,441	82,441
Derivative financial instruments	**–**	**42,312**	**–**	**42,312**	–	72,828	–	72,828
Financial liabilities:								
Derivative financial instruments	**–**	**14,091**	**–**	**14,091**	–	22,661	–	22,661

Investment securities classified as FVOCI and amortised cost (Note 6) and other debt instruments carried at amortised cost (excluding credit facilities) are subject to expected credit losses. These financial assets are categorised under Stage 1 (2021: Stage 1). Central Bank of Kuwait bonds and Kuwait Government treasury bonds are not subject to expected credit losses.

23. RISK MANAGEMENT

INTRODUCTION

Monitoring and controlling risks is primarily performed based on limits established by the Group. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Group is willing to accept, with additional emphasis on selected geographic and industrial sectors. In addition, the Group monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

The operations of certain subsidiaries are also subject to regulatory requirements within the jurisdictions where it operates. Such regulations not only prescribe approval and monitoring of activities, but also impose certain restrictive provisions (e.g. capital adequacy) to minimise the risk of default and insolvency on the part of the banking and insurance companies to meet unforeseen liabilities as these arise.

As part of its overall risk management, the Group uses derivatives and other instruments to manage exposures resulting from changes in interest rates and foreign currency transactions.

The risk profile is assessed before entering into hedge transactions, which are authorised by the appropriate level of seniority within the Group.

The Group classifies the risks faced as part of its day to day activities into certain categories of risks and accordingly specific responsibilities have been given to various officers for the identification, measurement, control and reporting of these identified families of risks. The categories of risks are:

Risks arising from financial instruments:

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

Other risks

i. Operational risk which includes risks due to operational failures.

A. CREDIT RISK

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or group of borrowers, and to geographical and industry segments. Such risks are monitored on a regular basis and are subject to regular review. Limits on the level of credit risk by product, industry sector and by country are approved by the Board or each subsidiary.

The exposure to any one borrower, including Banks and OFIs is further restricted by sub limits covering items on the consolidated statement of financial position and commitments and contingent liabilities exposures and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily. The Group has a well-documented credit policy that complies with the CBK regulations and defines the appetite of the Group for assumption of risks in its various business groups.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

Credit risk arising from derivative financial instruments is limited to those with positive fair values, recorded in the consolidated statement of financial position.

Internal rating and PD estimation process

In managing its portfolio, the Group utilises ratings and other measures and techniques which seek to take account of all aspects of perceived risk. The Group uses industry standard rating tools for assessing ratings/scores that are leveraged for PD estimation process. The tool provides the ability to analyse a business and produce risk ratings at both the obligor and facility level. The analysis supports the usage of financial factors as well as non-financial subjective factors. The Group also uses external ratings by recognised rating agencies for externally rated portfolios.

Maximum exposure to credit risk:

The table below shows the maximum exposure to credit risk across financial assets before taking into consideration the effect of any collateral and other credit enhancements i.e. credit risk mitigation.

	2022 KD 000s	2021 KD 000s
Cash and cash equivalents	**587,143**	762,434
Treasury bills and bonds with CBK and others	**301,554**	247,393
Due from banks and other financial institutions	**482,101**	331,324
Loans and advances to customers	**4,227,737**	4,278,709
Investments securities	**491,275**	393,333
Other assets*	**156,745**	166,929
Total	**6,246,555**	6,180,122
Commitments and contingent liabilities (note 20)	**1,811,261**	1,730,883
Maximum credit risk exposure before consideration of credit risk mitigation	**8,057,816**	7,911,005

* Other assets include accrued interest receivable, sundry debtors and other debt balances, net of ECL as shown in note 7.

The exposures set above, are based on net carrying amounts as reported in the consolidated statement of financial position, except for commitments and contingent liabilities.

Collateral and credit risk mitigation techniques

The amount, type and valuation of collateral are based on guidelines specified in the risk management framework. The main types of collaterals accepted include real estate and marketable securities. The revaluation and custody of collaterals are performed independent of the business units.

The main credit risk mitigation techniques applied by the Group are based on eligible collaterals. The Group's management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of the collateral at regular intervals in line with regulatory guidelines.

For further details regarding the Group's use of credit risk mitigation techniques, and collateral policy, refer to Basel III – Pillar 3 Disclosures under the risk management section of the annual report.

Credit risk concentration

The top 10 largest exposures outstanding as a percentage of gross loans and advances to customers at 31 December 2022 is 26% (31 December 2021: 24%).

The concentration across classes within loans and advances to customers, which form part of the significant portion of assets subject to credit risk, is given in Note 5.

The Group's financial assets and commitments and contingent liabilities, before taking into account any collateral held or credit enhancements can be analysed by the following geographic regions:

	2022			2021		
	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	**3,819,402**	**1,434,928**	**5,254,330**	3,832,757	1,373,376	5,206,133
Jordan	**18,102**	**11,448**	**29,550**	1,753	5,375	7,128
Algeria	**598,102**	**130,015**	**728,117**	553,023	112,579	665,602
Iraq	**–**	**779**	**779**	–	243	243
Tunisia	**16,198**	**563**	**16,761**	26,994	1,227	28,221
Turkey	**959,388**	**166,194**	**1,125,582**	885,323	157,773	1,043,096
Other Middle East	**551,762**	**26,216**	**577,978**	543,815	7,730	551,545
Europe	**101,283**	**21,720**	**123,003**	97,013	29,221	126,234
Rest of the world	**182,318**	**19,398**	**201,716**	239,444	43,359	282,803
	6,246,555	**1,811,261**	**8,057,816**	6,180,122	1,730,883	7,911,005

23. RISK MANAGEMENT continued

The Group's financial assets and commitments and contingent liabilities, before taking into account any collateral held or credit enhancements can be analysed by the following industry sectors:

	2022 KD 000s	2021 KD 000s
Industry sector		
Sovereign	**1,048,934**	1,144,529
Banking	**693,037**	483,466
Investment	**369,462**	381,218
Trade and commerce	**662,634**	715,484
Real estate	**1,191,225**	1,238,075
Personal	**1,712,861**	1,573,289
Manufacturing	**687,922**	689,567
Construction	**722,700**	637,847
Other services	**969,041**	1,047,530
	8,057,816	7,911,005

Credit quality per class of financial assets

The Bank has a comprehensive credit policy encompassing evaluation of the customer's credit request, assessment of the purpose of request, business of the client, market, management, financials, ratings, conduct of the account and such other means to establish the credit worthiness of the counterparty and accordingly the credit exposures are classified as "High" or "Standard" based on inherent credit quality of the counterparties. Credit exposures classified as "High" quality are those where the ultimate risk of finance loss from the obligor's failure to discharge its obligation is assessed to be low. These include facilities to counterparties with financial condition, risk indicators and capacity to repay which are considered excellent. Credit exposures classified as "Standard" quality comprise all other facilities whose payment performance is compliant with the contractual conditions. The credit quality per class of financial assets for comparative period has been reclassified to conform the presentation of current year classification.

The table also shows the credit risk exposure by credit quality of financial assets by class, grade and status:

	2022				
	Rated				
	High KD 000s	Standard KD 000s	Past due but not impaired* KD 000s	Impaired financial assets* KD 000s	Total 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**

	2021				
	Rated				
	High KD 000s	Standard KD 000s	Past due but not impaired* KD 000s	Impaired financial assets* KD 000s	Total KD 000s
Sovereigns	674,516	182,757	–	–	857,273
Banks and OFIs	279,252	253,026	–	–	532,278
Corporates	478,073	3,184,119	149,470	64,583	3,876,245
Retail	9,859	329,855	10,544	3,806	354,064
Other credit exposures	326,406	233,856	–	–	560,262
	1,768,106	4,183,613	160,014	68,389	6,180,122

* Fair value of collateral to the extent of the outstanding exposure against the above mentioned past due but not impaired financial assets and impaired financial assets amounted to KD 45,686 thousand (2021: KD 58,005 thousand) and KD 77,188 thousand (2021: KD 65,332 thousand) respectively.

B. MARKET RISK

Market risk is the risk that the value of an asset will fluctuate as a result of changes in market variables such as interest rates, foreign exchange rates, and equity prices, whether those changes are caused by factors specific to the individual investment or its issuer or factors affecting all financial assets traded in the market.

Market risk is managed on the basis of pre-determined asset allocations across various asset categories, diversification of assets in terms of geographical distribution and industry concentration, a continuous appraisal of market conditions and trends and management's estimate of long and short term changes in fair value.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the fair value or cash flows of the financial instruments. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. This arises as a result of mismatches or gaps in the amounts of assets and liabilities and off balance sheet instruments that mature or reprice in a given period. The Group manages this risk by matching the repricing of assets and liabilities through risk management strategies.

The Group is exposed to interest rate risk on its interest bearing assets and liabilities (treasury bills and bonds with CBK and others, due from banks and OFIs, loans and advances to customers, due to banks, due to OFIs, deposits from customers and other borrowed funds).

The table below summarises the effect on net interest income as a result of the changes in interest rate:

	2022 KD 000s	2021 KD 000s
Increase in interest rate "Basis Points"		
50	**6,092**	7,328
100	**12,184**	14,656
Decrease in interest rate "Basis Points"		
50	**(6,092)**	(7,324)
100	**(12,184)**	(14,646)

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group takes on exposure to effects of fluctuations in the prevailing currency exchange rates on its financial position and cash flows. The Board of Directors sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily.

The table below analyses the effect on profit and equity of an assumed 5% strengthening in value of the currency rate against the Kuwaiti Dinar from levels applicable at the year end, with all other variables held constant. A negative amount in the table reflects a potential net reduction in profit or equity, where as a positive amount reflects a net potential increase.

	2022			2021	
Currency	% Change in currency rate	Effect on profit KD 000s	Effect on equity KD 000s	Effect on profit KD 000s	Effect on equity KD 000s
Algerian Dinar	**+5**	**497**	**4,322**	566	4,331
Iraqi Dinar	**+5**	**385**	**3,309**	238	3,157
Turkish Lira	**+5**	**464**	**3,305**	(4)	2,759
US Dollar	**+5**	**394**	**2,976**	358	3,519
Others	**+5**	**673**	**–**	14	–

Equity price risk

Equity price risk is the risk that the fair values of equities will fluctuate as a result of changes in the level of equity indices or the value of individual share prices. Equity price risk arises from the change in fair values of equity investments. The Group manages this risk through diversification of investments in terms of geographical distribution and industry concentration. The majority of the Group's quoted investments are listed on the regional stock exchanges.

The Group conducts sensitivity analysis on regular intervals in order to assess the potential impact of any major changes in fair value of equity instruments. Based on the results of the analysis conducted there are no material implication over the Group's profit or other comprehensive income for a 5% fluctuation in major stock exchanges.

Prepayment risk

Prepayment risk is the risk that the Group will incur a financial loss because its customers and counterparties repay or request repayment earlier than expected, such as fixed rate mortgages when interest rate fall. The fixed rate assets of the Group are not significant compared to the total assets. Moreover, other market conditions causing prepayment is not significant in the markets in which the Group operates. Therefore, the Group considers the effect of prepayment on net interest income is not material after taking in to account the effect of any prepayment penalties.

Financial Statements
Notes to the Consolidated Financial Statements continued
At 31 December 2022

23. RISK MANAGEMENT continued
C. LIQUIDITY RISK

Liquidity risk is the risk that the Group will be unable to meet its liabilities when they fall due. The Group is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs, guarantees. To limit this risk, the Group manages assets with liquidity in mind and monitors liquidity on a daily basis.

The table below shows an analysis of financial liabilities and contingent liabilities and commitments based on the remaining undiscounted contractual maturities:

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

31 December 2021	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	420,474	36,884	61,456	3,926	522,740
Due to other financial institutions	281,859	36,251	47,907	–	366,017
Deposits from customers	3,094,972	617,858	322,717	148,686	4,184,233
Other borrowed funds	2,616	5,260	7,904	671,125	686,905
Other liabilities	170,449	1,329	1,532	52,458	225,768
	3,970,370	697,582	441,516	876,195	5,985,663
Contingent liabilities and commitments	487,933	273,591	512,434	456,925	1,730,883

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 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

31 December 2021	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	821,608	–	–	–	821,608
Treasury bills and bonds with CBK and others	130,398	80,472	16,438	20,085	247,393
Due from banks and other financial institutions	233,344	70,647	27,333	–	331,324
Loans and advances to customers	1,241,226	357,755	998,775	1,680,953	4,278,709
Investment securities	35,155	7	10,004	604,100	649,266
Other assets	131,631	1,252	3,089	141,590	277,562
Property and equipment	–	–	–	150,153	150,153
Intangible assets	–	–	–	18,412	18,412
Disposal group held for sale	300,488	–	–	–	300,488
Total assets	2,893,850	510,133	1,055,639	2,615,293	7,074,915
LIABILITIES AND EQUITY					
Due to banks	417,511	36,412	60,908	3,925	518,756
Due to other financial institutions	281,726	36,052	47,051	–	364,829
Deposits from customers	3,092,313	612,461	316,897	140,060	4,161,731
Other borrowed funds	–	–	–	622,483	622,483
Other liabilities	170,449	1,329	1,532	52,458	225,768
Liability directly associated with disposal group held for sale	249,423	–	–	–	249,423
Equity	–	–	–	931,925	931,925
Total liabilities and equity	4,211,422	686,254	426,388	1,750,851	7,074,915

D. OPERATIONAL RISK

Operational risk is the risk of loss arising from the failures in operational process, people and system that supports operational processes. The Group has a set of policies and procedures, which are approved by the Board of Directors and are applied to identify, assess and supervise operational risk in addition to other types of risks relating to the banking and financial activities of the Group. Operational risk is managed by Risk management. Risk management ensures compliance with policies and procedures to identify, assess, supervise and monitor operational risk as part of overall Global risk management.

24. CAPITAL MANAGEMENT

The primary objectives of the Group's capital management policy are to ensure that the Group complies with regulatory capital requirements and that the Group maintains strong credit ratings and healthy capital ratios in order to support its business and maximise shareholder value.

Capital adequacy, financial leverage and the use of various levels of regulatory capital are monitored regularly by the Group's management and are governed by guidelines of Basel Committee on Banking Supervision as adopted by the CBK.

The disclosures relating to the capital adequacy regulations issued by CBK as stipulated in CBK Circular number 2/RB, RBA/A336/2014 dated 24 June 2014 (Basel III) and the Leverage regulations as stipulated in CBK Circular number 2/BS/ 342/2014 dated 21 October 2014 under the Basel Committee framework are included under the 'Basel III qualitative and quantitative disclosures' section of the Annual Report.

The Group's risk weighted assets (after regulatory phase out of real estate collaterals), regulatory capital and capital adequacy ratios (Basel III), are shown below:

	2022 KD 000s	2021 KD 000s
Risk weighted assets	6,433,584	6,250,981
Total capital required	804,198	718,863
Common Equity Tier 1 (CET1) capital	697,290	711,119
Additional Tier 1 (AT1) capital	154,897	152,913
Tier 2 capital	231,846	227,605
Total eligible capital	1,084,033	1,091,637
CET1 capital adequacy ratio	10.8%	11.4%
Tier 1 capital adequacy ratio	13.2%	13.8%
Total capital adequacy ratio	16.8%	17.5%

24. CAPITAL MANAGEMENT continued

The Group's financial leverage ratio, calculated in accordance with CBK circular number 2/BS/ 342/2014 dated 21 October 2014, is shown below:

	2022 KD 000s	2021 KD 000s
Tier 1 capital	**852,187**	864,032
Total exposure	**7,807,156**	7,684,488
Leverage ratio	**10.9%**	11.2%

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