



BURGAN BANK GROUP
INTERIM CONDENSED CONSOLIDATED
FINANCIAL INFORMATION

30 SEPTEMBER 2021 (UNAUDITED)



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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 2021, and the related interim condensed consolidated statement of income and the interim condensed consolidated statement of comprehensive income for the three month and nine month periods then ended, and the interim condensed consolidated statement changes in equity and interim condensed consolidated statement cash flows for the nine months 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 preparation 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 condensed consolidated 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 preparation 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, 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 2021 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 organisation of banking business, and its related regulations, or of the provisions of Law No. 7 of 2010 concerning Capital Markets Authority and its related regulations during the nine months period ended 30 September 2021 that might have had a material effect on the business of the Bank or on its financial position.



DR. RASHEED M. AL-QENAE
LICENSE NO. 130 - A
OF KPMG SAFI AL-MUTAWA & PARTNERS
MEMBER FIRM OF KPMG INTERNATIONAL



NAYEF M.AL BAZIE
LICENSE NO. 91 - A
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Kuwait: 2 November 2021

Burgan Bank Group
Interim Condensed Consolidated Statement of Financial Position
As at 30 September 2021 (Unaudited)

		(Audited)	
	30 September	31 December	30 September
	2021	2020	2020
Notes	KD 000's	KD 000's	KD 000's
ASSETS			
Cash and cash equivalents	3	711,195	819,477
Treasury bills and bonds with CBK and others		230,631	243,550
Due from banks and other financial institutions		307,903	469,517
Loans and advances to customers		4,349,490	4,345,058
Investment securities		607,465	591,668
Other assets		281,796	215,769
Property and equipment		159,795	157,143
Intangible assets		18,870	20,344
		<u>6,667,145</u>	<u>6,862,526</u>
Disposal group held for sale		297,623	243,558
		<u>6,964,768</u>	<u>6,942,861</u>
TOTAL ASSETS			
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks		371,076	413,717
Due to other financial institutions		381,952	610,254
Deposits from customers		4,346,532	4,091,383
Other borrowed funds	4	539,825	679,096
Other liabilities	5	198,516	238,700
		<u>5,837,901</u>	<u>6,033,150</u>
Liabilities directly associated with the disposal group held for sale		244,477	193,170
		<u>6,082,378</u>	<u>6,226,320</u>
TOTAL LIABILITIES			
EQUITY			
Share capital	6	275,625	262,500
Share premium		249,052	249,052
Treasury shares	6	(1,742)	(1,742)
Statutory reserve		102,971	102,971
Voluntary reserve		103,349	103,349
Treasury shares reserve		43,135	43,135
Fair value reserve		(56,076)	(49,953)
Share based compensation reserve		564	564
Foreign currency translation reserve		(198,544)	(181,259)
Other reserves	6	10,574	8,645
Retained earnings		159,991	150,011
		<u>688,899</u>	<u>687,273</u>
Total equity attributable to the equity holders of the Bank		688,899	687,273
Perpetual Tier 1 capital securities		150,825	151,625
Non-controlling interests		42,666	40,866
		<u>882,390</u>	<u>879,764</u>
TOTAL EQUITY			
TOTAL LIABILITIES AND EQUITY			
		<u>6,964,768</u>	<u>7,106,084</u>
		<u>6,964,768</u>	<u>6,942,861</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 2021 (Unaudited)

	Notes	Three months ended 30 September		Nine months ended 30 September	
		2021 KD 000's	2020 KD 000's	2021 KD 000's	2020 KD 000's
Interest income		65,052	62,479	190,655	208,978
Interest expense		(33,244)	(28,499)	(97,348)	(101,040)
Net interest income		31,808	33,980	93,307	107,938
Fee and commission income		10,102	9,391	31,640	29,370
Fee and commission expense		(1,319)	(1,201)	(4,309)	(4,232)
Net fee and commission income		8,783	8,190	27,331	25,138
Net gain from foreign currencies		2,805	4,660	10,117	8,409
Net investment income		8,213	7,241	22,158	11,786
Dividend income		155	505	901	1,576
Other income		2,821	2,381	12,795	9,699
Operating income		54,585	56,957	166,609	164,546
Staff expenses		(12,739)	(10,169)	(35,379)	(33,934)
Other expenses		(12,498)	(12,035)	(34,785)	(35,003)
Operating profit before credit losses and other provisions		29,348	34,753	96,445	95,609
Provision for credit losses		(8,501)	(22,230)	(47,608)	(53,839)
Provision (release) charge for other financial assets		144	524	433	(547)
Profit before taxation		20,991	13,047	49,270	41,223
Taxation	7	(3,065)	(1,351)	(6,183)	(5,411)
Profit for the period		17,926	11,696	43,087	35,812
Attributable to:					
Equity holders of the Bank		16,256	9,829	40,276	32,575
Non-controlling interests		1,670	1,867	2,811	3,237
		17,926	11,696	43,087	35,812
Basic and diluted earnings per share - attributable to the equity holders of the Bank (Fils)	8	5.8	3.9	13.4	9.7

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 2021 (Unaudited)

	<i>Three months ended</i>		<i>Nine months ended</i>	
	<i>30 September</i>		<i>30 September</i>	
	<i>2021</i>	<i>2020</i>	<i>2021</i>	<i>2020</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	17,926	11,696	43,087	35,812
Other comprehensive (loss) income				
<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	1,305	(4,017)	(1,862)	(14,590)
	1,305	(4,017)	(1,862)	(14,590)
<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	(735)	2,976	(4,698)	8,179
Changes in allowance for expected credit losses	(70)	(281)	(179)	(9)
Net transfer to interim condensed consolidated statement of income	(82)	(5,875)	(500)	(8,694)
Foreign currency translation adjustment	(3,992)	(12,181)	(17,913)	(28,030)
Changes in fair value of cash flow hedges	(1,157)	860	1,438	2,316
Net gain on hedge of a net investment	(961)	3,211	844	7,648
Other comprehensive loss for the period	(5,692)	(15,307)	(22,870)	(33,180)
Total comprehensive income (loss) for the period	12,234	(3,611)	20,217	2,632
Attributable to:				
Equity holders of the Bank	10,631	(5,233)	18,256	(131)
Non-controlling interests	1,603	1,622	1,961	2,763
	12,234	(3,611)	20,217	2,632

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 2021 (Unaudited)

Attributable to the equity holders of the Bank

	<i>Share capital</i>	<i>Share premium</i>	<i>Treasury shares</i>	<i>Statutory reserve</i>	<i>Voluntary reserve</i>	<i>Treasury shares reserve</i>	<i>Fair value reserve</i>	<i>Share based compensation reserve</i>	<i>Foreign currency translation reserve</i>	<i>Other reserves*</i>	<i>Retained earnings</i>	<i>Total</i>	<i>Perpetual Tier 1 capital securities</i>	<i>Non-controlling interests</i>	<i>Total equity</i>
	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>
Balance at 1 January 2021	262,500	249,052	(1,742)	102,971	103,349	43,135	(49,953)	564	(181,259)	8,645	150,011	687,273	151,625	40,866	879,764
Profit for the period	-	-	-	-	-	-	-	-	-	-	40,276	40,276	-	2,811	43,087
Other comprehensive (loss) income for the period	-	-	-	-	-	-	(6,969)	-	(17,327)	2,276	-	(22,020)	-	(850)	(22,870)
Total comprehensive (loss) income for the period	-	-	-	-	-	-	(6,969)	-	(17,327)	2,276	40,276	18,256	-	1,961	20,217
Bonus shares issued (note 6)	13,125	-	-	-	-	-	-	-	-	-	(13,125)	-	-	-	-
Cash dividend (note 6)	-	-	-	-	-	-	-	-	-	-	(13,102)	(13,102)	-	-	(13,102)
Dividend paid to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	-	(161)	(161)
Transfer related to disposal group held for sale	-	-	-	-	-	-	305	-	42	(347)	-	-	-	-	-
Foreign currency translation adjustment	-	-	-	-	-	-	-	-	-	-	800	800	(800)	-	-
Net transfer to retained earnings for equity investments at FVOCI	-	-	-	-	-	-	541	-	-	-	(541)	-	-	-	-
Interest payment on Tier 1 capital securities	-	-	-	-	-	-	-	-	-	-	(4,328)	(4,328)	-	-	(4,328)
Balance at 30 September 2021	275,625	249,052	(1,742)	102,971	103,349	43,135	(56,076)	564	(198,544)	10,574	159,991	688,899	150,825	42,666	882,390

*Refer note 6 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 2021 (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*	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 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	-	-	-	-	-	-	(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)
Balance at 30 September 2020	262,500	249,052	(1,742)	99,465	99,843	43,135	(45,699)	564	(178,507)	17,638	158,835	705,084	153,100	52,336	910,520

*Refer note 6 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 2021 (Unaudited)

	Note	Nine months ended 30 September	
		2021 KD 000's	2020 KD 000's
Operating activities			
Profit for the period before taxation		49,270	41,223
Adjustments:			
Net investment income		(22,158)	(11,786)
Provision for credit losses		47,608	53,839
Provision (release) charge for other financial assets		(433)	547
Dividend income		(901)	(1,576)
Depreciation and amortisation		9,062	9,287
Operating profit before changes in operating assets and liabilities		82,448	91,534
Changes in operating assets and liabilities:			
Treasury bills and bonds with CBK and others		21,743	17,679
Due from banks and other financial institutions		134,136	360,093
Loans and advances to customers		(104,910)	(116,682)
Other assets		(18,907)	(29,396)
Due to banks		(42,824)	(234,422)
Due to other financial institutions		(228,302)	(78,505)
Deposits from customers		306,536	307,059
Other liabilities		(45,941)	(30,714)
Taxation paid		(1,209)	(4,301)
Net cash flows from operating activities		102,770	282,345
Investing activities			
Purchase of investment securities		(439,204)	(575,499)
Proceeds from sale of investment securities		440,973	609,410
Purchase of property and equipment, net of disposals		(10,208)	(50,668)
Dividends received		901	1,576
Net cash flows used in investing activities		(7,538)	(15,181)
Financing activities			
Other borrowed funds		(139,268)	(58,093)
Cash dividend paid to equity holders of the Bank		(13,102)	(31,445)
Cash dividend paid to non-controlling interests		(161)	-
Interest payment on Tier1 capital securities		(4,328)	(4,426)
Net cash flows used in financing activities		(156,859)	(93,964)
Net (decrease) increase in cash and cash equivalents		(61,627)	173,200
Effect of foreign currency translation		(18,254)	(28,048)
Cash and cash equivalents at 1 January		964,563	761,508
Cash and cash equivalents at 30 September	3	884,682	906,660
Additional cash flow information:			
Interest received		189,828	156,468
Interest paid		103,969	109,563

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 2021 (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 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 interim condensed consolidated financial information of the Bank and its subsidiaries (collectively “the Group”) for the period ended 30 September 2021 were authorised for issue in accordance with a resolution of the Board of Directors on 11 October 2021.

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”) and whose shares are listed on Boursa Kuwait.

2. BASIS OF PREPARATION AND CHANGES TO ACCOUNTING POLICIES

2.1 Basis of preparation

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

The interim condensed consolidated financial information has 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 International Financial Reporting Standards (“IFRS”), as issued by International Accounting Standards Board (“IASB”), with the following amendments:

- (i) Expected credit loss (“ECL”) to be measured at the higher of ECL 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 compared to 2021.

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

The 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 consolidated financial statements for the year ended 31 December 2020.

Further, results for the nine months period ended 30 September 2021 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2021. 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. Accounting policies adopted in the preparation of the interim condensed consolidated financial information

The accounting policies used in the preparation of the interim condensed consolidated financial information are consistent with those used in the previous financial year, except for the amendments to IFRS which are effective for annual accounting period starting from 1 January 2021.

Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (“IBOR”) is replaced with an alternative nearly risk-free interest rate (“RFR”).

Burgan Bank Group

Notes to the Interim Condensed Consolidated Financial Information

As at 30 September 2021 (Unaudited)

2. BASIS OF PREPARATION AND CHANGES TO ACCOUNTING POLICIES (CONTINUED)

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

The amendments include the following practical expedients:

- A practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest;
- Permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued; and
- Provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component.

These amendments had no impact on the interim condensed consolidated financial information of the Group and the management is in the process of identifying the possible impact of the above amendment for future periods.

3. CASH AND CASH EQUIVALENTS

	<i>30 September</i> <i>2021</i> <i>KD 000's</i>	<i>(Audited)</i> <i>31 December</i> <i>2020</i> <i>KD 000's</i>	<i>30 September</i> <i>2020</i> <i>KD 000's</i>
Cash in hand and in current account with banks and OFIs	372,603	359,202	512,137
Balances with CBK	111,384	260,575	62,640
Due from banks and OFIs maturing within thirty days	227,226	199,724	332,081
	711,213	819,501	906,858
Expected credit losses	(18)	(24)	(198)
Cash and cash equivalents as per interim condensed consolidated statement of financial position	711,195	819,477	906,660
Cash and cash equivalents attributable to disposal group held for sale	173,487	145,086	-
Cash and cash equivalents as per interim condensed consolidated statement of cash flows	884,682	964,563	906,660

4. OTHER BORROWED FUNDS

	<i>(Audited)</i> <i>30 September</i> <i>2021</i> <i>KD 000's</i>	<i>31 December</i> <i>2020</i> <i>KD 000's</i>	<i>30 September</i> <i>2020</i> <i>KD 000's</i>
Subordinated bonds – KWD 2026 (Fixed tranche)*	6.00%	-	29,913
Subordinated bonds – KWD 2026 (Floating tranche capped at 7%)*	CBK+3.95%	-	69,467
Medium term borrowing	3M Libor+0.95%	-	45,909
Euro Medium Term Note*	3.125%	-	151,416
Senior unsecured fixed rate bonds	4.125%	99,965	99,862
Murabaha facility	3M Libor+1.00%	59,990	60,195
Subordinated bonds – 2031	2.75%	150,047	150,755
Medium term borrowing	3M Libor+1.10%	117,062	117,488
Medium term borrowing	3M Libor+1.15%	90,262	-
Medium term borrowing	3M Libor+1.00%	22,499	-
Other borrowings- subsidiaries	1.00%- 3.17%	-	436
	539,825	679,096	398,338

*Subordinated bonds have been fully repaid during the period.

Burgan Bank Group

Notes to the Interim Condensed Consolidated Financial Information As at 30 September 2021 (Unaudited)

5. OTHER LIABILITIES

	<i>30 September</i> <i>2021</i> <i>KD 000's</i>	<i>(Audited)</i> <i>31 December</i> <i>2020</i> <i>KD 000's</i>	<i>30 September</i> <i>2020</i> <i>KD 000's</i>
Accrued interest payable	32,364	38,985	40,910
Staff benefits	18,103	17,096	16,030
Provision for non - cash credit facilities	18,916	15,472	15,470
Clearing cheques and balances	30,377	35,126	32,382
Income received in advance	9,965	10,373	13,231
Other payable and accruals	40,548	37,848	37,072
Deferred tax liabilities	293	294	90
Taxation payable	12,076	11,825	14,123
Other balances	35,874	71,681	38,896
	198,516	238,700	208,204

6. SHAREHOLDERS' EQUITY

a) The issued and fully paid up share capital of the Bank comprises 2,756,250,000 (31 December 2020 and 30 September 2020: 2,625,000,000) shares of 100 fils each.

b) Treasury shares

	<i>30 September</i> <i>2021</i>	<i>(Audited)</i> <i>31 December</i> <i>2020</i>	<i>30 September</i> <i>2020</i>
Number of shares held	4,811,693	4,577,228	4,577,228
Percentage of shares held	0.17%	0.17%	0.17%
Cost <i>KD 000's</i>	1,742	1,742	1,742
Market value - <i>KD 000's</i>	1,092	975	925
Weighted average market value per share (fils)	222	217	219

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

Burgan Bank Group

Notes to the Interim Condensed Consolidated Financial Information

As at 30 September 2021 (Unaudited)

6. SHAREHOLDERS' EQUITY (continued)

c) Other reserves

	<i>Nine months ended 30 September 2021</i>				
	<i>Hedge of net investment in foreign operations</i> KD 000's	<i>Cash flow hedge reserve</i> KD 000's	<i>Changes in ownership in subsidiaries</i> KD 000's	<i>Reserve of disposal group held for sale</i> KD 000's	<i>Total</i> KD 000's
Balance at 1 January 2021	13,145	2,295	(1,478)	(5,317)	8,645
Changes in fair value of cash flow hedge reserve	-	1,432	-	-	1,432
Net gain on hedge of a net investment	844	-	-	-	844
Transfer related to disposal group held for sale	-	-	-	(347)	(347)
Total comprehensive income (loss)	844	1,432	-	(347)	1,929
Balance at 30 September 2021	13,989	3,727	(1,478)	(5,664)	10,574

	<i>Nine months ended 30 September 2020</i>				
	<i>Hedge of net investment in foreign operations</i> KD 000's	<i>Cash flow hedge reserve</i> KD 000's	<i>Changes in ownership in subsidiaries</i> KD 000's	<i>Reserve of disposal group held for sale</i> KD 000's	<i>Total</i> KD 000's
Balance at 1 January 2020	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	-	-	-	(990)	(990)
Total comprehensive income (loss)	7,648	2,306	-	(990)	8,964
Balance at 30 September 2020	16,231	2,885	(1,478)	-	17,638

d) Dividends and bonus shares

On 6 June 2021, the Annual General Assembly approved the distribution of cash dividend of 5 fils per share (2019: 12 fils) and bonus shares of 5% (2019: nil) for the year ended 31 December 2020.

7. TAXATION

	<i>Three months ended</i> <i>30 September</i>		<i>Nine months ended</i> <i>30 September</i>	
	2021 KD 000's	2020 KD 000's	2021 KD 000's	2020 KD 000's
National Labour Support Tax	421	258	1,049	855
Contribution to the Kuwait Foundation for the Advancement of Sciences	174	103	425	342
Zakat	169	103	420	342
Taxation arising from overseas subsidiaries	2,301	887	4,289	3,872
	3,065	1,351	6,183	5,411

Burgan Bank Group

Notes to the Interim Condensed Consolidated Financial Information

As at 30 September 2021 (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 of 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>2021</i>	<i>2020</i>	<i>2021</i>	<i>2020</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	16,256	9,829	40,276	32,575
Less: interest payments and other movements on Tier 1 capital securities	(300)	800	(3,528)	(6,001)
Profit for the period attributable to equity holders of the Bank after interest payment on Tier 1 capital securities and other movements	15,956	10,629	36,748	26,574
	<i>Shares</i>	<i>Shares</i>	<i>Shares</i>	<i>Shares</i>
Weighted average number of outstanding shares, net of treasury shares	2,751,438,307	2,751,438,307	2,751,438,307	2,751,438,307
Basic and diluted earnings per share (fils)	5.8	3.9	13.4	9.7

Basic and diluted earnings per share for the comparative period presented have been restated to reflect the effect of bonus shares (note 6).

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.
- ▶ **Retail and Private banking:** provides wide range of products and services to retail and private bank customers including loans, deposits, credit and debit cards, foreign exchange, and others.
- ▶ **Treasury and investment banking:** includes treasury activities, investment services and management. It also provides products and services to banks including money markets, lending, deposits, foreign exchange and others.
- ▶ **Central office:** includes liquidity and funding management, any residual in respect of transfer pricing and other unallocated activities.

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

The Group during the period has changed its reportable segment to include Central office as a new reportable segment as described above. Accordingly, net interest income, segment operating results, profit for the period, total assets and total liabilities relating to Central office which were earlier included as part of Treasury and investment banking segment have been disclosed separately. The comparative information for the period ended 30 September 2020 and as at 31 December 2020 have been restated to conform the current period presentation.

Burgan Bank Group

Notes to the Interim Condensed Consolidated Financial Information

As at 30 September 2021 (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:

	<i>Kuwait Operations</i>				<i>International Operations</i>	<i>Unallocated / Intragroup Transactions</i>	<i>Group</i>	
	<i>Corporate banking</i>	<i>Retail and private banking</i>	<i>Treasury and investment banking</i>	<i>Central office</i>				<i>Total</i>
	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>Total KD 000's</i>	
<i>30 September 2021</i>								
Net interest income	38,580	26,494	656	(5,556)	60,174	40,514	(7,381)	93,307
Segment operating results	50,541	30,835	22,257	(5,129)	98,504	75,726	(7,621)	166,609
Profit (loss) for the period	28,205	(1,029)	18,425	(5,521)	40,080	15,692	(12,685)	43,087
	<i>Kuwait Operations</i>				<i>International Operations</i>	<i>Unallocated / Intragroup Transactions</i>	<i>Group</i>	
	<i>Corporate banking</i>	<i>Retail and private banking</i>	<i>Treasury and investment banking</i>	<i>Central office</i>				<i>Total</i>
	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>Total KD 000's</i>	
<i>30 September 2020</i>								
Net interest income	46,147	26,638	2,284	(10,625)	64,444	50,927	(7,433)	107,938
Segment operating results	55,784	29,702	16,100	(12,285)	89,301	82,872	(7,627)	164,546
Profit (loss) for the period	42,199	8,586	12,220	(30,287)	32,718	12,991	(9,897)	35,812

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As at 30 September 2021 (Unaudited)

9. SEGMENT INFORMATION (continued)

	<i>Kuwait Operations</i>					<i>International Operations</i>	<i>Unallocated / Intragroup Transactions</i>	<i>Group</i>
	<i>Corporate banking KD 000's</i>	<i>Retail and private banking KD 000's</i>	<i>Treasury and investment banking KD 000's</i>	<i>Central office KD 000's</i>	<i>Total KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>Total KD 000's</i>
<i>30 September 2021</i>								
Total assets	2,765,510	1,147,963	693,333	491,685	5,098,491	2,048,548	(182,271)	6,964,768
Total liabilities	1,186,332	1,167,317	264,411	1,851,502	4,469,562	1,795,569	(182,753)	6,082,378
<i>31 December 2020 (Audited)</i>								
Total assets	2,570,996	1,315,787	797,763	576,634	5,261,180	2,077,844	(232,940)	7,106,084
Total liabilities	1,052,296	1,042,338	277,165	2,254,000	4,625,799	1,835,109	(234,588)	6,226,320
<i>30 September 2020</i>								
Total assets	2,684,364	1,261,037	584,343	560,042	5,089,786	2,092,835	(239,760)	6,942,861
Total liabilities	1,034,615	1,059,532	164,953	2,195,277	4,454,377	1,801,933	(223,969)	6,032,341

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Notes to the Interim Condensed Consolidated Financial Information As at 30 September 2021 (Unaudited)

10. TRANSACTIONS WITH RELATED PARTIES

The Group has entered into transactions with certain related parties (Parent Company, Board members, 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 represents 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 the CBK.

The outstanding balances and transactions are as follows:

	<i>Parent Company</i>	<i>Others</i>	<i>30 September 2021</i>	<i>(Audited) 31 December 2020</i>	<i>30 September 2020</i>
	<i>KD 000’s</i>	<i>KD 000’s</i>	<i>KD 000’s</i>	<i>KD 000’s</i>	<i>KD 000’s</i>
<i>Assets and liabilities</i>					
Due from banks and OFIs*	-	177,568	177,568	184,879	220,390
Loans and advances to customers*	-	911,259	911,259	983,769	974,957
Investment securities	16,071	112,813	128,884	134,346	134,058
Investment securities managed by a related party	-	78,295	78,295	66,329	65,914
Other assets	-	5,586	5,586	5,283	5,284
Due to banks	-	14,513	14,513	21,448	17,060
Due to other financial institutions	-	55,109	55,109	31,716	62,912
Deposits from customers	117,902	60,108	178,010	125,274	136,976
<i>Commitments, contingent liabilities and derivatives</i>					
Letters of credit	-	1,363	1,363	21,454	26,924
Letters of guarantee	-	69,142	69,142	81,318	77,579
Undrawn lines of credit	-	124,440	124,440	103,529	77,054
Other commitments	-	18,877	18,877	15,987	14,998
<i>Transactions</i>					
Interest income	30	22,746	22,776	40,488	31,517
Interest expense	(187)	(333)	(520)	(1,929)	(1,789)
Fee and commission income	2	583	585	1,474	1,128
Fee and commission expenses	-	(372)	(372)	(739)	(560)
Dividend income	499	-	499	1,366	1,366
Other expense	-	(8,636)	(8,636)	(3,606)	(2,768)
<i>Other transactions during the period</i>					
Purchase of property and equipment	-	568	568	-	-
Purchase of investment securities	-	-	-	29,571	23,791
Sale of investment securities	-	-	-	24,041	23,990
Loss on sale of investment securities	-	-	-	19	-

*As of period ended 30 September 2021, the fair value of total eligible collateral to the extent of the outstanding balances amounted to KD 472,386 thousand (31 December 2020: KD 494,196 thousand and 30 September 2020: KD 492,126 thousand).

Burgan Bank Group

Notes to the Interim Condensed Consolidated Financial Information As at 30 September 2021 (Unaudited)

10. TRANSACTIONS WITH RELATED PARTIES (continued)

	<i>No. of Board members / key management personnel</i>	<i>30 September 2021 KD 000's</i>	<i>(Audited) 31 December 2020 KD 000's</i>	<i>30 September 2020 KD 000's</i>
Board members*				
Loans and advances	3	4,377	4,452	4,567
Deposits from customers	7	962	907	889
Key management personnel				
Loans and advances	13	167	219	237
Deposits from customers	32	2,159	2,431	2,301
Letters of guarantee	1	19	7	6

*Transactions with Board members include transactions with one of the key management personnel 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 Officers and other Senior Officers), was as follows:

	<i>Nine months ended 30 September</i>	
	<i>2021 KD 000's</i>	<i>2020 KD 000's</i>
Short term employee benefits including salary and bonus	3,944	3,789
Accrual for end of service benefits	1,420	1,178
Accrual for cost of long-term incentive rights	401	284
Accrual for committee services	278	281
	6,043	5,532

11. COMMITMENTS AND CONTINGENT LIABILITIES

	<i>30 September 2021 KD 000's</i>	<i>(Audited) 31 December 2020 KD 000's</i>	<i>30 September 2020 KD 000's</i>
Acceptances	28,707	36,172	34,257
Letters of credit	246,257	259,366	226,288
Letters of guarantee	818,976	857,342	860,878
Undrawn lines of credit	670,587	642,168	557,187
Other commitments	18,877	15,987	14,998
	1,783,404	1,811,035	1,693,608

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Notes to the Interim Condensed Consolidated Financial Information As at 30 September 2021 (Unaudited)

12. DERIVATIVES

The table below shows the notional amounts of derivatives outstanding as of the reporting date. The notional amount of a derivatives' 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 subsidiary based in Turkey. 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 assesses the optimal hedge ratio i.e. the amount of net assets of the subsidiary to be hedged and as at 30 September 2021 has determined 40% (31 December 2020: 50% and 30 September 2020: 50%) as the optimal hedge ratio.

Derivatives held for hedging

Interest Rate Swaps

A 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 into similar transactions with counter parties or by other risk mitigating transactions.

The positive fair value of derivative instruments as at 30 September 2021 is KD 27,411 thousand (31 December 2020: KD 50,344 thousand and 30 September 2020: KD 43,557 thousand) and the negative fair value is KD 21,129 thousand (31 December 2020: KD 21,046 thousand and 30 September 2020: KD 14,847 thousand), included in the carrying amount of other assets and other liabilities respectively.

The notional amounts of derivatives are as follows:

	<i>(Audited)</i>		
	30 September	31 December	30 September
	2021	2020	2020
	KD 000's	KD 000's	KD 000's
Derivatives held for trading:			
<i>(non-qualifying hedges)</i>			
Forward swaps / foreign exchange contracts	1,201,774	1,156,287	1,219,007
Interest rate swaps	110,719	147,122	142,716
Options	60,603	33,996	24,525
	<u><u> </u></u>	<u><u> </u></u>	<u><u> </u></u>
Derivatives held for hedging:			
Forward swaps / foreign exchange contracts	30,574	40,914	39,441
Interest rate swaps	173,781	173,906	166,121
	<u><u> </u></u>	<u><u> </u></u>	<u><u> </u></u>

Burgan Bank Group

Notes to the Interim Condensed Consolidated Financial Information **As at 30 September 2021 (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; and

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

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Notes to the Interim Condensed Consolidated Financial Information

As at 30 September 2021 (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 and 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 375 thousand (30 September 2020: KD 4,201 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 2021				(Audited) 31 December 2020				30 September 2020			
	Level 1 KD 000's	Level 2 KD 000's	Level 3 KD 000's	Total KD 000's	Level 1 KD 000's	Level 2 KD 000's	Level 3 KD 000's	Total KD 000's	Level 1 KD 000's	Level 2 KD 000's	Level 3 KD 000's	Total KD 000's
Financial assets												
Equity securities	85,756	-	94,242	179,998	88,422	-	93,243	181,665	86,234	-	96,341	182,575
Debt securities	227,527	-	8,000	235,527	245,042	-	8,000	253,042	162,817	-	8,000	170,817
Managed funds	-	-	78,733	78,733	-	-	66,739	66,739	-	-	66,377	66,377
Derivative financial instruments	-	27,411	-	27,411	-	50,344	-	50,344	-	43,557	-	43,557
Financial liabilities												
Derivative financial instruments	-	21,129	-	21,129	-	21,046	-	21,046	-	14,847	-	14,847

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. The 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.

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Notes to the Interim Condensed Consolidated Financial Information As at 30 September 2021 (Unaudited)

13. FINANCIAL INSTRUMENTS (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:

	30 September 2021			
	Stage 1 KD 000's	Stage 2 KD 000's	Stage 3 KD 000's	Total KD 000's
Credit facilities	3,846,897	766,361	226,036	4,839,294
Commitments and contingent liabilities*	2,284,477	253,548	14,522	2,552,547
ECL allowance for credit facilities	30,477	48,044	123,822	202,343
	31 December 2020 (Audited)			
	Stage 1 KD 000's	Stage 2 KD 000's	Stage 3 KD 000's	Total KD 000's
Credit facilities	3,692,487	929,786	200,707	4,822,980
Commitments and contingent liabilities*	2,266,893	294,124	5,956	2,566,973
ECL allowance for credit facilities	52,962	99,591	100,162	252,715
	30 September 2020			
	Stage 1 KD 000's	Stage 2 KD 000's	Stage 3 KD 000's	Total KD 000's
Credit facilities	3,752,248	922,712	224,136	4,899,096
Commitments and contingent liabilities*	2,207,391	253,664	6,635	2,467,690
ECL allowance for credit facilities	36,271	91,641	115,197	243,109

*including commitments to extend non-cash facilities.

The details of available provisions as required by CBK instructions are as follows:

	(Audited)		
	30 September 2021 KD 000's	31 December 2020 KD 000's	30 September 2020 KD 000's
Available provision for credit losses	279,384	281,377	298,530

The available provision includes KD 18,916 thousand (31 December 2020: KD 15,472 thousand and 30 September 2020: KD 15,470 thousand) being provision for non-cash facilities reported under other liabilities.

Burgan Bank Group

Notes to the Interim Condensed Consolidated Financial Information As at 30 September 2021 (Unaudited)

13. FINANCIAL INSTRUMENTS (continued)

An analysis of the changes in the ECL in relation to loans and advances to customers (cash and non-cash facilities) computed under IFRS 9 in accordance with the CBK guidelines is as follows:

	<i>Nine months ended 30 September 2021</i>			
	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>
ECL allowance as at 1 January 2021	52,962	99,591	100,162	252,715
ECL movement for the period	(21,762)	(47,035)	72,824	4,027
Amounts written off	-	-	(38,695)	(38,695)
Foreign exchange adjustments	(723)	(4,512)	(10,469)	(15,704)
Balance at 30 September 2021	30,477	48,044	123,822	202,343

	<i>Nine months ended 30 September 2020</i>			
	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>
ECL allowance as at 1 January 2020	28,370	103,516	62,814	194,700
ECL movement for the period	9,230	(684)	77,853	86,399
Amounts written off	-	-	(10,470)	(10,470)
Foreign exchange adjustments	(1,329)	(11,191)	(15,000)	(27,520)
Balance at 30 September 2020	36,271	91,641	115,197	243,109

14. RISK MANAGEMENT AND COVID-19

Since the advent of the COVID 19 pandemic, various economies and sectors continue to face disruptions and uncertainty as a result of the pandemic and corresponding measures taken by the governments to contain the spread of the virus.

The Group continues to be impacted due to the outbreak and the management continues its efforts to mitigate the associated risks. The management of credit, market and liquidity risk along with the application of significant estimate and judgements are described in Note 22 to the annual audited consolidated financial statements of the Group for the year ended 31 December 2020 and no material changes have taken place in the risk management processes and policies during the period.

Consumer and housing loan deferral in 2021

During the period, the Bank has implemented deferral of consumer and housing loans provided to the eligible Kuwaiti Citizens for a period of 6 months effective from the date of request by the customers. The customers were required to submit the request for deferral of consumer and housing loans within a period of one month from the effective date of the Law No. 3 of 2021 i.e. 18 April 2021 to be eligible for the deferment.

The consumer and housing loans that were either past due or under legal action prior to the effective date of Law No. 3 of 2021 were not eligible for deferral.

Burgan Bank Group

Notes to the Interim Condensed Consolidated Financial Information **As at 30 September 2021 (Unaudited)**

14. RISK MANAGEMENT AND COVID-19 (continued)

The Bank has implemented the deferral with effect from the date of request by the customers and accordingly, postponed the instalments due within six months from the date of request with a corresponding extension of the facility tenure. The instalment deferral resulted in a provisional modification loss of KD 5,679 thousand to the Bank arising from modification of the contractual cash flows of consumer and housing loans, which is recognised in interim condensed consolidated statement of income.

The modification loss resulting from the deferral of consumer and housing loans under Law No. 3 of 2021 will be borne by the government of the State of Kuwait.

Payment holidays for consumer and instalment loans in 2020

The 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 continues 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.