

BURGAN BANK GROUP

**INTERIM CONDENSED CONSOLIDATED
FINANCIAL INFORMATION**

30 JUNE 2017 (UNAUDITED)

Burgan Bank Group

Interim Condensed Consolidated Statement of Financial Position

As at 30 June 2017 (Unaudited)

			<i>(Audited)</i>	
		30 June	31 December	30 June
		2017	2016	2016
	<i>Notes</i>	KD 000's	KD 000's	KD 000's
ASSETS				
Cash and cash equivalents	3	849,773	896,005	870,678
Treasury bills and bonds with CBK and others		477,350	479,996	471,999
Due from banks and other financial institutions		629,387	751,412	663,943
Loans and advances to customers		4,427,210	4,276,086	4,317,942
Investment securities		567,716	554,335	532,727
Other assets		169,731	180,411	195,191
Property and equipment		96,904	89,497	86,051
Intangible assets		39,550	41,134	43,155
TOTAL ASSETS		7,257,621	7,268,876	7,181,686
LIABILITIES AND EQUITY				
LIABILITIES				
Due to banks		769,301	824,676	723,864
Due to other financial institutions		1,068,016	1,208,419	1,104,610
Deposits from customers		3,929,999	3,737,259	4,063,770
Other borrowed funds	4	399,170	437,994	295,469
Other liabilities	5	223,528	214,972	186,759
TOTAL LIABILITIES		6,390,014	6,423,320	6,374,472
EQUITY				
Share capital	6	215,183	204,936	204,936
Share premium		210,559	210,559	210,559
Treasury shares	6	(8,277)	(12,582)	(12,582)
Statutory reserve		74,997	74,997	67,859
Voluntary reserve		75,375	75,375	68,237
Treasury shares reserve		43,997	45,082	45,082
Investment revaluation reserve		360	2,732	(4,584)
Share based compensation reserve		564	564	564
Foreign currency translation reserve		(83,241)	(83,782)	(66,310)
Other reserves	6	(2,643)	2,670	(14,695)
Retained earnings		142,517	129,556	112,544
Total equity attributable to the equity holders of the Bank		669,391	650,107	611,610
Perpetual Tier 1 capital securities	6	144,025	144,025	144,025
Non-controlling interests		54,191	51,424	51,579
TOTAL EQUITY		867,607	845,556	807,214
TOTAL LIABILITIES AND EQUITY		7,257,621	7,268,876	7,181,686

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 30 June 2017 (Unaudited)

	<i>Three months ended</i>		<i>Six months ended</i>	
	<i>30 June</i>		<i>30 June</i>	
<i>Notes</i>	<i>2017</i>	<i>2016</i>	<i>2017</i>	<i>2016</i>
	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>
Interest income	85,554	77,293	163,746	154,341
Interest expense	(41,577)	(39,702)	(80,673)	(76,153)
Net interest income	43,977	37,591	83,073	78,188
Fee and commission income	10,276	10,805	21,815	20,276
Fee and commission expense	(1,458)	(1,278)	(3,018)	(2,452)
Net fee and commission income	8,818	9,527	18,797	17,824
Net gain from foreign currencies	1,389	5,145	4,743	6,853
Net investment income	3,166	3,303	5,626	6,918
Dividend income	2,198	293	2,287	2,297
Other income	7,199	529	8,166	1,434
Operating income	66,747	56,388	122,692	113,514
Staff expenses	(12,718)	(13,370)	(24,918)	(26,697)
Other expenses	(11,618)	(13,914)	(26,202)	(27,541)
Operating profit before provision	42,411	29,104	71,572	59,276
Provision for loans and advances	(9,309)	(8,300)	(15,628)	(22,342)
Provision for investment securities	(8,500)	(227)	(8,608)	(2,818)
Profit before taxation	24,602	20,577	47,336	34,116
Taxation	(2,817)	(2,306)	(5,776)	(3,798)
Profit for the period	21,785	18,271	41,560	30,318
Attributable to:				
Equity holders of the Bank	21,062	17,136	38,875	31,424
Non-controlling interests	723	1,135	2,685	(1,106)
	21,785	18,271	41,560	30,318
Basic and diluted earnings per share - attributable to the equity holders of the Bank (Fils)	9.9	8.1	15.7	12.2

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 30 June 2017 (Unaudited)

	<i>Three months ended</i>		<i>Six months ended</i>	
	<i>30 June</i>		<i>30 June</i>	
	<i>2017</i>	<i>2016</i>	<i>2017</i>	<i>2016</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	21,785	18,271	41,560	30,318
Other comprehensive (loss) income:				
<i>Items that are or may be reclassified to interim condensed consolidated statement of income in subsequent periods:</i>				
Financial assets available for sale:				
Change in fair value, net of provisions	(1,950)	(3,643)	(1,020)	(5,079)
Net transfer to interim condensed consolidated statement of income	(395)	202	(1,305)	2,964
Foreign currency translation adjustment	3,183	(3,411)	660	(7,857)
Changes in fair value of cash flow hedges	(817)	(750)	(426)	(1,476)
Net loss on hedge of a net investment	(5,894)	(254)	(4,890)	(6,118)
Other comprehensive loss for the period	(5,873)	(7,856)	(6,981)	(17,566)
Total comprehensive income for the period	15,912	10,415	34,579	12,752
Attributable to:				
Equity holders of the Bank	15,369	9,514	31,731	16,796
Non-controlling interests	543	901	2,848	(4,044)
	15,912	10,415	34,579	12,752

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 30 June 2017 (Unaudited)

	Attributable to the equity holders of the Bank														Total equity KD 000's
	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	Investment revaluation 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	
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	-	-	-	-	-	-	-	-	-	-	38,875	38,875	-	2,685	41,560
Other comprehensive (loss) income for the period	-	-	-	-	-	-	(2,372)	-	541	(5,313)	-	(7,144)	-	163	(6,981)
Total comprehensive (loss) income for the period	-	-	-	-	-	-	(2,372)	-	541	(5,313)	38,875	31,731	-	2,848	34,579
Bonus shares issued (note 6)	10,247	-	-	-	-	-	-	-	-	-	(10,247)	-	-	-	-
Cash dividend (note 6)	-	-	-	-	-	-	-	-	-	-	(10,141)	(10,141)	-	(81)	(10,222)
Sale of treasury shares	-	-	4,305	-	-	(1,085)	-	-	-	-	-	3,220	-	-	3,220
Interest payment on Tier 1 capital securities (note 6)	-	-	-	-	-	-	-	-	-	-	(5,526)	(5,526)	-	-	(5,526)
Balance as at 30 June 2017	215,183	210,559	(8,277)	74,997	75,375	43,997	360	564	(83,241)	(2,643)	142,517	669,391	144,025	54,191	867,607
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	-	-	-	-	-	-	-	-	-	-	31,424	31,424	-	(1,106)	30,318
Other comprehensive income (loss) for the period	-	-	-	-	-	-	(2,292)	-	(4,753)	(7,583)	-	(14,628)	-	(2,938)	(17,566)
Total comprehensive income (loss) for the period	-	-	-	-	-	-	(2,292)	-	(4,753)	(7,583)	31,424	16,796	-	(4,044)	12,752
Cash dividend paid (note 6)	-	-	-	-	-	-	-	-	-	-	(36,375)	(36,375)	-	-	(36,375)
Interest payment on Tier 1 capital securities (note 6)	-	-	-	-	-	-	-	-	-	-	(5,486)	(5,486)	-	-	(5,486)
Balance as at 30 June 2016	204,936	210,559	(12,582)	67,859	68,237	45,082	(4,584)	564	(66,310)	(14,695)	112,544	611,610	144,025	51,579	807,214

*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.

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Interim Condensed Consolidated Statement of Cash Flows Period ended 30 June 2017 (Unaudited)

	<i>Six months ended</i>	
	<i>30 June</i>	
	<u>2017</u>	<u>2016</u>
<i>Note</i>	<i>KD 000's</i>	<i>KD 000's</i>
Operating activities		
Profit for the period before taxation	47,336	34,116
Adjustments:		
Net investment income	(5,626)	(6,918)
Provision for loans and advances	15,628	22,342
Provision for investment securities	8,608	2,818
Dividend income	(2,287)	(2,297)
Depreciation and amortisation	6,412	6,089
Other income	(6,260)	-
	<u>63,811</u>	<u>56,150</u>
Operating profit before changes in operating assets and liabilities		
Changes in operating assets and liabilities:		
Treasury bills and bonds with CBK and others	2,646	(199)
Due from banks and other financial institutions	122,282	(88,170)
Loans and advances to customers	(167,009)	(329,542)
Other assets	10,680	(29,658)
Due to banks	(55,375)	(162,238)
Due to other financial institutions	(140,403)	287,769
Deposits from customers	192,740	189,426
Other liabilities	3,592	(4,243)
Taxation paid	(812)	(5,888)
	<u>32,152</u>	<u>(86,593)</u>
Net cash from (used in) in operating activities		
Investing activities		
Purchase of investment securities	(587,070)	(321,074)
Proceeds from sale of investment securities	569,326	352,863
Purchase of property and equipment, net of disposals	(11,847)	(9,005)
Dividends received	2,287	2,297
	<u>(27,304)</u>	<u>25,081</u>
Net cash (used in) from investing activities		
Financing activities		
Other borrowed funds	(38,824)	77,466
Sale of treasury shares	3,220	-
Cash dividend paid to equity holders of the Bank	(10,141)	(36,375)
Cash dividend paid to non-controlling interest	(81)	-
Interest payment on Tier1 capital securities	(5,526)	(5,486)
	<u>(51,352)</u>	<u>35,605</u>
Net cash (used in) from financing activities		
Net decrease in cash and cash equivalents	<u>(46,504)</u>	<u>(25,907)</u>
Effect of foreign currency translation	272	(6,824)
Cash and cash equivalents at 1 January	896,005	903,409
Cash and cash equivalents at 30 June	<u>3</u> <u>849,773</u>	<u>870,678</u>
Additional cash flow information:		
Interest received	155,931	150,200
Interest paid	77,753	69,730

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 30 June 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 30 June 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 six months period ended 30 June 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>30 June</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>30 June</i> <i>2016</i> <i>KD 000's</i>
Cash in hand and in current account with banks & other financial institutions (OFI's)	593,099	551,173	534,026
Balances with CBK	52,098	127,913	105,273
Due from banks and OFI's maturing within thirty days	204,576	216,919	231,379
	<u>849,773</u>	<u>896,005</u>	<u>870,678</u>

Burgan Bank Group

Notes to the Interim Condensed Consolidated Financial Information

As at 30 June 2017 (Unaudited)

4. OTHER BORROWED FUNDS

		<i>30 June</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>30 June</i> <i>2016</i> <i>KD 000's</i>
Subordinated bonds – KWD 2026 (Fixed tranche)	6.00%	29,787	29,769	29,748
Subordinated bonds – KWD 2026 (Floating tranche capped at 7%)	CBK+3.95%	69,173	69,131	69,082
Subordinated bonds – KWD 2022 (Fixed tranche)	5.650%	35,191	35,167	35,158
Subordinated bonds – KWD 2022 (Floating tranche capped at 6.65%)	CBK+3.90%	37,179	37,154	37,143
Medium term borrowing	3M Libor+1.05%	75,655	106,850	105,218
Euro Medium Term Note	3.125%	150,325	151,709	-
Other borrowings – subsidiaries	11.85%-12.30%	-	4,260	12,841
Other borrowings – subsidiaries	0.07%-3.71%	1,860	3,954	6,279
		399,170	437,994	295,469

5. OTHER LIABILITIES

	<i>30 June</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>30 June</i> <i>2016</i> <i>KD 000's</i>
Accrued interest payable	63,924	61,004	41,308
Staff benefits	11,774	12,101	11,687
Provision for non - cash credit facilities	16,608	17,406	17,419
Clearing cheques and balances	50,354	37,147	41,193
Income received in advance	14,000	11,885	11,534
Other payable and accruals	25,889	29,602	34,741
Deferred tax liabilities	49	35	31
Taxation payable	8,897	11,632	4,203
Other balances	32,033	34,160	24,643
	223,528	214,972	186,759

6. SHAREHOLDERS' EQUITY

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

	<i>30 June</i> <i>2017</i>	<i>(Audited)</i> <i>31 December</i> <i>2016</i>	<i>30 June</i> <i>2016</i>
Authorised share capital (shares of 100 fils each)	2,500,000,000	2,500,000,000	2,500,000,000
Issued and fully paid up capital (shares of 100 fils each)	2,151,827,115	2,049,359,158	2,049,359,158

Burgan Bank Group

Notes to the Interim Condensed Consolidated Financial Information As at 30 June 2017 (Unaudited)

6. SHAREHOLDERS' EQUITY (continued)

b) Treasury shares

	30 June 2017	<i>(Audited)</i> 31 December 2016	30 June 2016
Number of shares held	19,689,623	28,496,685	28,496,685
Percentage of shares held	0.92%	1.39%	1.39%
Cost KD 000's	8,277	12,582	12,582
Market value - KD 000's	6,399	8,692	9,262
Weighted average market value per share (fils)	328	321	330

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.

c) Other reserves

	Six months period ended 30 June 2017			
	<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>	Total KD 000's
Balance at 1 January	1,762	2,461	(1,553)	2,670
Changes in fair value of cash flow hedge reserve	-	(423)	-	(423)
Net loss on hedge of a net investment	(4,890)	-	-	(4,890)
Total comprehensive income	(4,890)	(423)	-	(5,313)
Balance at 30 June 2017	(3,128)	2,038	(1,553)	(2,643)

	Six months period ended 30 June 2016			
	<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>	Total KD 000's
Balance at 1 January	(6,710)	1,151	(1,553)	(7,112)
Changes in fair value of cash flow hedge reserve	-	(1,465)	-	(1,465)
Net loss on hedge of a net investment	(6,118)	-	-	(6,118)
Total comprehensive loss	(6,118)	(1,465)	-	(7,583)
Balance at 30 June 2016	(12,828)	(314)	(1,553)	(14,695)

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.

The cash dividend were paid during the period.

Burgan Bank Group

Notes to the Interim Condensed Consolidated Financial Information

As at 30 June 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>Six months ended</i>	
	<i>30 June</i>		<i>30 June</i>	
	<i>2017</i>	<i>2016</i>	<i>2017</i>	<i>2016</i>
	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>
National Labour Support Tax	496	440	1,021	822
Contribution to the Kuwait Foundation for the Advancement of Science	196	159	367	296
Zakat	218	176	408	329
Taxation arising from overseas subsidiaries	1,907	1,531	3,980	2,351
	2,817	2,306	5,776	3,798

Burgan Bank Group

Notes to the Interim Condensed Consolidated Financial Information

As at 30 June 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</i> <i>30 June</i>		<i>Six months ended</i> <i>30 June</i>	
	<i>2017</i> <i>KD 000's</i>	<i>2016</i> <i>KD 000's</i> <i>(Restated)</i>	<i>2017</i> <i>KD 000's</i>	<i>2016</i> <i>KD 000's</i> <i>(Restated)</i>
Profit for the period attributable to equity holders of the Bank	21,062	17,136	38,875	31,424
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 Tier 1 capital securities	21,062	17,136	33,349	25,938
	<i>Shares</i>	<i>Shares</i>	<i>Shares</i>	<i>Shares</i>
Weighted average number of outstanding shares, net of treasury shares	2,131,101,387	2,122,273,443	2,127,301,430	2,122,273,443
Basic and diluted earnings per share (fils)	9.9	8.1	15.7	12.2

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 30 June 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 six months period ended 30 June 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>
30 June 2017						
Net interest income	26,867	16,986	9,603	35,095	(5,478)	83,073
Segment operating income	40,417	20,192	16,541	52,297	(6,755)	122,692
Depreciation and amortisation	(433)	(863)	(244)	(2,900)	(1,972)	(6,412)
Segment result before provisions	35,312	10,020	13,669	21,446	(5,727)	74,720
Provision for loans and advances	560	(1,881)	(418)	(6,292)	403	(7,628)
Provision for investment securities	-	-	(8,553)	(55)	-	(8,608)
Segment result after provisions	35,872	8,139	4,698	15,099	(5,324)	58,484
Unallocated expenses				-	-	(3,148)
Unallocated provisions				-	-	(8,000)
Profit for the period before taxation				15,099	(5,324)	47,336

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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>30 June 2016</i>							
Net interest income	25,628	18,626	4,100	48,354	34,565	(4,731)	78,188
Segment operating income	33,067	21,123	14,754	68,944	49,301	(4,731)	113,514
Depreciation and amortisation	(350)	(770)	(230)	(1,350)	(2,767)	(1,972)	(6,089)
Segment result before provisions	29,021	12,237	12,107	53,365	13,769	(2,953)	64,181
Provision for loans and advances	(3,353)	(2,468)	27	(5,794)	(6,989)	441	(12,342)
Provision for investment securities	-	-	(2,231)	(2,231)	(587)	-	(2,818)
Segment result after provisions	25,668	9,769	9,903	45,340	6,193	(2,512)	49,021
Unallocated expenses				(4,905)	-	-	(4,905)
Unallocated provisions				(10,000)	-	-	(10,000)
Profit for the period before taxation				30,435	6,193	(2,512)	34,116

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9. SEGMENT INFORMATION (continued)

The table below presents assets and liabilities information regarding the Group's operating segments as at 30 June 2017, 31 December 2016 and 30 June 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>
30 June 2017						
Total assets	<u>2,027,661</u>	<u>1,236,150</u>	<u>2,137,308</u>	<u>2,434,619</u>	<u>(578,117)</u>	<u>7,257,621</u>
Total liabilities	<u>847,230</u>	<u>813,933</u>	<u>2,905,299</u>	<u>2,147,353</u>	<u>(323,801)</u>	<u>6,390,014</u>
31 December 2016						
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>
30 June 2016						
Total assets	<u>2,030,110</u>	<u>1,217,002</u>	<u>2,065,935</u>	<u>2,359,969</u>	<u>(491,330)</u>	<u>7,181,686</u>
Total liabilities	<u>708,226</u>	<u>796,165</u>	<u>3,027,760</u>	<u>2,078,942</u>	<u>(236,621)</u>	<u>6,374,472</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>(Audited)</i>		
	<i>Parent</i>	<i>Associates</i>	<i>Others</i>	<i>30 June</i>	<i>31 December</i>	<i>30 June</i>
	<i>Company</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>2017</i>	<i>2016</i>	<i>2016</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>
Assets						
Due from banks and OFIs	-	76,659	268,333	344,992	270,085	226,260
Loans and advances to customers	-	-	992,548	992,548	983,563	983,806
Investment securities	25,389	-	142,852	168,241	179,607	171,233
Investment securities managed by a related party	-	-	50,466	50,466	58,106	59,706
	<u>25,389</u>	<u>76,659</u>	<u>1,454,199</u>	<u>1,556,247</u>	<u>1,491,361</u>	<u>1,441,005</u>
Liabilities						
Due to banks	-	4	7,796	7,800	7,718	23,386
Due to other financial institutions	-	-	35,423	35,423	44,354	32,504
Deposits from customers	8,244	-	52,379	60,623	57,598	85,242
	<u>8,244</u>	<u>4</u>	<u>95,598</u>	<u>103,846</u>	<u>109,670</u>	<u>141,132</u>
Commitments, contingent liabilities and derivatives						
Letters of credit	-	-	5,712	5,712	6,010	4,405
Letters of guarantee	-	-	61,367	61,367	58,233	40,997
Derivative financial instruments	-	-	41,848	41,848	39,880	38,687
	<u>-</u>	<u>-</u>	<u>108,927</u>	<u>108,927</u>	<u>104,123</u>	<u>84,089</u>
Transactions						
Interest income	15	1,097	24,009	25,121	41,912	19,233
Interest expense	167	-	520	687	1,263	522
Fee and commission income	1	-	775	776	1,106	661
Dividend income	1,837	-	145	1,982	1,984	1,984
Other expense	-	-	1,184	1,184	2,074	1,017

As of period ended 30 June 2017, total collateral held against exposures due from related parties amounted to KD 854,200 thousand (31 December 2016: KD 898,191 thousand, 30 June 2016: KD 642,638 thousand).

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As at 30 June 2017 (Unaudited)

10. TRANSACTIONS WITH RELATED PARTIES (continued)

			(Audited)	
	No. of Board members / Group executive staff	30 June 2017 KD 000's	31 December 2016 KD 000's	30 June 2016 KD 000's
Board members				
Loans and advances	3	3,415	3,926	3,863
Deposits from customers	8	1,641	1,390	1,401
Group executive staff				
Loans and advances	24	197	174	139
Deposits from customers	22	1,578	2,154	3,792
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:

	30 June	
	2017 KD 000's	2016 KD 000's
Short term employee benefits – including salary and bonus	3,076	3,538
Accrual for end of service indemnity	287	295
Accrual for cost of long term incentive rights	592	544
Accrual for committee services	150	150
	<u>4,105</u>	<u>4,527</u>

11. COMMITMENTS AND CONTINGENT LIABILITIES

		(Audited)	
	30 June 2017 KD 000's	31 December 2016 KD 000's	30 June 2016 KD 000's
Acceptances	24,574	43,837	32,179
Letters of credit	273,545	216,091	220,895
Letters of guarantee	890,070	918,874	828,264
Undrawn lines of credit	698,762	632,928	661,783
Other commitments	54,617	52,482	55,414
	<u>1,941,568</u>	<u>1,864,212</u>	<u>1,798,535</u>

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.

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As at 30 June 2017 (Unaudited)

12. DERIVATIVES (continued)

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 30 June 2017 is KD 31,696 thousand (31 December 2016: KD 31,607 thousand and 30 June 2016: KD 21,828 thousand) and the negative fair value is KD 17,347 thousand (31 December 2016: KD 28,097 thousand and 30 June 2016: KD 15,714 thousand), included in the carrying amount of other assets and other liabilities respectively.

The notional amounts of derivatives are as follows:

	<i>30 June</i>	<i>(Audited)</i>	
	<i>2017</i>	<i>31 December</i>	<i>30 June</i>
	<i>KD 000's</i>	<i>2016</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	951,938	962,282	1,287,466
Interest rate swaps	290,921	272,363	204,044
Options	322,757	290,331	302,362
	<u><u> </u></u>	<u><u> </u></u>	<u><u> </u></u>
<i>Derivatives held for hedging:</i>			
Forward swaps/ foreign exchange contracts	92,377	88,559	97,791
Interest rate swaps	183,495	123,992	73,307
	<u><u> </u></u>	<u><u> </u></u>	<u><u> </u></u>

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Notes to the Interim Condensed Consolidated Financial Information

As at 30 June 2017 (Unaudited)

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 investment security acquired against recovery of debt previously written off, recorded as other income and change in fair value. During the period, a decrease of KD 1,331 thousand (30 June 2016: decrease of KD 405 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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As at 30 June 2017 (Unaudited)

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:

	30 June 2017				31 December 2016				30 June 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												
<i>Financial assets at fair value through profit or loss:</i>												
<i>Financial assets held for trading:</i>												
Equity securities	460	-	-	460	571	-	-	571	782	-	-	782
Debt securities	32,720	-	-	32,720	2,739	-	-	2,739	6,668	-	-	6,668
Derivative financial instruments:												
- Forward swaps/foreign exchange contracts	-	8,930	-	8,930	-	11,120	-	11,120	-	15,436	-	15,436
- Interest rate swaps	-	20,037	-	20,037	-	18,728	-	18,728	-	4,717	-	4,717
- Options	-	2,729	-	2,729	-	1,759	-	1,759	-	1,675	-	1,675
<i>Financial assets designated at fair value through profit or loss:</i>												
Equity securities	317	-	34,818	35,135	320	-	35,173	35,493	297	-	31,409	31,706
Managed funds	-	-	52,739	52,739	-	-	62,639	62,639	-	-	64,209	64,209
<i>Financial assets available for sale:</i>												
Equity securities	43,678	-	148,403	192,081	57,984	-	142,306	200,290	59,158	-	132,560	191,718
Debt securities	111,663	-	47,000	158,663	117,172	-	49,903	167,075	128,356	-	40,402	168,758
Financial liabilities												
<i>Financial liabilities at fair value through profit or loss:</i>												
Derivative financial instruments:												
- Forward swaps/foreign exchange contracts	-	9,239	-	9,239	-	22,799	-	22,799	-	11,349	-	11,349
- Interest rate swaps	-	5,759	-	5,759	-	3,652	-	3,652	-	2,766	-	2,766
- Options	-	2,349	-	2,349	-	1,646	-	1,646	-	1,599	-	1,599

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Notes to the Interim Condensed Consolidated Financial Information

As at 30 June 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.