



**BURGAN BANK GROUP  
INTERIM CONDENSED CONSOLIDATED  
FINANCIAL INFORMATION**

**30 SEPTEMBER 2020 (UNAUDITED)**



Building a better  
working world

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## **REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION TO THE BOARD OF DIRECTORS OF BURGAN BANK K.P.S.C.**

### *Introduction*

We have reviewed the accompanying interim condensed consolidated statement of financial position of Burgan Bank K.P.S.C. (the “Bank”) and its subsidiaries (collectively the “Group”) as at 30 September 2020, the related interim condensed consolidated statement of income and interim condensed consolidated statement of comprehensive income for the three-month and nine-month periods then ended, and the interim condensed consolidated statement of changes in equity and the interim condensed consolidated statement of cash flows for the nine-month period then ended. The management of the Bank is responsible for the preparation and presentation of this interim condensed consolidated financial information in accordance with the basis of presentation set out in Note 2. Our responsibility is to express a conclusion on this interim condensed consolidated financial information based on our review.

### *Scope of Review*

We conducted our review in accordance with International Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity.” A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### *Conclusion*

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial information is not prepared, in all material respects, in accordance with the basis of presentation set out in Note 2.

### **Report on other Legal and Regulatory Requirements**

Furthermore, based on our review, the interim condensed consolidated financial information is in agreement with the books of account of the Bank. We further report that, to the best of our knowledge and belief, we have not become aware of any violations of the Companies Law No. 1 of 2016, as amended, and its executive regulations, as amended, or of the Bank’s Articles of Association and Memorandum of Incorporation, as amended, during the nine months period ended 30 September 2020 that might have had a material effect on the business of the Bank or on its financial position.



**REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION TO THE BOARD OF DIRECTORS OF BURGAN BANK K.P.S.C. (continued)**

**Report on other Legal and Regulatory Requirements (continued)**

We further report that, during the course of our review, to the best of our knowledge and belief, we have not become aware of any violations of the provisions of Law No. 32 of 1968, as amended, concerning currency, the Central Bank of Kuwait and the organization of banking business, and its related regulations, or of the provisions of Law No 7 of 2010 concerning the Capital Markets Authority and its related regulations during the nine-months period ended 30 September 2020 that might have had a material effect on the business of the Bank or on its financial position.

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SHEIKHA AL FULAIJ  
LICENCE NO. 289 A  
EY  
AL AIBAN, AL OSAIMI & PARTNERS

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NAYEF M. AL BAZIE  
LICENSE NO. 91-A  
RSM Albazie & Co.

12 November 2020  
Kuwait

**Burgan Bank Group**
**Interim Condensed Consolidated Statement of Financial Position**  
**As at 30 September 2020 (Unaudited)**

		(Audited)	
	Notes	30 September 2020 KD 000's	31 December 2019 KD 000's
			30 September 2019 KD 000's
<b>ASSETS</b>			
Cash and cash equivalents	3	906,660	614,488
Treasury bills and bonds with CBK and others		295,063	287,951
Due from banks and other financial institutions		380,004	704,768
Loans and advances to customers		4,372,624	4,284,320
Investment securities		511,140	538,624
Other assets		286,574	226,641
Property and equipment		168,887	113,860
Intangible assets		21,909	22,903
		<u>6,942,861</u>	<u>6,793,555</u>
Disposal group held for sale	10	-	287,458
		<u>6,942,861</u>	<u>7,081,013</u>
<b>TOTAL ASSETS</b>			
<b>LIABILITIES AND EQUITY</b>			
<b>LIABILITIES</b>			
Due to banks		278,621	512,860
Due to other financial institutions		632,991	711,496
Deposits from customers		4,514,187	3,991,017
Other borrowed funds	4	398,338	455,945
Other liabilities	5	208,204	237,259
		<u>6,032,341</u>	<u>5,908,577</u>
Liabilities directly associated with the disposal group held for sale	10	-	220,178
		<u>6,032,341</u>	<u>6,128,755</u>
<b>TOTAL LIABILITIES</b>			
<b>EQUITY</b>			
Share capital	6	262,500	262,500
Share premium		249,052	249,052
Treasury shares	6	(1,742)	(1,742)
Statutory reserve		99,465	99,465
Voluntary reserve		99,843	99,843
Treasury shares reserve		43,135	43,135
Fair value reserve		(45,699)	(30,564)
Share based compensation reserve		564	564
Foreign currency translation reserve		(178,507)	(151,972)
Other reserves	6	17,638	8,674
Retained earnings		158,835	172,205
		<u>705,084</u>	<u>751,160</u>
Total equity attributable to the equity holders of the Bank		705,084	751,160
Perpetual Tier 1 capital securities		153,100	151,525
Non-controlling interests		52,336	49,573
		<u>910,520</u>	<u>952,258</u>
<b>TOTAL EQUITY</b>			
<b>TOTAL LIABILITIES AND EQUITY</b>			
		<u>6,942,861</u>	<u>7,081,013</u>
		<u>6,942,861</u>	<u>6,757,720</u>

  
**Khalid Al Zouman**  
 Group Chief Financial Officer

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

  
**Majed Essa Al Ajeel**  
 Chairman of the Board

The attached notes 1 to 14 form an integral part of this interim condensed consolidated financial information.

**Burgan Bank Group**
**Interim Condensed Consolidated Statement of Income**  
**Period ended 30 September 2020 (Unaudited)**

	Notes	Three months ended 30 September		Nine months ended 30 September	
		2020 KD 000's	2019 KD 000's	2020 KD 000's	2019 KD 000's
Interest income		62,479	91,336	208,978	262,723
Interest expense		(28,499)	(48,068)	(101,040)	(137,506)
<b>Net interest income</b>		<b>33,980</b>	<b>43,268</b>	<b>107,938</b>	<b>125,217</b>
Fee and commission income		9,391	11,623	29,370	32,918
Fee and commission expense		(1,201)	(1,641)	(4,232)	(4,446)
<b>Net fee and commission income</b>		<b>8,190</b>	<b>9,982</b>	<b>25,138</b>	<b>28,472</b>
Net gain from foreign currencies		4,660	1,610	8,409	5,634
Net investment income		7,241	6,348	11,786	11,173
Dividend income		505	112	1,576	3,564
Other income		2,381	624	9,699	4,206
<b>Operating income</b>		<b>56,957</b>	<b>61,944</b>	<b>164,546</b>	<b>178,266</b>
Staff expenses		(10,169)	(12,674)	(33,934)	(36,865)
Other expenses		(12,035)	(13,014)	(35,003)	(37,829)
<b>Operating profit before credit loss expense and provisions</b>		<b>34,753</b>	<b>36,256</b>	<b>95,609</b>	<b>103,572</b>
Provision for credit losses		(22,230)	(9,938)	(53,839)	(25,723)
Provision (reversal) charge for other financial assets		524	421	(547)	61
<b>Profit before taxation</b>		<b>13,047</b>	<b>26,739</b>	<b>41,223</b>	<b>77,910</b>
Taxation	7	(1,351)	(3,341)	(5,411)	(8,934)
<b>Profit for the period</b>		<b>11,696</b>	<b>23,398</b>	<b>35,812</b>	<b>68,976</b>
<b>Attributable to:</b>					
Equity holders of the Bank		9,829	22,688	32,575	67,454
Non-controlling interests		1,867	710	3,237	1,522
		<b>11,696</b>	<b>23,398</b>	<b>35,812</b>	<b>68,976</b>
<b>Basic and diluted earnings per share - attributable to the equity holders of the Bank (Fils)</b>	8	<b>4.1</b>	<b>4.0</b>	<b>10.1</b>	<b>19.0</b>

The attached notes 1 to 14 form an integral part of this interim condensed consolidated financial information.

**Burgan Bank Group**
**Interim Condensed Consolidated Statement of Comprehensive Income**  
**Period ended 30 September 2020 (Unaudited)**

	<i>Three months ended</i>		<i>Nine months ended</i>	
	<i>30 September</i>		<i>30 September</i>	
	<i>2020</i>	<i>2019</i>	<i>2020</i>	<i>2019</i>
	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>
<b>Profit for the period</b>	<b>11,696</b>	<b>23,398</b>	<b>35,812</b>	<b>68,976</b>
<b>Other comprehensive (loss) income</b>				
<i>Items that will not be reclassified to interim condensed consolidated statement of income in subsequent periods:</i>				
Net change in fair value of equity instruments at fair value through other comprehensive income	(4,017)	(1,301)	(14,590)	(3,091)
	<b>(4,017)</b>	<b>(1,301)</b>	<b>(14,590)</b>	<b>(3,091)</b>
<i>Items that will be reclassified to interim condensed consolidated statement of income in subsequent periods:</i>				
Debt instruments at fair value through other comprehensive income:				
Net change in fair value	2,976	3,627	8,179	4,970
Changes in allowance for expected credit losses	(281)	(55)	(9)	(43)
Net transfer to interim condensed consolidated statement of income	(5,875)	(3,001)	(8,694)	(5,395)
Foreign currency translation adjustment	(12,181)	2,543	(28,030)	(7,285)
Changes in fair value of cash flow hedges	860	(5,584)	2,316	(5,030)
Net gain (loss) on hedge of a net investment	3,211	(5,919)	7,648	(8,964)
<b>Other comprehensive loss for the period</b>	<b>(15,307)</b>	<b>(9,690)</b>	<b>(33,180)</b>	<b>(24,838)</b>
<b>Total comprehensive (loss) income for the period</b>	<b>(3,611)</b>	<b>13,708</b>	<b>2,632</b>	<b>44,138</b>
<b>Attributable to:</b>				
Equity holders of the Bank	(5,233)	13,108	(131)	42,916
Non-controlling interests	1,622	600	2,763	1,222
	<b>(3,611)</b>	<b>13,708</b>	<b>2,632</b>	<b>44,138</b>

The attached notes 1 to 14 form an integral part of this interim condensed consolidated financial information.

## Burgan Bank Group

### Interim Condensed Consolidated Statement of Changes in Shareholder's Equity Period ended 30 September 2020 (Unaudited)

Attributable to the equity holders of the Bank

	Share capital KD 000's	Share premium KD 000's	Treasury shares KD 000's	Statutory reserve KD 000's	Voluntary reserve KD 000's	Treasury shares reserve KD 000's	Fair value reserve KD 000's	Share based compensation reserve KD 000's	Foreign currency translation reserve KD 000's	Other reserves* KD 000's	Retained earnings KD 000's	Total KD 000's	Perpetual Tier 1 capital securities KD 000's	Non-controlling interests KD 000's	Total equity KD 000's
Balance as at 1 January 2020	262,500	249,052	(1,742)	99,465	99,843	43,135	(30,564)	564	(151,972)	8,674	172,205	751,160	151,525	49,573	952,258
Profit for the period	-	-	-	-	-	-	-	-	-	-	32,575	32,575	-	3,237	35,812
Other comprehensive (loss) income for the period	-	-	-	-	-	-	(15,090)	-	(27,570)	9,954	-	(32,706)	-	(474)	(33,180)
Total comprehensive (loss) income for the period	-	-	-	-	-	-	(15,090)	-	(27,570)	9,954	32,575	(131)	-	2,763	2,632
Cash dividend (note 6)	-	-	-	-	-	-	-	-	-	-	(31,445)	(31,445)	-	-	(31,445)
Transfer related to disposal group held for sale (note 10)	-	-	-	-	-	-	(45)	-	1,035	(990)	-	-	-	-	-
Modification loss on retail loans (note 2.1 and 14)	-	-	-	-	-	-	-	-	-	-	(8,499)	(8,499)	-	-	(8,499)
Foreign currency translation adjustment	-	-	-	-	-	-	-	-	-	-	(1,575)	(1,575)	1,575	-	-
Interest payment on Tier 1 capital securities	-	-	-	-	-	-	-	-	-	-	(4,426)	(4,426)	-	-	(4,426)
<b>Balance as at 30 September 2020</b>	<b>262,500</b>	<b>249,052</b>	<b>(1,742)</b>	<b>99,465</b>	<b>99,843</b>	<b>43,135</b>	<b>(45,699)</b>	<b>564</b>	<b>(178,507)</b>	<b>17,638</b>	<b>158,835</b>	<b>705,084</b>	<b>153,100</b>	<b>52,336</b>	<b>910,520</b>

\* Refer note 6(c) for further break up of other reserves

The attached notes 1 to 14 form an integral part of this interim condensed consolidated financial information.

**Burgan Bank Group**
**Interim Condensed Consolidated Statement of Changes in Shareholder's Equity (continued)**  
**Period ended 30 September 2020 (Unaudited)**
*Attributable to the equity holders of the Bank*

	Share capital KD 000's	Share premium KD 000's	Treasury shares KD 000's	Statutory reserve KD 000's	Voluntary reserve KD 000's	Treasury shares reserve KD 000's	Fair value reserve KD 000's	Share based compensation reserve KD 000's	Foreign currency translation reserve KD 000's	Other reserves* KD 000's	Retained earnings KD 000's	Total KD 000's	Perpetual Tier 1 capital securities KD 000's	Non-controlling interests KD 000's	Total equity KD 000's
Balance as at 1 January 2019	250,000	249,052	(2,518)	90,545	90,923	43,215	(24,284)	564	(137,871)	22,057	170,653	752,336	144,025	51,119	947,480
Profit for the period	-	-	-	-	-	-	-	-	-	-	67,454	67,454	-	1,522	68,976
Other comprehensive loss for the period	-	-	-	-	-	-	(3,336)	-	(7,230)	(13,972)	-	(24,538)	-	(300)	(24,838)
Total comprehensive (loss) income for the period	12,500	-	-	-	-	-	(3,336)	-	(7,230)	(13,972)	67,454	42,916	-	1,222	44,138
Bonus shares issued (note 6)	-	-	-	-	-	-	-	-	-	-	(12,500)	-	-	-	-
Cash dividend (note 6)	-	-	776	-	-	(80)	-	-	-	-	(29,924)	(29,924)	-	(202)	(30,126)
Sale of treasury shares	-	-	-	-	-	-	-	-	-	-	-	696	-	-	696
Net movement in non-controlling interests	-	-	-	-	-	-	-	-	-	23	-	23	-	(480)	(457)
Net transfer to retained earnings for equity investments at FVOCI	-	-	-	-	-	-	(2)	-	-	-	2	-	-	-	-
Proceeds from issue of Tier 1 capital securities	-	-	-	-	-	-	-	-	-	-	-	-	151,850	-	151,850
Tier 1 capital securities issuance cost	-	-	-	-	-	-	-	-	-	-	(1,292)	(1,292)	-	-	(1,292)
Foreign currency translation adjustment	-	-	-	-	-	-	-	-	-	-	(175)	(175)	175	-	-
Repayment of Tier 1 capital securities	-	-	-	-	-	-	-	-	-	-	(8,378)	(8,378)	(144,025)	-	(152,403)
Interest payment on Tier 1 capital securities	-	-	-	-	-	-	-	-	-	-	(9,385)	(9,385)	-	-	(9,385)
Balance as at 30 September 2019	262,500	249,052	(1,742)	90,545	90,923	43,135	(27,622)	564	(145,101)	8,108	176,455	746,817	152,025	51,659	950,501

\*Refer note 6(c) for further break up of other reserves

The attached notes 1 to 14 form an integral part of this interim condensed consolidated financial information.



**Burgan Bank Group**
**Interim Condensed Consolidated Statement of Cash Flows**  
**Period ended 30 September 2020 (Unaudited)**

	Note	<i>Nine months ended</i> <i>30 September</i>	
		<b>2020</b> <b>KD 000's</b>	<b>2019</b> <b>KD 000's</b>
<b>Operating activities</b>			
Profit for the period before taxation		41,223	77,910
Adjustments:			
Net investment income		(11,786)	(11,173)
Provision for credit losses		53,839	25,723
Provision (reversal) charge for other financial assets		547	(61)
Interest payment on AT1 Securities		-	496
Dividend income		(1,576)	(3,564)
Depreciation and amortisation		9,287	11,408
<b>Operating profit before changes in operating assets and liabilities</b>		<b>91,534</b>	<b>100,739</b>
Changes in operating assets and liabilities:			
Treasury bills and bonds with CBK and others		17,679	43,095
Due from banks and other financial institutions		360,093	(36,940)
Loans and advances to customers		(116,682)	19,371
Other assets		(29,396)	(13,157)
Due to banks		(234,422)	(703,269)
Due to other financial institutions		(78,505)	(47,461)
Deposits from customers		307,059	199,349
Other liabilities		(30,714)	(25,578)
Taxation paid		(4,301)	(4,896)
<b>Net cash flows from (used in) operating activities</b>		<b>282,345</b>	<b>(468,747)</b>
<b>Investing activities</b>			
Purchase of investment securities		(575,499)	(473,706)
Proceeds from sale of investment securities		609,410	535,714
Purchase of property and equipment, net of disposals		(50,668)	(15,158)
Net movement in non-controlling interest		-	(480)
Dividends received		1,576	3,564
<b>Net cash flows (used in) from investing activities</b>		<b>(15,181)</b>	<b>49,934</b>
<b>Financing activities</b>			
Other borrowed funds		(58,093)	970
Sale of treasury shares		-	696
Cash dividend paid to equity holders of the Bank		(31,445)	(29,924)
Cash dividend paid to non-controlling interest		-	(202)
Net proceeds from issue of Tier 1 Capital securities		-	150,558
Repayment of Tier 1 Capital securities		-	(152,403)
Interest payment on Tier1 capital securities		(4,426)	(9,881)
<b>Net cash flows used in financing activities</b>		<b>(93,964)</b>	<b>(40,186)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>		<b>173,200</b>	<b>(458,999)</b>
Effect of foreign currency translation		(28,048)	(7,870)
Cash and cash equivalents at 1 January		761,508	1,164,270
<b>Cash and cash equivalents at 30 September</b>	<b>3</b>	<b>906,660</b>	<b>697,401</b>
<b>Additional cash flow information:</b>			
Interest received		156,468	282,705
Interest paid		109,563	147,694

The attached notes 1 to 14 form an integral part of this interim condensed consolidated financial information.

## **Burgan Bank Group**

### **Notes to the Interim Condensed Consolidated Financial Information**

**As at 30 September 2020 (Unaudited)**

#### **1. INCORPORATION AND REGISTRATION**

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

The interim condensed consolidated financial information of the Bank and its subsidiaries (collectively “the Group”) for the period ended 30 September 2020 were authorised for issue in accordance with a resolution of the Board of Directors on 12 November 2020.

The principal activities of the Group are explained in note 9.

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

#### **2. BASIS OF PREPARATION AND CHANGES TO ACCOUNTING POLICIES**

##### **2.1 Basis of preparation**

The interim condensed consolidated financial information of the Group have been prepared in accordance with International Accounting Standard (“IAS”) 34: Interim Financial Reporting except as noted below.

The annual consolidated financial statements for the year ended 31 December 2019 were prepared in accordance with International Financial Reporting Standards (“IFRS”) as adopted for use by the State of Kuwait for financial services institutions regulated by the CBK. These regulations require expected credit loss (“ECL”) to be measured at the higher of the ECL on credit facilities computed under IFRS 9 in accordance to the CBK guidelines or the provisions as required by CBK instructions; the consequent impact on related disclosures; and the adoption of all other requirements of International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (“IASB”) (collectively referred to as IFRS, as adopted for use by the State of Kuwait). The Expected Credit Losses on credit facilities determined under IFRS 9 in accordance with CBK guidelines amounted to KD 243,109 thousand as at 30 September 2020 (31 December 2019: KD 194,700 thousand, 30 September 2019: KD 216,927 thousand) which is lower than the total provision for credit losses recorded as per CBK instructions.

Further, during the period ended 30 September 2020, the CBK has extended their regulations to require that modification gains or losses of financial assets arising from payment holidays provided to customers in response to the economic impact of Covid-19 are to be recognized in retained earnings instead of profit or loss.

##### *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 statement of income.

The interim condensed consolidated financial information does not contain all information and disclosures required for full financial statements prepared in accordance with IFRS and should be read in conjunction with the Group’s annual consolidated financial statements for the year ended 31 December 2019.

Further, results for the nine months period ended 30 September 2020, are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2020. Certain prior period amounts have been restated / reclassified in order to conform to the current period presentation. Such reclassifications do not affect previously reported assets, liabilities, equity and profit for the period.

##### **2.2. The accounting policies adopted in the preparation of the interim condensed consolidated financial information**

The accounting policies used in the preparation of this interim condensed consolidated financial information are consistent with those used in the previous financial year, except for the amendments to IFRSs which are effective for annual accounting period starting from 1 January 2020, accounting for modification loss in response to Covid-19 in accordance with CBK’s instructions and government grants as explained above.

## Burgan Bank Group

### Notes to the Interim Condensed Consolidated Financial Information

As at 30 September 2020 (Unaudited)

#### 2. BASIS OF PRPERATION AND CHANGES TO ACCOUNTING POLICIES (continued)

##### 2.2. The accounting policies adopted in the preparation of the interim condensed consolidated financial information (continued)

###### *Amendments to IFRS 3: Definition of a Business*

The amendment to IFRS 3 clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. Furthermore, it clarified that a business can exist without including all of the inputs and processes needed to create outputs. These amendments had no impact on the consolidated financial statements of the Group, but may impact future periods should the Group enter into any business combinations.

###### *Amendments to IFRS 7, IFRS 9 and IAS 39: Interest Rate Benchmark Reform*

The amendments to IFRS 9 and IAS 39 Financial Instruments: Recognition and Measurement provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument. These amendments had no impact on the consolidated financial statements of the Group as it does not have any interest rate hedge relationships.

###### *Amendments to IAS 1 and IAS 8: Definition of Material*

The amendments provide a new definition of material that states “information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.” The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the consolidated financial statements of, nor is there expected to be any future impact to the Group.

###### *Conceptual Framework for Financial Reporting issued on 29 March 2018*

The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the IASB in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards. The revised Conceptual Framework includes some new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. These amendments had no impact on the consolidated financial statements of the Group.

#### 3. CASH AND CASH EQUIVALENTS

	<i>30 September</i> <i>2020</i> <i>KD 000's</i>	<i>(Audited)</i> <i>31 December</i> <i>2019</i> <i>KD 000's</i>	<i>30 September</i> <i>2019</i> <i>KD 000's</i>
Cash in hand and in current account with banks & OFIs	512,137	274,000	466,279
Balances with CBK	62,640	101,917	56,399
Due from banks and OFIs maturing within thirty days	332,081	238,598	174,896
	<u>906,858</u>	<u>614,515</u>	<u>697,574</u>
Expected credit losses	(198)	(27)	(173)
Cash and cash equivalents as per interim condensed consolidated statement of financial position	<u>906,660</u>	<u>614,488</u>	<u>697,401</u>
Cash and cash equivalents attributable to disposal group held for sale	-	147,020	-
Cash and cash equivalents as per interim condensed consolidated statement of cash flows	<u><u>906,660</u></u>	<u><u>761,508</u></u>	<u><u>697,401</u></u>

**Burgan Bank Group**
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**As at 30 September 2020 (Unaudited)**
**4. OTHER BORROWED FUNDS**

	<i>Effective interest rate</i>	<i>30 September 2020</i> <i>KD 000's</i>	<i>(Audited)</i> <i>31 December 2019</i> <i>KD 000's</i>	<i>30 September 2019</i> <i>KD 000's</i>
Subordinated bonds – KWD 2026 (Fixed tranche)	6.00%	29,904	29,877	29,868
Subordinated bonds – KWD 2026 (Floating tranche capped at 7%)	CBK + 3.95%	69,446	69,383	69,362
Medium term borrowing	3M Libor + 0.95%	45,909	105,940	106,262
Euro Medium Term Note	3.125%	152,815	151,021	151,446
Senior unsecured fixed rate bonds	4.125%	99,828	99,724	99,690
Other borrowings – subsidiaries	1.00%-3.17%	436	-	506
		<b>398,338</b>	<b>455,945</b>	<b>457,134</b>

**5. OTHER LIABILITIES**

	<i>30 September 2020</i> <i>KD 000's</i>	<i>(Audited)</i> <i>31 December 2019</i> <i>KD 000's</i>	<i>30 September 2019</i> <i>KD 000's</i>
Accrued interest payable	40,910	49,433	53,701
Staff benefits	16,030	16,063	15,662
Provision for non - cash credit facilities	15,470	15,113	14,651
Clearing cheques and balances	32,382	41,687	32,993
Income received in advance	13,231	12,436	11,824
Other payable and accruals	37,072	35,818	49,387
Deferred tax liabilities	90	79	714
Taxation payable	14,123	13,361	12,707
Other balances	38,896	53,269	76,976
	<b>208,204</b>	<b>237,259</b>	<b>268,615</b>

**6. SHAREHOLDERS' EQUITY**

a) The issued and fully paid up share capital of the Bank comprises 2,625,000,000 shares (31 December 2019: 2,625,000,000, 30 September 2019: 2,625,000,000 of 100 fils each.

b) Treasury shares

	<i>30 September 2020</i>	<i>(Audited)</i> <i>31 December 2019</i>	<i>30 September 2019</i>
Number of shares held	4,577,228	4,577,228	4,577,228
Percentage of shares held	0.17%	0.17%	0.17%
Cost KD 000's	1,742	1,742	1,742
Market value - KD 000's	925	1,382	1,437
Weighted average market value per share (fils)	219	326	332

The balance in the treasury share reserve account is not available for distribution. An amount equal to the cost of treasury shares is not available for distribution from share premium, statutory reserve, voluntary reserve and retained earnings throughout the holding period of these treasury shares.

**Burgan Bank Group**
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**As at 30 September 2020 (Unaudited)**
**6. SHAREHOLDERS' EQUITY (continued)**
**c) Other reserves**

	<i>Nine months period ended 30 September 2020</i>				<i>Total KD 000's</i>
	<i>Hedge of net investment in foreign operations KD 000's</i>	<i>Cash flow hedge reserve KD 000's</i>	<i>Changes in ownership in subsidiaries KD 000's</i>	<i>Reserve of disposal group held for sale KD 000's</i>	
Balance at 1 January	8,583	579	(1,478)	990	8,674
Changes in fair value of cash flow hedge reserve	-	2,306	-	-	2,306
Net gain on hedge of a net investment	7,648	-	-	-	7,648
Transfer related to disposal group held for sale (note 10)	-	-	-	(990)	(990)
<b>Total comprehensive income (loss)</b>	<b>7,648</b>	<b>2,306</b>	<b>-</b>	<b>(990)</b>	<b>8,964</b>
<b>Balance at 30 September 2020</b>	<b>16,231</b>	<b>2,885</b>	<b>(1,478)</b>	<b>-</b>	<b>17,638</b>

	<i>Nine months period ended 30 September 2019</i>				<i>Total KD 000's</i>
	<i>Hedge of net investment in foreign operations KD 000's</i>	<i>Cash flow hedge reserve KD 000's</i>	<i>Changes in ownership in subsidiaries KD 000's</i>		
Balance at 1 January	16,022	7,536	(1,501)		22,057
Changes in fair value of cash flow hedge reserve	-	(5,008)	-		(5,008)
Net loss on hedge of a net investment	(8,964)	-	-		(8,964)
Net movement in non-controlling interest	-	-	23		23
<b>Total comprehensive (loss) income</b>	<b>(8,964)</b>	<b>(5,008)</b>	<b>23</b>		<b>(13,949)</b>
<b>Balance at 30 September 2019</b>	<b>7,058</b>	<b>2,528</b>	<b>(1,478)</b>		<b>8,108</b>

**d) Dividends and bonus shares**

On 12 April 2020, the annual general assembly approved the distribution of cash dividend of 12 fils per share for the year ended 31 December 2019.

On 27 March 2019, the annual general assembly approved the distribution of cash dividend of 12 fils per share and stock dividend of 5% for the year ended 31 December 2018.

**7. TAXATION**

	<i>Three months ended 30 September</i>		<i>Nine months ended 30 September</i>	
	<i>2020 KD 000's</i>	<i>2019 KD 000's</i>	<i>2020 KD 000's</i>	<i>2019 KD 000's</i>
National Labour Support Tax	258	595	855	1,773
Contribution to the Kuwait Foundation for the Advancement of Science	103	236	342	706
Zakat	103	238	342	709
Taxation arising from overseas subsidiaries	887	2,272	3,872	5,746
	<b>1,351</b>	<b>3,341</b>	<b>5,411</b>	<b>8,934</b>

## Burgan Bank Group

### Notes to the Interim Condensed Consolidated Financial Information

As at 30 September 2020 (Unaudited)

#### 8. EARNINGS PER SHARE

Basic and diluted earnings per share is computed by dividing the profit for the period 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 period less treasury shares.

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

	<i>Three months ended</i>		<i>Nine months ended</i>	
	<i>30 September</i>		<i>30 September</i>	
	<i>2020</i>	<i>2019</i>	<i>2020</i>	<i>2019</i>
	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>
Profit for the period attributable to equity holders of the Bank	9,829	22,688	32,575	67,454
Less: interest payments and other movements on Tier 1 capital securities	800	(12,252)	(6,001)	(17,763)
Profit for the period attributable to equity holders of the Bank after interest payment on Tier 1 capital securities and other movements	<u>10,629</u>	<u>10,436</u>	<u>26,574</u>	<u>49,691</u>
	<i>Shares</i>	<i>Shares</i>	<i>Shares</i>	<i>Shares</i>
Weighted average number of outstanding shares, net of treasury shares	<u>2,620,422,772</u>	<u>2,618,980,370</u>	<u>2,620,422,772</u>	<u>2,618,584,672</u>
Basic and diluted earnings per share (fils)	<u>4.1</u>	<u>4.0</u>	<u>10.1</u>	<u>19.0</u>

#### 9. SEGMENT INFORMATION

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

- ▶ Corporate banking: provides comprehensive product and services to corporate customers and financial institutions including lending, deposits, trade services, foreign exchange, advisory services and others.
- ▶ Private and retail banking: provides wide range of products and services to retail and private bank customers including loans, deposits, credit and debit cards, foreign exchange, and others.
- ▶ Treasury, investment banking and others: includes treasury asset liability and liquidity management, investment services and management, fund management and any residual of transfer pricing. It also provides products and services to banks including money markets, lending, deposits, foreign exchange and others.

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 interim condensed consolidated financial information.



## Burgan Bank Group

### Notes to the Interim Condensed Consolidated Financial Information As at 30 September 2020 (Unaudited)

#### 9. SEGMENT INFORMATION (continued)

The following table present information relating to the income and results of the Group's operating segments for the nine months period ended 30 September 2020:

	Kuwait Operations				Total KD 000's	International Operations KD 000's	Unallocated Intragroup Transactions KD 000's	Group Total KD 000's
	Corporate banking KD 000's	Retail and private banking KD 000's	Treasury, investment banking and others KD 000's					
<b>30 September 2020</b>								
Net interest income	46,147	26,638	(8,341)	64,444	50,927	(7,433)	107,938	
Segment operating income	55,784	29,702	10,138	95,624	82,872	(13,950)	164,546	
Depreciation and amortisation	(1,165)	(1,777)	(515)	(3,457)	(3,783)	(2,047)	(9,287)	
Segment result before provisions	45,749	14,391	5,690	65,830	46,731	(15,803)	96,758	
Provision for credit losses	(1,608)	(5,419)	-	(7,027)	(29,395)	(417)	(36,839)	
Provision charge for other financial assets	-	-	(104)	(104)	(443)	-	(547)	
Segment result after provisions	44,141	8,972	5,586	58,699	16,893	(16,220)	59,372	
Unallocated expenses				(1,149)	-	-	(1,149)	
Unallocated provisions				(17,000)	-	-	(17,000)	
Profit for the period before taxation				40,550	16,893	(16,220)	41,223	

**Burgan Bank Group**

**Notes to the Interim Condensed Consolidated Financial Information  
As at 30 September 2020 (Unaudited)**

**9. SEGMENT INFORMATION (continued)**

	Kuwait Operations				Total KD 000's	International Operations KD 000's	Unallocated Intragroup Transactions KD 000's	Total KD 000's
	Corporate banking KD 000's	Retail and private banking KD 000's	Treasury, investment banking and others KD 000's					
<i>30 September 2019</i>								
Net interest income	49,255	27,333	6,922	83,510	54,001	(12,294)	125,217	
Segment operating income	60,506	32,429	30,981	123,916	74,251	(19,901)	178,266	
Depreciation and amortisation	(1,104)	(2,384)	(690)	(4,178)	(4,273)	(2,957)	(11,408)	
Segment result before provisions	52,216	15,201	26,291	93,708	41,034	(22,652)	112,090	
Provision for credit losses	(4,303)	(2,994)	1,254	(6,043)	(16,267)	(3,413)	(25,723)	
Provision (reversal) charge for other financial assets	-	-	105	105	(44)	-	61	
Segment result after provisions	47,913	12,207	27,650	87,770	24,723	(26,065)	86,428	
Unallocated expenses				(8,518)	-	-	(8,518)	
Profit for the period before taxation				79,252	24,723	(26,065)	77,910	



**Burgan Bank Group**
**Notes to the Interim Condensed Consolidated Financial Information**  
**As at 30 September 2020 (Unaudited)**
**9. SEGMENT INFORMATION (continued)**

	Kuwait Operations			International Operations*	Unallocated Intragroup Transactions	Group Total
	Corporate banking KD 000's	Retail and Private banking KD 000's	Treasury and investment banking and others KD 000's			
<b>30 September 2020</b>						
Total assets	2,684,364	1,261,037	1,460,745	2,092,835	(556,120)	6,942,861
Total liabilities	1,034,615	1,059,532	2,360,230	1,801,933	(223,969)	6,032,341
<b>31 December 2019 (Audited)</b>						
Total assets	2,580,030	1,123,258	1,824,229	2,168,884	(615,388)	7,081,013
Total liabilities	886,919	1,014,729	2,653,682	1,863,172	(289,747)	6,128,755
<b>30 September 2019</b>						
Total assets	2,534,862	1,069,679	1,541,430	2,201,288	(589,539)	6,757,720
Total liabilities	816,758	983,089	2,394,581	1,888,253	(275,462)	5,807,219

\*International operations of 31 December 2019 include operational results of BoB which was classified as disposal group held for sale as at 31 December 2019.

## Burgan Bank Group

### Notes to the Interim Condensed Consolidated Financial Information

As at 30 September 2020 (Unaudited)

#### 10. 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 period. 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 and 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 CBK.

The outstanding balances and transactions are as follows:

	<i>Parent Company</i>	<i>Others</i>	<i>30 September 2020</i>	<i>(Audited) 31 December 2019</i>	<i>30 September 2019</i>
	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>
<b><i>Assets and Liabilities</i></b>					
Due from banks and OFIs*	-	220,390	220,390	170,688	201,610
Loans and advances to customers*	-	974,957	974,957	892,046	879,249
Investment securities	15,985	118,073	134,058	147,149	148,618
Investment securities managed by a related party	-	65,914	65,914	64,484	63,785
Other assets	-	5,284	5,284	4,772	4,769
Due to banks	-	17,060	17,060	8,109	7,368
Due to other financial institutions	-	62,912	62,912	38,523	39,418
Deposits from customers	77,038	59,938	136,976	119,062	80,818
<b><i>Commitments, contingent liabilities and derivatives</i></b>					
Letters of credit	-	26,924	26,924	13,834	13,484
Letters of guarantee	-	77,579	77,579	78,330	81,227
<b><i>Transactions</i></b>					
Interest income	31	31,486	31,517	46,364	35,737
Interest expense	(1,147)	(642)	(1,789)	(2,895)	(2,021)
Fee and commission income	2	1,126	1,128	1,449	1,223
Fee and commission expenses	-	(560)	(560)	(949)	-
Dividend income	998	368	1,366	2,770	2,770
Other expense	-	(2,768)	(2,768)	(3,045)	(2,199)
Other income	-	-	-	38	38
<b><i>Other transactions during the period</i></b>					
Purchase of investment securities	-	23,791	23,791	23,054	23,054
Sale of investment securities	-	23,990	23,990	-	-

\*As of period ended 30 September 2020, the fair value of total eligible collateral to the extent of the outstanding balances amounting to KD 492,126 thousand (31 December 2019: KD 531,056 thousand, 30 September 2019: KD 475,209 thousand).

On 30 October 2019, the Board of Directors of the Bank approved to sell the entire stake in Bank of Baghdad (BoB) to a related party accordingly BoB was classified as disposal group held for sale. During the period, the sale of BoB was cancelled due to the challenging macroeconomic environment cause by the COVID-19 pandemic and accordingly it is not classified as disposal group held for sale.

**Burgan Bank Group**
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**As at 30 September 2020 (Unaudited)**
**10. TRANSACTIONS WITH RELATED PARTIES (continued)**

	<i>No. of Board members / Group executive staff</i>	<i>(Audited)</i>		
		<i>30 September 2020</i>	<i>31 December 2019</i>	<i>30 September 2019</i>
		<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>
<b>Board members*</b>				
Loans and advances	3	4,567	3,915	3,957
Deposits from customers	7	889	518	315
<b>Group executive staff</b>				
Loans and advances	15	237	213	235
Deposits from customers	28	2,301	1,799	2,340
Letters of guarantee	1	6	-	1

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

**Key management compensation**

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

	<i>Nine months ended</i>	
	<i>30 September</i>	
	<i>2020</i>	<i>2019</i>
	<i>KD 000's</i>	<i>KD 000's</i>
Short term employee benefits -- including salary and bonus	3,789	4,790
Accrual for end of service indemnity	1,178	1,193
Accrual for cost of long term incentive rights	284	917
Accrual for committee services	281	270
	<b>5,532</b>	<b>7,170</b>

**11. COMMITMENTS AND CONTINGENT LIABILITIES**

	<i>(Audited)</i>		
	<i>30 September 2020</i>	<i>31 December 2019</i>	<i>30 September 2019</i>
	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>
Acceptances	34,257	36,372	54,014
Letters of credit	226,288	255,365	212,870
Letters of guarantee	860,878	827,394	820,423
Undrawn lines of credit	557,187	626,972	621,380
Other commitments	14,998	46,176	49,150
	<b>1,693,608</b>	<b>1,792,279</b>	<b>1,757,837</b>

## Burgan Bank Group

### Notes to the Interim Condensed Consolidated Financial Information

As at 30 September 2020 (Unaudited)

#### 12. DERIVATIVES

The table below shows the notional amounts of derivatives outstanding as of the reporting date. The notional amount of a derivative's underlying asset, reference rate or index is the basis upon which changes in the value of derivatives are measured.

##### *Hedge of net investment in foreign operations*

The Bank entered into forward foreign exchange contracts between TRY and USD, as a hedge of the Bank's net investment in its Turkish subsidiary. Gains or losses on the retranslation of the aforesaid contracts are transferred to equity to offset any gains or losses on translation of the net investments in the Turkish subsidiary. No ineffectiveness from hedges of net investments in foreign operations was recognised in interim condensed consolidated statement of income during the period. The Group regularly assess the optimal hedge ratio i.e. the amount of net assets of the subsidiary to be hedged and as at 30 September 2020 has determined 50% (31 December 2019: 60%; 30 September 2019: 59%) as the optimal hedge ratio.

##### **Derivatives held for hedging**

###### *Interest Rate Swaps*

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 up to 3 months against interest rate fluctuations. The subsidiary implements effectiveness tests at balance sheet 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 interim condensed consolidated statement of income. No ineffectiveness from hedges was recognised in interim condensed consolidated statement of income during the period.

##### **Derivatives held for trading**

Derivative transactions for customers and derivatives used for economic hedging purpose as part of the Group's risk management strategy 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 transactions for customers are covered by entering in to similar transactions with counter parties or by other risk mitigating transactions.

The positive fair value of derivative instruments as at 30 September 2020 is KD 43,557 thousand (31 December 2019: KD 37,256 thousand and 30 September 2019: KD 41,388 thousand) and the negative fair value is KD 14,847 thousand (31 December 2019: KD 14,672 thousand and 30 September 2019: KD 22,867 thousand), included in the carrying amount of other assets and other liabilities respectively.

The notional amounts of derivatives are as follows:

	<i>30 September</i> <i>2020</i> <i>KD 000's</i>	<i>(Audited)</i> <i>31 December</i> <i>2019</i> <i>KD 000's</i>	<i>30 September</i> <i>2019</i> <i>KD 000's</i>
<b>Derivatives held for trading:</b> <i>(non-qualifying hedges)</i>			
Forward swaps / foreign exchange contracts	1,219,007	1,040,901	1,013,496
Interest rate swaps	142,716	178,844	208,817
Options	24,525	78,847	66,648
<b>Derivatives held for hedging:</b>			
Forward swaps / foreign exchange contracts	39,441	61,388	64,939
Interest rate swaps	166,121	155,025	179,025

## **Burgan Bank Group**

### **Notes to the Interim Condensed Consolidated Financial Information**

**As at 30 September 2020 (Unaudited)**

#### **13. FINANCIAL INSTRUMENTS**

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. Financial instruments comprise of financial assets and financial liabilities.

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

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;

Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable;

## Burgan Bank Group

### Notes to the Interim Condensed Consolidated Financial Information

As at 30 September 2020 (Unaudited)

#### 13. FINANCIAL INSTRUMENTS (continued)

Fair values of all financial instruments are not materially different from their carrying values. For financial assets and financial liabilities that are liquid or having a short-term maturity (less than nine 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.

Movement in level 3 is mainly on account of additions and change in fair value. During the period, a decrease of KD 4,201 thousand (30 September 2019: increase of KD 44 thousand) was recorded in the other comprehensive income representing change in fair value. There were no material transfers between the levels during the period.

Fair value measurement hierarchy for financial assets and financial liabilities that are carried at fair value is as follows:

	30 September 2020				31 December 2019				30 September 2019			
	Level 1 KD '000	Level 2 KD '000	Level 3 KD '000	Total KD '000	Level 1 KD '000	Level 2 KD '000	Level 3 KD '000	Total KD '000	Level 1 KD '000	Level 2 KD '000	Level 3 KD '000	Total KD '000
<b>Financial assets</b>												
Equity securities	86,234	-	96,341	182,575	92,994	-	99,133	192,127	91,030	-	102,364	193,394
Debt securities	162,817	-	8,000	170,817	166,668	-	8,000	174,668	95,377	-	8,000	103,377
Managed funds	-	-	66,377	66,377	-	-	65,081	65,081	-	-	64,462	64,462
Derivative financial instruments	-	43,557	-	43,557	-	37,256	-	37,256	-	41,388	-	41,388
<b>Financial liabilities</b>												
Derivative financial instruments:	-	14,847	-	14,847	-	14,672	-	14,672	-	22,867	-	22,867

Investments securities classified as FVOCI and amortised cost and other debt instrument carried at amortised cost (excluding credit facilities) are subject to Expected Credit Losses. Central Bank of Kuwait bonds and Kuwait Government treasury bonds are not subject to Expected Credit Losses.

The impact on the interim condensed consolidated statement of financial position and the interim condensed consolidated statement of shareholders' equity would be immaterial if the relevant risk variables used to fair value the unquoted securities were altered by 5 per cent.

## **Burgan Bank Group**

### **Notes to the Interim Condensed Consolidated Financial Information**

**As at 30 September 2020 (Unaudited)**

#### **14. RISK MANAGEMENT AND COVID -19**

On 11 March 2020, the World Health Organisation ("WHO") officially declared COVID-19 a global pandemic. In light of the rapid spread of COVID-19 across the globe, various economies and sectors have faced significant disruptions and uncertainty as a result of measures taken by governments to contain or delay the spread of the virus. This note describes the impact of the outbreak on the Bank's operations, risk management and the significant estimates and judgements applied by management in assessing the values of assets and liabilities.

##### *i) Credit risk management*

In addition to the management of credit risk described in Note 24 to the annual audited consolidated financial statements of the Group for the year ended 31 December 2019, the Bank has taken the following measures in response to the COVID-19 outbreak.

The Bank's Credit Risk management is continuously reviewing the existing credit facilities granted to customers operating under different sectors, which could potentially be under stress. They continue to work with respective business divisions to ensure robust credit review analysis is in place for borrowing clients. Extra measures, such as in-depth review of the customers' business, repayment capabilities in the current environment, stress analysis of the collaterals have been implemented to ensure a better risk mitigation.

Group management has approved payment holidays to its customers including retail customers to assist manage the fallout from the cash flow disruptions, which resulted in modification loss amounting to KD 8,499 thousand being recognised in retained earnings. The management continue to assess the past conduct, and payment history of the clients on an ongoing basis. Significant judgment has been applied while ascertaining whether the cash flow and liquidity issues faced by the customer are temporary or long term in nature. The Group management is also conducting frequent reviews of the collateral coverage on the securities held against facilities, specifically where the collaterals are illiquid in nature.

##### *ii) Liquidity risk management*

By mid-February of this year, global markets had started reacting to the pandemic itself and to the lockdown measures imposed around the world to contain it. Uncertainty increased while global economic activity stood still. As a result, asset prices dropped, credit spreads widened, and oil prices crashed even if momentarily. If this were to continue, it would have led to losses on investments, rise in costs of funds, and a deterioration in borrowers' repaying ability.

Many governments and central banks were quick to react. In March, CBK lowered interest rates by 100 bps then relaxed liquidity and capital requirement ratios. For many banks in the region, the drop in benchmark policy rates more than offset the rise in credit spreads, thus helping ease the cost of funds (but pressuring lending margins).

Burgan maintained a healthy liquidity profile throughout the episode. While CBK relaxed regulatory ratios, Burgan opted to keep its internal limits unchanged in a bid to maintain liquidity at healthy pre-pandemic standards. The moratorium introduced by CBK on loan instalments, while a good measure to revive the economy and ease cash flow strains on borrowers, also meant a delay in inflows of cash for banks. The liquidity impact of this moratorium on Burgan is small and acceptable and is reflected in our reported liquidity ratios. As a policy, Burgan maintains good liquidity buffers and a large portfolio of High Quality Liquid Assets, which it can sell portions of with minimal price impact if the need ever arises.

The Group's management of liquidity risk is disclosed in Note 24 to the annual audited consolidated financial statements of the Group as at and for the year ended 31 December 2019. In response to the COVID-19 outbreak, the Bank is evaluating its liquidity and funding position and has taken into consideration all the reliefs provided by CBK. The Group continues to monitor its liquidity position and risks arising due to the COVID-19 crisis.



## **Burgan Bank Group**

### **Notes to the Interim Condensed Consolidated Financial Information** **As at 30 September 2020 (Unaudited)**

#### **14. RISK MANAGEMENT AND COVID -19 (continued)**

##### *iii) Use of estimates and judgements:*

The spread of COVID-19 rapidly increased in March 2020 as the number of cases spiked, and governments around the world deployed a multitude of measures to combat the virus and protect their economies. The Group is constantly monitoring the current situation as it unfolds, noting that it is in early stages and there is limited economic data available to accurately evaluate the impact of the outbreak on the economy, and on the Group's financial position.

The Group exercises significant judgement in assessing and estimating its ECL. Given the uncertainty and limited forward looking information, the Bank has used the approach of applying judgement overlays in the form of stage change or rating degradation, for those customers where there is an indication of long term or permanent stress.

##### *Governance around IFRS 9 ECL models and calculations*

The Bank's IFRS 9 Committee has the primary responsibility for overseeing the Group's ECL models. Given the extreme uncertainty and volatility in the current times, the Committee has further strengthened its processes, controls and governance frameworks around reviewing and monitoring the macro-economic elements that would impact the computation of ECL and recommend changes if needed.

The impact on ECL on credit facilities determined under IFRS 9 in accordance with CBK guidelines as disclosed in note 2.1 above.

##### *Fair value measurement of financial instruments*

The Group continues to closely monitoring the markets and trades between market participants in the current scenario to adjust, if needed, the fair value of the financial assets and liabilities of the Group. The Bank's existing policy on fair value measurement of financial instruments is disclosed in note 2.4 to the annual audited consolidated financial statements of the Group as at and for the year ended 31 December 2019.