

BURGAN BANK GROUP

**INTERIM CONDENSED CONSOLIDATED
FINANCIAL INFORMATION**

31 MARCH 2017 (UNAUDITED)

Burgan Bank Group

Interim Condensed Consolidated Statement of Financial Position

As at 31 March 2017 (Unaudited)

		<i>(Audited)</i>		
	<i>Notes</i>	<i>31 March 2017 KD 000's</i>	<i>31 December 2016 KD 000's</i>	<i>31 March 2016 KD 000's</i>
ASSETS				
Cash and cash equivalents	3	938,910	896,005	875,272
Treasury bills and bonds with CBK and others		451,847	479,996	488,728
Due from banks and other financial institutions		655,658	751,412	696,546
Loans and advances to customers		4,282,380	4,276,086	4,176,328
Investment securities		556,548	554,335	549,977
Other assets		182,230	180,411	209,943
Property and equipment		96,437	89,497	81,047
Intangible assets		40,253	41,134	44,297
TOTAL ASSETS		7,204,263	7,268,876	7,122,138
LIABILITIES AND EQUITY				
LIABILITIES				
Due to banks		644,981	824,676	759,001
Due to other financial institutions		1,147,798	1,208,419	1,155,234
Deposits from customers		3,928,323	3,737,259	3,891,089
Other borrowed funds	4	402,423	437,994	298,024
Other liabilities	5	229,755	214,972	185,616
TOTAL LIABILITIES		6,353,280	6,423,320	6,288,964
EQUITY				
Share capital	6	204,936	204,936	204,936
Share premium		210,559	210,559	210,559
Treasury shares	6	(9,282)	(12,582)	(12,582)
Statutory reserve		74,997	74,997	67,859
Voluntary reserve		75,375	75,375	68,237
Treasury shares reserve		44,209	45,082	45,082
Investments revaluation reserve		2,695	2,732	(1,169)
Share based compensation reserve		564	564	564
Foreign currency translation reserve		(86,588)	(83,782)	(63,101)
Other reserves	6	4,062	2,670	(13,697)
Retained earnings		131,702	129,556	131,783
Total equity attributable to the equity holders of the Bank		653,229	650,107	638,471
Perpetual Tier 1 capital securities	6	144,025	144,025	144,025
Non-controlling interests		53,729	51,424	50,678
TOTAL EQUITY		850,983	845,556	833,174
TOTAL LIABILITIES AND EQUITY		7,204,263	7,268,876	7,122,138

Khalid Al Zouman
Group Chief Financial Officer

Eduardo Eguren Linsen
Group Chief Executive Officer

Majed Essa Al Ajeel
Chairman of the Board

The attached notes 1 to 13 form an integral part of this interim condensed consolidated financial information.

Burgan Bank Group

Interim Condensed Consolidated Statement of Income

Period ended 31 March 2017 (Unaudited)

	<i>Three months ended</i>	
	<i>31 March</i>	
	<i>2017</i>	<i>2016</i>
<i>Notes</i>	<i>KD 000's</i>	<i>KD 000's</i>
Interest income	78,192	77,048
Interest expense	(39,096)	(36,451)
Net interest income	39,096	40,597
Fee and commission income	11,539	9,471
Fee and commission expense	(1,560)	(1,174)
Net fee and commission income	9,979	8,297
Net gain from foreign currencies	3,354	1,708
Net investment income	2,460	3,615
Dividend income	89	2,004
Other income	967	905
Operating income	55,945	57,126
Staff expenses	(12,200)	(13,327)
Other expenses	(14,584)	(13,627)
Operating profit before provision	29,161	30,172
Provision for impairment of loans and advances	(6,319)	(14,042)
Provision for impairment of investment securities	(108)	(2,591)
Profit before taxation	22,734	13,539
Taxation	7 (2,959)	(1,492)
Profit for the period	19,775	12,047
Attributable to:		
Equity holders of the Bank	17,813	14,288
Non-controlling interests	1,962	(2,241)
	19,775	12,047
	Fils	Fils
Basic and diluted earnings per share - attributable to the equity holders of the Bank	8 5.8	4.1

The attached notes 1 to 13 form an integral part of this interim condensed consolidated financial information.

Burgan Bank Group

Interim Condensed Consolidated Statement of Comprehensive Income

Period ended 31 March 2017 (Unaudited)

	Three months ended	
	31 March	
	2017	2016
	KD 000's	KD 000's
Profit for the period	19,775	12,047
Other comprehensive (loss) income:		
<i>Other comprehensive (loss) income to be reclassified to interim condensed consolidated statement of income in subsequent periods:</i>		
Financial assets available for sale:		
Net change in fair value	930	(1,436)
Net transfer to interim condensed consolidated statement of income	(910)	2,762
Foreign currency translation adjustment	(2,523)	(4,446)
Changes in fair value of cash flow hedges	391	(726)
Net gain (loss) on hedge of a net investment	1,004	(5,864)
Other comprehensive loss for the period	(1,108)	(9,710)
Total comprehensive income for the period	18,667	2,337
Attributable to:		
Equity holders of the Bank	16,362	7,282
Non-controlling interests	2,305	(4,945)
	18,667	2,337

The attached notes 1 to 13 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 31 March 2017 (Unaudited)

	<i>Attributable to the equity holders of the Bank</i>														
	<i>Share capital KD 000's</i>	<i>Share premium KD 000's</i>	<i>Treasury shares KD 000's</i>	<i>Statutory reserve KD 000's</i>	<i>Voluntary reserve KD 000's</i>	<i>Treasury shares reserve KD 000's</i>	<i>Investment revaluation reserve KD 000's</i>	<i>Share based compensation reserve KD 000's</i>	<i>Foreign currency translation reserve KD 000's</i>	<i>Other reserves* KD 000's</i>	<i>Retained earnings KD 000's</i>	<i>Total KD 000's</i>	<i>Perpetual Tier 1 capital securities KD 000's</i>	<i>Non controlling interests KD 000's</i>	<i>Total equity KD 000's</i>
Balance as at 1 January 2017	204,936	210,559	(12,582)	74,997	75,375	45,082	2,732	564	(83,782)	2,670	129,556	650,107	144,025	51,424	845,556
Profit for the period	-	-	-	-	-	-	-	-	-	-	17,813	17,813	-	1,962	19,775
Other comprehensive (loss) income for the period	-	-	-	-	-	-	(37)	-	(2,806)	1,392	-	(1,451)	-	343	(1,108)
Total comprehensive (loss) income for the period	-	-	-	-	-	-	(37)	-	(2,806)	1,392	17,813	16,362	-	2,305	18,667
Cash dividend (note 6)	-	-	-	-	-	-	-	-	-	-	(10,141)	(10,141)	-	-	(10,141)
Sale of treasury shares	-	-	3,300	-	-	(873)	-	-	-	-	-	2,427	-	-	2,427
Interest payment on Tier 1 capital securities (note 6)	-	-	-	-	-	-	-	-	-	-	(5,526)	(5,526)	-	-	(5,526)
Balance as at 31 March 2017	204,936	210,559	(9,282)	74,997	75,375	44,209	2,695	564	(86,588)	4,062	131,702	653,229	144,025	53,729	850,983
Balance as at 1 January 2016	204,936	210,559	(12,582)	67,859	68,237	45,082	(2,292)	564	(61,557)	(7,112)	122,981	636,675	144,025	55,623	836,323
Profit (loss) for the period	-	-	-	-	-	-	-	-	-	-	14,288	14,288	-	(2,241)	12,047
Other comprehensive income (loss) for the period	-	-	-	-	-	-	1,123	-	(1,544)	(6,585)	-	(7,006)	-	(2,704)	(9,710)
Total comprehensive income (loss) for the period	-	-	-	-	-	-	1,123	-	(1,544)	(6,585)	14,288	7,282	-	(4,945)	2,337
Interest payment on Tier 1 capital securities (note 6)	-	-	-	-	-	-	-	-	-	-	(5,486)	(5,486)	-	-	(5,486)
Balance as at 31 March 2016	204,936	210,559	(12,582)	67,859	68,237	45,082	(1,169)	564	(63,101)	(13,697)	131,783	638,471	144,025	50,678	833,174

*Refer note 6 for further break up of other reserves

The attached notes 1 to 13 form an integral part of this interim condensed consolidated financial information.

Burgan Bank Group

Interim Condensed Consolidated Statement of Cash Flows Period ended 31 March 2017 (Unaudited)

	Three months ended 31 March	
	2017 KD 000's	2016 KD 000's
Operating activities		
Profit for the period before taxation	22,734	13,539
Adjustments:		
Net investment income	(2,460)	(3,615)
Provision for impairment of loans and advances	6,319	14,042
Provision for impairment of investment securities	108	2,591
Dividend income	(89)	(2,004)
Depreciation and amortisation	3,155	2,993
Operating profit before changes in operating assets and liabilities	29,767	27,546
Changes in operating assets and liabilities:		
Treasury bills and bonds with CBK and others	28,149	(16,928)
Due from banks and other financial institutions	95,726	(121,397)
Loans and advances to customers	(12,585)	(179,004)
Other assets	(1,819)	(44,410)
Due to banks	(179,695)	(127,101)
Due to other financial institutions	(60,621)	338,393
Deposits from customers	191,064	16,745
Other liabilities	13,071	(7,463)
Taxation paid	(1,247)	(1,505)
Net cash from (used in) in operating activities	101,810	(115,124)
Investing activities		
Purchase of investment securities	(290,747)	(182,331)
Proceeds from sale of investment securities	292,301	198,239
Purchase of property and equipment, net of disposals	(9,110)	(1,892)
Dividends received	89	2,004
Net cash (used in) from investing activities	(7,467)	16,020
Financing activities		
Other borrowed funds	(35,571)	80,021
Sale of treasury shares	2,427	-
Cash dividends	(10,141)	-
Interest payment on Tier1 capital securities	(5,526)	(5,486)
Net cash (used in) from financing activities	(48,811)	74,535
Net increase (decrease) in cash and cash equivalents	45,532	(24,569)
Effect of foreign currency translation	(2,627)	(3,568)
Cash and cash equivalents at 1 January	896,005	903,409
Cash and cash equivalents at 31 March	938,910	875,272
Additional cash flow information:		
Interest received	73,720	70,854
Interest paid	44,091	33,947

The attached notes 1 to 13 form an integral part of this interim condensed consolidated financial information.

Burgan Bank Group

Notes to the Interim Condensed Consolidated Financial Information

As at 31 March 2017 (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 31 March 2017 were authorised for issue in accordance with a resolution of the Board of Directors on _____ 2017.

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 PRESENTATION AND ACCOUNTING POLICIES

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 2016 were prepared in accordance with the regulations of the State of Kuwait for financial services institutions regulated by the CBK. These regulations require adoption of all International Financial Reporting Standards (“IFRS”) except for the IAS 39: Financial instruments: Recognition and Measurement (“IAS 39”) requirement for collective provision, which has been replaced by the CBK’s requirement for a minimum general provision.

The accounting policies used in the preparation of this interim condensed consolidated financial information are consistent with those used in the preparation of the annual consolidated financial statements for the year ended 31 December 2016.

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 2016. Further, results for the three months period ended 31 March 2017, are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2017.

3. CASH AND CASH EQUIVALENTS

	<i>31 March</i> <i>2017</i> <i>KD 000’s</i>	<i>(Audited)</i> <i>31 December</i> <i>2016</i> <i>KD 000’s</i>	<i>31 March</i> <i>2016</i> <i>KD 000’s</i>
Cash in hand and in current account with banks & other financial institutions (OFI’s)	536,807	551,173	488,726
Balances with CBK	105,720	127,913	93,829
Due from banks and OFI’s maturing within thirty days	296,383	216,919	292,717
	<u>938,910</u>	<u>896,005</u>	<u>875,272</u>

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Notes to the Interim Condensed Consolidated Financial Information

As at 31 March 2017 (Unaudited)

4. OTHER BORROWED FUNDS

	<i>Effective interest rate</i>	<i>31 March 2017 KD 000's</i>	<i>(Audited) 31 December 2016 KD 000's</i>	<i>31 March 2016 KD 000's</i>
Subordinated bonds – KWD 2026 (Fixed tranche)	6.00%	29,778	29,769	29,742
Subordinated bonds – KWD 2026 (Floating tranche capped at 7%)	CBK + 3.95%	69,152	69,131	69,068
Subordinated bonds – KWD 2022 (Fixed tranche)	5.650%	35,182	35,167	35,144
Subordinated bonds – KWD 2022 (Floating tranche capped at 6.650%)	CBK + 3.90%	37,169	37,154	37,128
Medium term borrowing	3M Libor + 1.05%	76,045	106,850	-
Euro Medium Term Note	3.125%	151,123	151,709	105,186
Other borrowings – subsidiaries	11.85%-12.30%	-	4,260	13,126
Other borrowings – subsidiaries	0.52%-3.71%	3,974	3,954	8,630
		<u>402,423</u>	<u>437,994</u>	<u>298,024</u>

5. OTHER LIABILITIES

	<i>31 March 2017 KD 000's</i>	<i>(Audited) 31 December 2016 KD 000's</i>	<i>31 March 2016 KD 000's</i>
Accrued interest payable	56,009	61,004	37,389
Staff benefits	11,790	12,101	11,158
Provision for non - cash credit facilities	16,621	17,406	17,403
Clearing cheques and balances	40,607	37,147	36,900
Income received in advance	10,766	11,885	11,072
Other payable and accruals	44,075	29,602	32,835
Deferred tax liabilities	45	35	29
Taxation payable	11,913	11,632	11,512
Other balances	37,929	34,160	27,318
	<u>229,755</u>	<u>214,972</u>	<u>185,616</u>

6. SHAREHOLDERS' EQUITY

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

	<i>31 March 2017</i>	<i>(Audited) 31 December 2016</i>	<i>31 March 2016</i>
Authorised share capital (shares of 100 fils each)	<u>2,500,000,000</u>	<u>2,500,000,000</u>	<u>2,500,000,000</u>
Issued and fully paid up capital (shares of 100 fils each)	<u>2,049,359,158</u>	<u>2,049,359,158</u>	<u>2,049,359,158</u>

Burgan Bank Group

Notes to the Interim Condensed Consolidated Financial Information As at 31 March 2017 (Unaudited)

6. SHAREHOLDERS' EQUITY (CONTINUED)

b) Treasury shares

	31 March 2017	<i>(Audited)</i> 31 December 2016	31 March 2016
Number of shares held	21,022,635	28,496,685	28,496,685
Percentage of shares held	1.03%	1.39%	1.39%
Cost KD 000's	9,282	12,582	12,582
Market value - KD 000's	6,727	8,692	9,689
Weighted average market value per share (fils)	325	321	333

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 general reserve throughout the holding period of these treasury shares.

c) Other reserves

	<i>Three months period ended 31 March 2017</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>Total KD 000's</i>
Balance at 1 January	1,762	2,461	(1,553)	2,670
Changes in fair value of cash flow hedge reserve	-	388	-	388
Net gain on hedge of a net investment	1,004	-	-	1,004
Total comprehensive income	1,004	388	-	1,392
Balance at 31 March 2017	2,766	2,849	(1,553)	4,062

	<i>Three months period ended 31 March 2016</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>Total KD 000's</i>
Balance at 1 January	(6,710)	1,151	(1,553)	(7,112)
Changes in fair value of cash flow hedge reserve	-	(721)	-	(721)
Net gain on hedge of a net investment	(5,864)	-	-	(5,864)
Total comprehensive loss	(5,864)	(721)	-	(6,585)
Balance at 31 March 2016	(12,574)	430	(1,553)	(13,697)

d) Dividends and bonus shares

On 29 March 2017, the annual general assembly approved the distribution of cash dividend of 5 fils per share (2015: 18 fils) and stock dividend of 5% (2015: Nil) for the year ended 31 December 2016.

Issuance of stock dividend is subject to all necessary regulatory approval as on the date of this interim condensed consolidated financial information.

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Notes to the Interim Condensed Consolidated Financial Information

As at 31 March 2017 (Unaudited)

6. SHAREHOLDERS' EQUITY (CONTINUED)

e) Perpetual Tier 1 Capital Securities

On 30 September 2014, the Bank through Burgan Tier 1 Financing Limited ("Issuer") issued Perpetual Tier 1 Capital Securities (the "Tier 1 securities"), amounting to USD 500,000 thousand.

The Tier 1 securities are unconditionally and irrevocably guaranteed by the Bank and constitute direct, unconditional, subordinated and unsecured obligations of the Issuer and are classified as equity in accordance with IAS 32: Financial Instruments – Classification. The Tier 1 securities do not have a maturity date. They are redeemable by the Bank at its discretion after 30 September 2019 (the "First Call Date") or on any interest payment date thereafter subject to the prior consent of the regulatory authority.

The Tier 1 securities bear interest on their nominal amount from the issue date to the first call date at a fixed annual rate of 7.25%. Thereafter the interest rate will be reset at five year intervals. Interest will be payable semi-annually in arrears and treated as a deduction from equity.

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

The semi-annual interest payment was paid during the period.

7. TAXATION

	<i>Three months ended</i>	
	<i>31 March</i>	
	<i>2017</i>	<i>2016</i>
	<i>KD 000's</i>	<i>KD 000's</i>
National Labour Support Tax	525	382
Contribution to the Kuwait Foundation for the Advancement of Science	171	137
Zakat	190	153
Taxation arising from overseas subsidiaries	2,073	820
	<u>2,959</u>	<u>1,492</u>

Burgan Bank Group

Notes to the Interim Condensed Consolidated Financial Information

As at 31 March 2017 (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 31 March</i>	
	<i>2017 KD 000's</i>	<i>2016 KD 000's (Restated)</i>
Profit for the period attributable to equity holders of the Bank	17,813	14,288
Less: interest payments on Tier 1 capital securities	(5,526)	(5,486)
Profit for the period attributable to equity holders of the Bank after interest payment on Tier1 capital securities	12,287	8,802
	<i>Shares</i>	<i>Shares</i>
Weighted average number of outstanding shares, net of treasury shares	2,123,465,108	2,121,905,597
Basic and diluted earnings per share (fils)	5.8	4.1

Basic and diluted earnings per share for the comparative period presented has been restated to reflect the effect of stock dividend (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.
- 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.

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Notes to the Interim Condensed Consolidated Financial Information

As at 31 March 2017 (Unaudited)

9. SEGMENT INFORMATION (continued)

The following table present information relating to the income and results of the Group's operating segments for the three months period ended 31 March 2017:

	<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>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>
31 March 2017						
Net interest income	12,639	8,391	3,743	17,039	(2,716)	39,096
Segment operating income	16,456	10,078	4,649	27,478	(2,716)	55,945
Depreciation and amortisation	(213)	(423)	(135)	(1,398)	(986)	(3,155)
Segment result before provisions	14,149	5,623	3,213	10,492	(701)	32,776
Provision for impairment of loans and advances	911	(1,067)	(43)	(3,166)	46	(3,319)
Provision for impairment of investment securities	-	-	(53)	(55)	-	(108)
Segment result after provisions	15,060	4,556	3,117	7,271	(655)	29,349
Unallocated expenses				-	-	(3,615)
Unallocated provisions				-	-	(3,000)
Profit for the period before taxation				7,271	(655)	22,734

Burgan Bank Group

Notes to the Interim Condensed Consolidated Financial Information

As at 31 March 2017 (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>Total KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>Total KD 000's</i>
<i>31 March 2016</i>							
Net interest income	13,036	9,288	2,371	24,695	17,889	(1,987)	40,597
Segment operating income	17,016	10,797	7,578	35,391	23,722	(1,987)	57,126
Depreciation and amortisation	(174)	(377)	(112)	(663)	(1,346)	(984)	(2,993)
Segment result before provisions	14,968	6,353	6,256	27,577	3,972	1,028	32,577
Provision for impairment of loans and advances	(2,545)	(1,607)	(861)	(5,013)	(4,479)	450	(9,042)
Provision for impairment of investment securities			(2,006)	(2,006)	(585)	-	(2,591)
Segment result after provisions	12,423	4,746	3,389	20,558	(1,092)	1,478	20,944
Unallocated expenses				(2,405)	-	-	(2,405)
Unallocated provisions				(5,000)	-	-	(5,000)
Profit for the period before taxation				13,153	(1,092)	1,478	13,539

Burgan Bank Group

Notes to the Interim Condensed Consolidated Financial Information

As at 31 March 2017 (Unaudited)

9. SEGMENT INFORMATION (CONTINUED)

The table below presents assets and liabilities information regarding the Group's operating segments as at 31 March 2017, 31 December 2016 and 31 March 2016 respectively.

	<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>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>31 March 2017</i>						
Total assets	<u>1,986,765</u>	<u>1,266,130</u>	<u>2,170,946</u>	<u>2,309,432</u>	<u>(529,010)</u>	<u>7,204,263</u>
Total liabilities	<u>868,642</u>	<u>803,591</u>	<u>2,926,403</u>	<u>2,029,566</u>	<u>(274,922)</u>	<u>6,353,280</u>
<i>31 December 2016</i>						
Total assets	<u>2,068,362</u>	<u>1,220,105</u>	<u>2,141,708</u>	<u>2,365,998</u>	<u>(527,297)</u>	<u>7,268,876</u>
Total liabilities	<u>732,642</u>	<u>789,762</u>	<u>3,082,389</u>	<u>2,089,316</u>	<u>(270,789)</u>	<u>6,423,320</u>
<i>31 March 2016</i>						
Total assets	<u>1,975,095</u>	<u>1,174,981</u>	<u>2,172,826</u>	<u>2,324,951</u>	<u>(525,715)</u>	<u>7,122,138</u>
Total liabilities	<u>688,519</u>	<u>787,485</u>	<u>3,039,412</u>	<u>2,045,948</u>	<u>(272,400)</u>	<u>6,288,964</u>

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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 KD 000's</i>	<i>Associates KD 000's</i>	<i>Others KD 000's</i>	<i>31 March 2017 KD 000's</i>	<i>(Audited) 31 December 2016 KD 000's</i>	<i>31 March 2016 KD 000's</i>
Assets						
Due from banks and OFIs	-	73,140	256,813	329,953	270,085	280,443
Loans and advances to customers	-	-	984,337	984,337	983,563	862,408
Investment securities	36,935	-	143,616	180,551	179,607	175,702
Investment securities managed by a related party	-	-	54,373	54,373	58,106	63,992
	<u>36,935</u>	<u>73,140</u>	<u>1,439,139</u>	<u>1,549,214</u>	<u>1,491,361</u>	<u>1,382,545</u>
Liabilities						
Due to banks	-	7	6,836	6,843	7,718	13,949
Due to other financial institutions	-	-	46,289	46,289	44,354	28,941
Deposits from customers	11,072	-	44,520	55,592	57,598	76,305
	<u>11,072</u>	<u>7</u>	<u>97,645</u>	<u>108,724</u>	<u>109,670</u>	<u>119,195</u>
Commitments, contingent liabilities and derivatives						
Letters of credit	-	-	6,605	6,605	6,010	4,339
Letters of guarantee	-	-	62,588	62,588	58,233	42,842
Derivative financial instruments	-	-	40,065	40,065	39,880	38,408
	<u>-</u>	<u>-</u>	<u>109,258</u>	<u>109,258</u>	<u>104,123</u>	<u>85,589</u>
Transactions						
Interest income	4	511	10,894	11,409	41,912	10,260
Interest expense	91	-	245	336	1,263	199
Fee and commission income	-	-	389	389	1,106	548
Dividend income	-	-	-	-	1,984	1,838
Other expense	-	-	459	459	2,074	532

As of period ended 31 March 2017, total collateral held against exposures due from related parties amounted to KD 883,183 thousand (31 December 2016: KD 898,191 thousand, 31 March 2016: KD 657,061 thousand).

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10. TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

			<i>(Audited)</i>	
	<i>No. of Board members / Group executive staff</i>	<i>31 March 2017</i>	<i>31 December 2016</i>	<i>31 March 2016</i>
		<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>
Board members				
Loans and advances	6	3,719	3,926	3,830
Deposits from customers	8	2,249	1,390	1,046
Group executive staff				
Loans and advances	26	229	174	154
Deposits from customers	22	1,943	2,154	3,544
Letters of guarantee	2	1	2	2

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>31 March</i>	
	<i>2017</i>	<i>2016</i>
	<i>KD 000's</i>	<i>KD 000's</i>
Short term employee benefits – including salary and bonus	2,312	2,556
Accrual for end of service indemnity	209	238
Accrual for cost of long term incentive rights	699	530
Accrual for committee services	75	75
	3,295	3,399

11. COMMITMENTS AND CONTINGENT LIABILITIES

		<i>(Audited)</i>	
	<i>31 March 2017</i>	<i>31 December 2016</i>	<i>31 March 2016</i>
	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>
Acceptances	21,527	43,837	34,206
Letters of credit	246,123	216,091	201,754
Letters of guarantee	898,360	918,874	790,102
Undrawn lines of credit	673,026	632,928	416,915
Other commitments	54,411	52,482	54,392
	1,893,447	1,864,212	1,497,369

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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.

Derivatives held for hedging

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.

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 31 March 2017 is KD 29,555 thousand (31 December 2016: KD 31,607 thousand and 31 March 2016: KD 29,579 thousand) and the negative fair value is KD 19,538 thousand (31 December 2016: KD 28,097 thousand and 31 March 2016: KD 17,481 thousand), included in the carrying amount of other assets and other liabilities respectively.

	<i>31 March</i>	<i>(Audited)</i>	
	<i>2017</i>	<i>31 December</i>	<i>31 March</i>
	<i>KD 000's</i>	<i>2017</i>	<i>2016</i>
		<i>KD 000's</i>	<i>KD 000's</i>
Derivatives held for trading:			
<i>(non-qualifying hedges)</i>			
Forward swaps / foreign exchange contracts	860,364	962,282	1,275,411
Interest rate swaps	274,873	272,363	205,028
Options	322,478	290,331	378,757
	<u>1,457,715</u>	<u>1,524,976</u>	<u>1,859,196</u>
Derivatives held for hedging:			
Forward swaps/ foreign exchange contracts	88,674	88,559	101,604
Interest rate swaps	167,945	123,992	63,301
	<u>256,619</u>	<u>212,551</u>	<u>164,905</u>

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13. FAIR VALUE OF 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;

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 three months) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits, savings accounts without a specific maturity.

Movement in level 3 is mainly on account of purchases and change in fair value. During the period, a decrease of KD 318 thousand (31 March 2016: increase of KD 353 thousand) was recorded in the other comprehensive income representing change in fair value. There were no material transfers between the levels during the period.

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13. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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

	31 March 2017				31 December 2016				31 March 2016			
	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
Financial assets												
Financial assets at fair value through profit or loss:												
<i>Financial assets held for trading:</i>												
Equity securities	582	-	-	582	571	-	-	571	993	-	-	993
Debt securities	12,427	-	-	12,427	2,739	-	-	2,739	6,608	-	-	6,608
Derivative financial instruments:												
- Forward swaps/foreign exchange contracts	-	5,922	-	5,922	-	11,120	-	11,120	-	22,112	-	22,112
- Interest rate swaps	-	20,902	-	20,902	-	18,728	-	18,728	-	4,627	-	4,627
- Options	-	2,731	-	2,731	-	1,759	-	1,759	-	2,840	-	2,840
<i>Financial assets designated at fair value through profit or loss:</i>												
Equity securities	315	-	35,368	35,683	320	-	35,173	35,493	321	-	31,410	31,731
Managed funds	-	-	58,626	58,626	-	-	62,639	62,639	-	-	64,858	64,858
	-	-	-									
Financial assets available for sale:												
Equity securities	57,658	-	142,561	200,219	57,984	-	142,306	200,290	62,602	-	133,119	195,721
Debt securities	103,851	-	48,400	152,251	117,172	-	49,903	167,075	130,649	-	40,402	171,051
Financial liabilities												
Financial liabilities at fair value through profit or loss:												
Derivative financial instruments:												
Forward swaps/foreign exchange contracts	-	13,033	-	13,033	-	22,799	-	22,799	-	12,234	-	12,234
Interest rate swaps	-	4,530	-	4,530	-	3,652	-	3,652	-	2,671	-	2,671
Options	-	1,975	-	1,975	-	1,646	-	1,646	-	2,576	-	2,576

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Notes to the Interim Condensed Consolidated Financial Information

As at 31 March 2017 (Unaudited)

13. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Fair values of all financial instruments are not materially different from their carrying values.

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.